BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED

(華晨中國汽車控股有限公司)*

(Incorporated in Bermuda with limited liability)

Stock Code : 1114

Brilliance Auto
华晨汽车

Annual Report 2017

*for identification purposes only

Contents

Corporate Information

BOARD OF DIRECTORS

Mr. Wu Xiao An
(also known as Mr. Ng Siu On) *(chairman)*
Mr. Qi Yumin *(chief executive officer)*
Mr. Qian Zuming
Mr. Zhang Wei
Mr. Xu Bingjin*
Mr. Song Jian*
Mr. Jiang Bo*

* *independent non-executive director*

AUTHORISED REPRESENTATIVE

Mr. Wu Xiao An

CHIEF FINANCIAL OFFICER

Mr. Qian Zuming

COMPANY SECRETARY

Ms. Lam Yee Wah Eva

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 1602–05
Chater House
8 Connaught Road Central
Hong Kong

AUDITOR

Grant Thornton Hong Kong Limited
Level 12, 28 Hennessy Road
Wanchai
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited,
Hong Kong Branch

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–16
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISORS TO THE COMPANY

Appleby
Troutman Sanders

INVESTOR RELATIONS

Weber Shandwick
10th Floor, Oxford House
Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

STOCK CODE

The main board of The Stock Exchange of Hong Kong Limited: 1114

Five Year Financial Summary

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED AND ITS SUBSIDIARIES

(Amounts in thousands except for earnings per share)

	Year Ended and as at 31st December,				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Income Statement Data:					
Revenue	**5,304,723**	5,125,118	4,862,855	5,514,804	6,103,487
Profit before Income Tax Expense	**3,899,766**	3,424,537	3,324,798	5,342,882	3,324,729
Income Tax (Expense)	**(33,953)**	(35,933)	(44,529)	(42,913)	(8,370)
Profit for the Year	**3,865,813**	3,388,604	3,280,269	5,299,969	3,316,359
Attributable to:					
Equity Holders of the Company	**4,376,120**	3,682,074	3,494,733	5,403,434	3,374,200
Non-controlling Interests	**(510,307)**	(293,470)	(214,464)	(103,465)	(57,841)
	3,865,813	3,388,604	3,280,269	5,299,969	3,316,359
Basic Earnings per Share	**RMB0.86776**	RMB0.73103	RMB0.69536	RMB1.07515	RMB0.67138
Diluted Earnings per Share	**RMB0.86738**	RMB0.72987	RMB0.69258	RMB1.07082	RMB0.66870
Statement of Financial Position Data:					
Non-current Assets	**28,824,292**	24,033,672	19,897,290	16,862,136	12,466,261
Current Assets	**9,031,839**	7,009,340	7,174,984	6,344,793	6,524,002
Current Liabilities	**(10,964,975)**	(8,322,660)	(7,871,885)	(7,133,993)	(6,792,518)
Non-current Liabilities	**(190,949)**	(121,829)	(136,708)	(119,003)	(56,400)
Non-controlling Interests	**(177,256)**	1,125,334	831,864	977,400	873,935
Shareholders' Equity	**26,522,951**	23,723,857	19,895,545	16,931,333	13,015,280

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I hereby present the annual results of Brilliance China Automotive Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31st December, 2017.

During the year 2017, China's economy had continued to experience solid growth with GDP up 6.9% compared to the previous year. Total Chinese vehicle sales increased by 3.0% to 28.88 million units in 2017, according to the China Association of Automobile Manufacturers. Of this figure, passenger vehicles accounted for 24.72 million units, up only by 1.4% as a result of the pulling forward of small engine vehicle purchases at the end of 2016. Nevertheless, driven by launch of new products and revived consumer spending on luxury goods, growth of premium passenger vehicle sales in 2017 had again significantly exceeded that of the overall passenger vehicle market and reached approximately 17%.

Since the beginning of 2017, our BMW Brilliance joint venture ("**BBA**") has been working diligently to roll out new production capacity and launch new pipeline models. The capacity expansion project at the Dadong plant was completed in May, to prepare for production of the brand new 5-series which was launched to the market in June 2017. Together with the Tiexi plant, BBA has reached total annual production capacity of over 500,000 units providing for products of different architectures and drivetrains. The new 5-series embeds cutting-edge innovations and class-leading driving dynamics, and has received raving market reviews and extremely positive customer response since launch. In addition to the 5-series, in March 2017 BBA has also introduced the brand new BMW 1-series sedan. This new addition represents the fifth locally produced BMW product for BBA, and the first that is solely catered for the Chinese market. The new launches contributed to the newly added volume during the year. Alongside these new launches, sales volume of our X1, 2-series and 3-series also increased during the period. As a result, BBA achieved sales of 386,549 BMW vehicles in the year 2017, representing an increase of 24.7% when compared to the previous year.

BBA has continued with expansion of its dealer network which had reached 506 full service 4S shops nationwide as at 31st December, 2017. It continues to work closely with its sales organisation on all fronts in an effort to sustain the profitability of both BBA and its dealers. Various aspects of digitalisation, such as aggregation of channels, enabling of additional online activities and further integration of digital services are being rolled out in China. Furthermore, the brand new Shanghai BMW Brand Experience Centre opened in March also provides Chinese consumers with unprecedented brand experiences. BBA's sales activities also continue to be supported by the BMW auto finance company which has been performing extremely well and contributing increasing profits to BBA.

Brilliance continues to be confident about the long-term growth prospects of the Chinese premium auto industry. We believe the new products to be introduced by BBA over the next few years will have strong customer appeal, and will broaden and better tailor our product portfolio to meet Chinese consumers' preferences. The brand new X3 sport activity vehicle ("**SAV**"), another new BMW model and the sixth one to be localised within BBA, will come to market later this year. The new X3 will be a key product which will bolster the competitiveness of BBA's product offerings in China. Furthermore, the company is also actively finalising its new energy vehicle strategy and product lineup for the next few years to properly position itself for participation in this rapidly growing sector in China. BBA's model pipeline will be enriched with the addition of new battery electric variants over the next few years. In order to support growth in the new energy area, BBA opened a new high voltage battery factory in its engine plant in October 2017 which is the first battery factory operated by a premium automobile manufacturer in China. In addition to the above, the topics of further capacity expansion, cost control, dealer management, component localisation, new regulation, and further integration of BBA into the BMW network via potential exports of vehicles and components from China will all remain key focus areas for BBA's ongoing operation.

As for our minibus business, the Group reached agreement at the end of 2017 to bring in Renault SAS ("**Renault**") as a shareholder and joint venture partner in our minibus operating subsidiary. The company has been renamed Renault Brilliance Jinbei Automotive Co., Ltd. ("**RBJAC**"), and the cooperation with Renault marks a crucial strategic move and an important step for the company to turn around our existing minibus operation, as well as cultivate the full potential of the light commercial vehicle ("**LCV**") market in China by utilising the joint expertise and knowhow of the two shareholders. During the short period since RBJAC's formation, a new senior management team has already been put in place and tasked to formulate both an immediate and mid-range business plan for the company. Although we expect RBJAC to continue to contribute negative earnings to the Group in 2018, our aim is to craft a concrete plan for existing product revamp, immediate cost reduction, sales overhaul, and new product pipeline so as to reduce losses year-on-year and ultimately returning to profitability.

Brilliance-BEA Auto Finance Co., Ltd. ("**BBAFC**"), the Company's auto finance subsidiary in China, had once again achieved profitability in 2017. In addition to supporting Huachen Group and RBJAC's sales of their sport utility vehicles ("**SUV**"), sedans, minibuses and multi-purpose vehicles ("**MPV**"), the company has also successfully extended its business with Jaguar Land Rover ("**JLR**") to finance their customers and dealers. At the end of 2017, BBAFC had a network coverage of more than 200 dealers with JLR, paving the way to strong future growth. Moreover, BBAFC has also established a new cooperation with TESLA, thus increasing the company's footprint in the fast-growing electric vehicle market in China.

The remaining months of 2018 will continue to be very challenging for the Group. Maintaining the prominent position of BBA in the premium auto market, executing renewed strategies for the turnaround of RBJAC with Renault as our new partner, and driving for additional businesses and profits for BBAFC, will all remain the Group's business priorities. Apart from that, the Group also continues to look for new business opportunities as well as ways to further streamline its existing operation and corporate structure to support its business growth.

Last but not least, I would like to express my sincere appreciation to our shareholders, business partners, management team and employees for their continued support and dedication to the Group.

Wu Xiao An
(also known as Ng Siu On)
Chairman
28th March, 2018

Report of Directors

The directors of the Company present this report together with the audited financial statements of the Group for the year ended 31st December, 2017.

PRINCIPAL ACTIVITIES

The Company is a holding company. The Group is principally engaged in the manufacture and sale of automobiles and automotive components, and the provision of auto financing service in the People's Republic of China (the "**PRC**") through its subsidiaries and major joint venture. RBJAC (formerly known as Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Automotive**")) is the Company's major operating subsidiary in the PRC, whose equity interests are beneficially owned as to 51% by the Company as at the date of this annual report. BMW Brilliance Automotive Ltd. ("**BMW Brilliance**"), the Company's 50% owned major joint venture, engages in the manufacture and sale of BMW vehicles in the PRC. BBAFC, the Company's 55% owned subsidiary, engages in the provision of auto financing service to customers and dealers in the PRC. The principal activities of the Company's subsidiaries are set out in note 37 to the financial statements.

Prior to May 1998, the Company's sole operating asset was its interests in RBJAC. As a result, the Company's historical results of operations had been primarily driven by the sales price, sales volume and cost of production of RBJAC's minibuses. With a view to maintain quality, ensure a stable supply of certain key components and develop new businesses and products, the Company has acquired interests in various suppliers of components and established joint ventures in the PRC since May 1998. With additional investments and joint ventures, the Company's income base has since been broadened and its financial performance has been diversified from that of RBJAC.

In May 1998, the Company acquired indirect interests in two automotive components suppliers in the PRC: a 51% equity interest in Ningbo Yuming Machinery Industrial Co., Ltd. ("**Ningbo Yuming**"), which primarily engaged in the production of automobile window molding, stripping and other auto components; and a 50% equity interest in Mianyang Xinchen Engine Co., Ltd. ("**Mianyang Xinchen**"), which primarily engaged in the development, manufacturing and sale of light-duty gasoline and diesel engines for use in passenger vehicles and light commercial vehicles. In October 1998, June 2000 and July 2000, the Company established Shenyang XingYuanDong Automobile Component Co., Ltd. ("**Xing Yuan Dong**"), Ningbo Brilliance Ruixing Auto Components Co., Ltd. ("**Ningbo Ruixing**") and Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("**Mianyang Ruian**"), respectively, as its wholly owned subsidiaries to centralize and consolidate the sourcing of auto parts and components for RBJAC. In 2001, in order to maintain their eligibility for preferential tax treatment from the PRC government, all three companies began manufacturing automotive components as well. Subsequently in 2004, the Company acquired the remaining 49% equity interest in Ningbo Yuming which became a wholly owned subsidiary of the Company on 25th November, 2004.

In December 2000, the Company acquired a 50% equity interest in Shenyang Xinguang Brilliance Automobile Engine Co., Ltd., a sino-foreign equity joint venture primarily engaged in the manufacture of gasoline engines for use in passenger vehicles. In December 2001, the Company acquired a 100% equity interest in Shenyang Brilliance Dongxing Automotive Component Co., Ltd. ("**Dongxing Automotive**"), a foreign-invested manufacturer of automotive components in the PRC.

On 18th April, 2002, Shenyang Jindong Development Co., Ltd. ("**Shenyang Jindong**") was established for the purpose of trading automotive components in the PRC. Currently, it is indirectly beneficially owned as to 100% by the Company.

In May 2002, RBJAC obtained the approval from the Chinese Government to produce and sell Zhonghua sedans in the PRC. The Zhonghua sedans were launched in August 2002. The Zhonghua sedan business was disposed of to Huachen Automotive Group Holdings Company Limited ("**Huachen**") in December 2009.

On 27th March, 2003, the Company, through its indirect subsidiary, Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("**SJAI**"), entered into a joint venture contract with BMW Holding BV to produce and sell BMW-designed and branded sedans in the PRC. The registered capital and total investment cost of the joint venture, BMW Brilliance, is Euro 150 million and Euro 450 million, respectively. At that time, the Company's effective interests in SJAI and BMW Brilliance were 81% and 40.50%, respectively. On 28th April, 2003, the Company increased its effective interests in SJAI from 81% to 89.10% and thereby increased its effective interests in BMW Brilliance from 40.50% to 44.55%. On 16th December, 2003, the Company further increased its effective interests in SJAI from 89.10% to 99% and thereby increased its effective interests in BMW Brilliance from 44.55% to 49.50%. Subsequently on 26th January, 2010, the Company entered into an agreement to increase its effective interests in SJAI from 99% to 100%. As a result, the Company's effective interests in BMW Brilliance was increased to 50%. The locally produced BMW sedans were formally launched in the PRC in the fourth quarter of 2003. BMW Brilliance commenced production and sale of BMW SAVs in the PRC in early 2012.

In June 2003, the Company established Shenyang ChenFa Automobile Component Co., Ltd. ("**Shenyang ChenFa**"), a wholly foreign-owned enterprise in the PRC, for the development, manufacture and sale of engine components in China. In December 2011, the Company completed the disposal of 75% equity interests in Shenyang ChenFa to an independent third party. Currently, Shenyang ChenFa is directly held as to 25% by the Company.

On 29th December, 2003, the Company entered into agreements in relation to the proposed acquisition of an indirect 40.1% interest in Shenyang JinBei Automotive Co., Ltd. ("**JinBei**"), a supplier of automotive components for the Group's minibuses. JinBei is an A-share company listed on the Shanghai Stock Exchange. As a result of JinBei's share reform, which took place in August 2006, all issued shares of JinBei were converted into tradable shares on the Shanghai Stock Exchange. The Company's prospective 40.1% interest in JinBei was reduced to 33.35%.

On 16th April, 2004, Shanghai Hidea Auto Design Co., Ltd. ("**Shanghai Hidea**") was established for the design of automobiles. Currently, Shanghai Hidea is beneficially owned as to 100% by the Company.

On 13th December, 2004, the Company, together with RBJAC, established Shenyang Brilliance Power Train Machinery Co., Ltd. ("**Shenyang Brilliance Power**") which principally engages in the manufacture and sale of power trains in China. In October 2009, RBJAC agreed to transfer its entire interests in Shenyang Brilliance Power to Huachen. As a result, the Company's beneficially interests in Shenyang Brilliance Power decreased from 75.01% to 49%.

On 28th October, 2009, RBJAC entered into a business transfer agreement with Huachen pursuant to which Huachen agreed to acquire from RBJAC certain assets, liabilities, employees and business contracts in relation to the businesses of manufacture and sale of Zhonghua sedans operated by RBJAC. Completion of the disposal of the Zhonghua sedan business took place on 31st December, 2009. Subsequent to the completion of the disposal, the Group no longer has any interests in the Zhonghua sedan business. Starting from January 2010, the operating business of the Group is the manufacture and sale of minibuses and automotive components through its subsidiaries, and the manufacture and sale of BMW vehicles through its major joint venture, BMW Brilliance, in the PRC.

The Company, through SJAI, had once held an indirect 9.9% equity interest in RBJAC, in addition to a direct 51% equity interest in RBJAC. On 23rd June, 2017, SJAI and JinBei entered into an acquisition agreement, pursuant to which SJAI agreed to acquire 39.1% equity interest in RBJAC (formerly known as Shenyang Automotive) from JinBei. On 4th July, 2017, the Company and Renault entered into a framework cooperation agreement, pursuant to which the Group agreed to dispose of 49% equity interest in RBJAC to Renault. As at the date of this annual report, RBJAC is owned as to 51% by SJAI and 49% by Renault.

Mianyang Xinchen was formerly a sino-foreign equity joint venture established in the PRC owned as to 50% by each of Southern State Investment Limited, a wholly owned subsidiary of the Company, and Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited. Subsequent to the completion of group restructuring in August 2011 and pre-IPO investment in October 2011 and immediately before the global offering which took place in March 2013, Mianyang Xinchen was indirectly held as to 100% by Xinchen China Power Holdings Limited ("**Power Xinchen**") which was in turn indirectly held as to 42.54% by the Company. On 13th March, 2013, the shares of Power Xinchen were listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with 313,400,000 new shares subscribed by the public at an offer price of HK$2.23 per share. Following the listing of Power Xinchen in March 2013 and the partial exercise of an over-allotment option to issue an addition 33,808,000 shares of Power Xinchen in April 2013, the indirect shareholding of the Company in Power Xinchen decreased from 42.54% to 31.07%. Currently, the Company, through its wholly-owned subsidiary, indirectly holds 31.20% equity interest in Power Xinchen.

On 7th April, 2015, BBAFC, the Company's auto finance joint venture in China together with Bank of East Asia and CaixaBank, S.A., received final approval to commence business in the PRC. BBAFC is a multi-brand service provider, and is owned as to 55% by the Company, 22.5% by Bank of East Asia and 22.5% by CaixaBank, S.A. BBAFC initially focuses on supporting the Group's sales of its minibus and MPVs and our major shareholder Huachen's sedan products. In December 2016, BBAFC expanded its business by establishing white label financial services partnership with JLR in China.

REVENUE AND CONTRIBUTION

The Group's revenue and contribution to profit from operations for the year ended 31st December, 2017, analysed by product category, are as follows:

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Provision of auto financing service RMB'000	Reconciliation to the Group's consolidated statement of profit or loss and intersegment elimination RMB'000	Total RMB'000
Segment sales to external customers	**5,164,050**	**111,599,149**	**151,365**	**(111,609,841)**	**5,304,723**
Segment results	**(1,370,433)**	**14,037,301**	**4,853**	**(14,042,982)**	**(1,371,261)**
Unallocated costs net of unallocated income	**–**	**–**	**–**	**–**	**(96,836)**
Interest income	**–**	**–**	**–**	**–**	**55,443**
Finance costs	**–**	**–**	**–**	**–**	**(137,871)**
Share of results of:					
Joint ventures	**(4,357)**	**5,237,669**	**–**	**–**	**5,233,312**
Associates	**216,979**	**–**	**–**	**–**	**216,979**
Profit before income tax expense					**3,899,766**

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2017 are set out in the financial statements of the Group on pages 71 and 72.

BUSINESS REVIEW

The Company is an investment holding company. The principal activities of the Company's subsidiaries are the manufacture and sale of automobiles and automotive components, and the provision of auto financing service to customers and dealers in the PRC. RBJAC (formerly known as Shenyang Automotive) is the Company's major operating subsidiary in the PRC, which contributed about 76% of the revenue of the Group in 2017.

Business discussion and analysis

The consolidated revenue of the Group (which represent primarily those derived from the minibus business and major operating subsidiaries such as RBJAC and Xing Yuan Dong) for the year ended 31st December, 2017 was RMB5,304.7 million, representing a 3.5% increase from RMB5,125.1 million for the year ended 31st December, 2016. The consolidated revenue also included income derived from auto financing services provided by BBAFC of RMB140.7 million in 2017, which was 220.5% higher than the RMB43.9 million reported for the previous year. The consolidated revenue of the Group for the year ended 31st December, 2017 had stayed comparatively stable from that of the previous year due to a similar level of minibus sales volume achieved in 2017 as compared to 2016.

RBJAC sold 61,028 minibuses and MPVs in 2017, which was 2.6% lower than the 62,673 vehicles sold in 2016. Of the minibuses sold, 52,216 units were Haise minibuses, representing a 12.9% increase from the 46,270 units sold in 2016. The increase in Haise sales volume was due to introduction of new and revamped Jinbei models that attracted new demand. The unit sales of Granse minibuses decreased by 60.1% from 11,889 units in 2016 to 4,745 units in 2017. The decrease in Granse sales volume in 2017 was a result of the phasing out of certain older variants of Granse in the market. As for the Huasong 7 MPV, sales of 4,067 units was recorded during the year, representing a 9.9% decrease from the 4,514 units sold in 2016.

Cost of sales increased by 3.3% from RMB4,953.6 million in 2016 to RMB5,118.5 million in 2017. The percentage increase in cost of sales was slightly lower than that of revenue mainly due to continuing efforts in cost control. As a result, the gross profit margin of the Group has improved slightly from 3.3% in 2016 to 3.5% in 2017.

Other income increased by 34.8% from RMB82.0 million in 2016 to RMB110.5 million in 2017 due to increased sale of scrap materials.

Interest income increased by 4.1% from RMB53.2 million in 2016 to RMB55.4 million in 2017 due to increase in cash and cash equivalents and other bank deposits during the year.

Selling expenses decreased by 6.5% from RMB611.9 million in 2016 to RMB571.9 million in 2017. The decrease in selling expenses was due to a decrease in transportation costs as a result of lower volume sold, and a decrease in staff costs. Selling expenses as a percentage of revenue has dropped from 11.9% in 2016 to 10.8% for 2017.

General and administrative expenses increased by 211.3% from RMB383.2 million in 2016 to RMB1,192.9 million in 2017 primarily due to an impairment loss of RMB700 million related to Huasong, and net exchange losses recorded during the year. As a result, general and administrative expenses as a percentage of revenue has increased from 7.5% in 2016 to 22.5% for 2017.

Finance costs increased by 3.6% from RMB133.1 million in 2016 to RMB137.9 million in 2017 due to a decrease in capitalised interest costs for capital expenditures incurred during the year.

The Group's share of results of joint ventures increased by 31.0% from RMB3,993.4 million in 2016 to RMB5,233.3 million in 2017. This was primarily attributable to the increased profits contributed by BBA, the Group's 50% indirectly-owned joint venture.

Net profits contributed to the Group by BBA increased by 31.0% from RMB3,998.4 million in 2016 to RMB5,237.7 million in 2017. The BMW joint venture achieved sales of 386,549 BMW vehicles in 2017, an increase of 24.7% as compared to 310,026 BMW vehicles sold in 2016. The 2017 sales volumes of the locally produced 3-series, 5-series, X1, and 2-series Active Tourer were 123,700 units, 121,025 units, 91,307 units and 15,801 units, respectively, translating into growth rates of 27.4%, –15.7%. 66.3% and 9.7%, respectively, compared to 2016. In addition, the new 1-series sedan launched in March 2017 recorded sales of 34,716 units during the year.

The Group's share of results of associates decreased by 14.1% from RMB252.6 million in 2016 to RMB217.0 million in 2017. This was primarily attributable to the decrease in contributions from the Group's major associates Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. and Power Xinchen.

The Group's profit before income tax expense increased by 13.9% from RMB3,424.5 million in 2016 to RMB3,899.8 million in 2017. Income tax expense decreased by 5.3% from RMB35.9 million for 2016 to RMB34.0 million for 2017, primarily due to over provision of prior years income tax for a subsidiary in 2016.

As a result of the above, the Group recorded net profit attributable to equity holders of the Company of RMB4,376.1 million for the year 2017, representing an increase of 18.8% from the RMB3,682.1 million realised in 2016. Basic earnings per share in 2017 amounted to RMB0.86776, compared to RMB0.73103 in 2016. In addition, return on capital employed (as defined by the EBITDA ÷ average capital employed) for 2017 was 17.5%, compared to 18.4% for 2016.

Financial highlights

Certain financial key performance indicators are provided in the sub-section headed "Business discussion and analysis" above and the section headed "Management's Discussion & Analysis".

Principal risks and uncertainties facing the Group

During 2017, we identified the following main risks and uncertainties which the Group was exposed to:

1. *Capital expenditures demand*

   Automobile manufacturing is a capital intensive business, with frequent product updates to keep abreast with customer demands and to maintain competitive edge. In response to market demand, RBJAC (formerly known as Shenyang Automotive) needs to constantly undertake new R&D projects to expand its product portfolio and upgrade its products, which might require extra capital expenditures and funding in the future. Currently, the financial position of RBJAC is good, with a strong credit record and established solid relations with a number of commercial banks. Given the fast development of the automobile industry, which necessitates growing R&D investment in the future and greater efforts in marketing campaigns, RBJAC faces risks that are beyond its control as to whether it can meet its capital demand over the next few years. Such risks include changes to bank interest rates and relevant policies.

2. *A relatively high gearing ratio*

   RBJAC has a relatively high gearing ratio, which may affect its capability to obtain funding in the banking sector to a certain extent. The company intends to work on various fronts to lower its gearing ratio and improve its financing capability, such as cutting product costs and boosting sales and profitability.

3. *Market risks*

   In general, 2017 witnessed strong economic performance with a 6.9% gross domestic product (GDP) growth for China, representing an increase of 0.2% over the prior year. The overall production demand remained stable, while commodity prices fell. Double-digit growth in both import and export was also maintained. The Chinese economy has shifted from high-speed growth to high-quality development. However, the pace of economic growth did not boost car purchase considerably. According to information from China Association of Automobile Manufacturers, 28,879,000 vehicles were sold in China during 2017, which represented a year-on-year increase of 3.04%.

4. *Regulations risk*

   China has imposed more stringent policies and regulations on the automobile industry, such as restrictions on car ownership, fuel consumption and waste emission. Accordingly, automobile manufacturers may need to increase their investments and costs to comply with regulations. Fewer energy subsidies may also led to more pressure on technical upgrades and cost reduction.

In addition to those mentioned above, there may be other risks and uncertainties which are unknown to the Group or which may not be material at present but may become material in the future.

Likely future development of the Group's business

In response to a changing market environment for automobiles and intensifying competition, the Group will be customer-focused and market-oriented, and strive to develop products that meet customer demand and are competitive in the automobile market.

1. *Slower growth, yet great volume and prospect*

   According to the information from China Association of Automobile Manufacturers, the Chinese automobile market sold 28,879,000 vehicles in 2017, representing an increase of 3.04% over last year. Despite slower year-on-year growth, China has maintained its leadership in sales volume, ranking top globally for nine consecutive years and delivering another record high in 2017.

   At present, people in China own 0.2 billion vehicles, averaging 140 vehicles per 1,000 people. Yet, in general, the Chinese automotive consumer market is still at its early stage of development. When their per capita GDP reached US$10,000, every 1,000 Japanese or South Koreans owned approximately 200 vehicles. Currently, the Chinese per capita GDP stands at approximately USD8,000. Assuming that every 1,000 Chinese citizens own 200 vehicles in the future, China will have 0.28 billion vehicles, leaving considerable room for market expansion.

2. *Reshaping the brand image*

The Group's cooperation with Renault will combine the advanced technologies and experience of both parties in their respective fields, thus promoting joint development of JinBei, Huasong and Renault in the Chinese automotive market.

Currently, JinBei has an outdated brand image and weakening brand premium. It mainly focuses on low-priced vehicles, which is difficult to support an upward repositioning of its products. The new joint venture will leverage on Renault's advanced technology, professional management capability, and future LCV products. The two shareholders, with their own background and offerings, will complement and integrate with each other, and uplift the product image of JinBei, Huasong and Renault in the Chinese market.

3. *SUV still a main force of market growth*

In recent years, SUV, with its increasing market share, has remained a leader in driving the demand growth of passenger vehicles in China. SUVs have sustained its popularity for years and is still the top choice for Chinese people. The segment accounted for over 40% market share of passenger vehicles. Given the rise of vehicle consumption upgrade as a predominant trend, the SUVs will remain popular and become a key segment for many automobile manufacturers. With that in mind, RBJAC will launch its new F70 products in due course, and introduce seven-seat SUV & MPV crossover products for family use.

4. *Consumption upgrade*

The Chinese automobile market has entered into a stage featuring both fundamental consumption and demand for personalization. On the one hand, there is sizable gap between the level of domestic automobile consumption and that of mature markets. First-time buyers remain the dominant consumer group, with car purchase under the umbrella of fundamental consumption. Meanwhile, with higher personal income and younger consumer groups, Chinese auto consumers have become more sophisticated and are more concerned about brand, appearance, comfort, technology and easy operation, resulting in increased demand for personalised vehicle models. Renault's products boast their advantages in comfort, space, personalisation and modification. RBJAC is expected to introduce more Renault products to adapt to market changes in the future. RBJAC will leverage the strengths of the Renault brand to grow the company's market share.

Important events affecting the Group that have occurred since the end of the financial year

Save as disclosed, to the knowledge of the directors of the Company, no important events affecting the Group have occurred since the end of the financial year.

Other disclosures

Pursuant to the requirements under paragraph 28 of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), the discussion on "Environmental policies and performance", "Compliance with laws and regulations" and "Relationship with stakeholders and its importance" of the Company is set out below.

Environmental policies and performance

Under the increasingly severe trend of global warming, the society requires enterprises to conserve energy and reduce emission, and the public have gradually deepened their knowledge and understanding towards energy saving and environmental protection. The Company is concerned about the impacts caused by the manufacturing industry to the environment. RBJAC has consistently complied with various national and local laws, regulations, standards and relevant requirements, such as the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), to establish the environmental protection management system. In the working principles of "environmental protection, pollution prevention, law compliance and continuous improvement" (保護環境、防治污染、遵紀守法、持續改進), RBJAC has reinforced its responsibility system in respect of environmental protection under the principle of "The person in charge bears the responsibility" (誰主管、誰負責). The company established and implemented Environmental Management System Certification (環境管理體系認證) according to GB/T24001-2004 "Environmental Management System Requirements and User's Guide" (《環境管理體系要求及使用指南》).

Every year, RBJAC appoints qualified monitoring institutions to monitor its sewage, exhaust and boundary noise, with all the results in line with the requirements of relevant standards. In respect of its business activities, RBJAC has invariably complied in strict terms with the Three Simultaneous Systems of Environmental Protection, under which the "design, construction, inspection and acceptance for pollution prevention facilities must take place simultaneously with that for main construction works" (「防治污染的設施必須與主體工程同時設計、同時施工和同時驗收」的環境三同時制度). In 2017, RBJAC was engaged in saving energy and cutting consumption and cost according to the energy-saving work plan of municipal and district governments as well as the Group's economic indicators. Specifically, RBJAC adopted contracted energy management projects and replaced its metal halide lamps (金屬鹵化物燈) and fluorescent lamps with LED lamps in its coating workshops, in a bid to reduce energy consumption and production costs. To promote the electricity system reform and fast-track the development of the electricity market, the government has rolled out the application for direct electricity transaction among businesses. RBJAC has passed the assessment and entered into direct transactions with electricity generators, thereby reducing unit electricity tariff and saving production costs. In April 2017, RBJAC became a "2016 Advanced Entity for Energy Conservation and Emissions Reduction" (「二零一六年度節能減排先進單位」), an honorary title conferred by Shenyang Municipal People's Government.

In 2017, RBJAC was not engaged in any environmental breaches and did not receive any complaints from the public or involve disputes concerning environmental pollution.

Compliance with the relevant laws and regulations that have a significant impact on the Group

The Company is an exempted company incorporated in Bermuda with limited liability, and registered as a non-Hong Kong company under the Hong Kong Companies Ordinance. The shares of the Company are traded on the main board of the Stock Exchange. The Company continues to review its current systems and procedures, emphasizes and strives to comply with the Companies Law of Bermuda, the Listing Rules, the Securities and Futures Ordinance (the "**SFO**"), applicable Hong Kong Companies Ordinance, and other relevant laws and regulations which have a material effect on the Company. The Company endeavors to safeguard its shareholders' interests, enhance corporate governance and strengthen the functions of the board of directors of the Company (the "**Board**").

Laws and regulations that have a significant impact on the operating subsidiaries of the Group include but are not limited to the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Regulations of the People's Republic of China on Company Registration (《中華人民共和國公司登記管理條例》), the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), Contract Law of the People's Republic of China (《中華人民共和國合同法》), Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Regulation on the Administration on Recall of Defective Auto Products (《缺陷汽車產品召回管理條例》), the Provisions on the Liability for the Repair, Replacement and Return of Household Automotive Products (《家用汽車產品修理、更換、退貨責任規定》), Trademark Law of the People's Republic of China (《中華人民共和國商標法》), Patent Law of the People's Republic of China (《中華人民共和國專利法》), and Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》). In particular, the Regulation on the Administration on Recall of Defective Auto Products and the Provisions on the Liability for the Repair, Replacement and Return of Household Automotive Products have increased the responsibility of automobile manufacturers in respect of product and after-sales service quality, as well as the cost and investment of after-sales service.

The operation of RBJAC has always complied with national and local laws and regulations. It upholds honesty and integrity, and performs its social responsibility. In 2017, there was no major litigation or dispute against RBJAC.

RBJAC has always been committed to governance via system (以制度管權) for continuous improvement and strengthening of the probity and integrity of the employees and management of the company. In 2017, in accordance with the general requirements under "further standardization of the system" (「進一步規範制度建設」) promulgated by the Communist Party Committee of the Group (集團黨組), RBJAC enhanced four systems, including "Learning System of Probity of Shenyang Brilliance JinBei Automobile Co., Ltd." (《瀋陽華晨金杯汽車有限公司廉政建設學習制度》), "Three Importance and One Greatness Policy-making System of Shenyang Brilliance JinBei Automobile Co., Ltd." (《瀋陽華晨金杯汽車有限公司「三重一大」制度》), "Interim Measures of Telecommunication Monitoring" (《信訪監督工作暫行辦法》) and "Terms of Reference of Liaison among Leaders, Cadres and General Staff" (《領導幹部基層聯繫點工作制度》), to further facilitate the compliance, operation and implementation of the systems. RBJAC continues to enforce the policies such as "The State-owned Enterprise Implementing Three Importance and One Greatness Policy-making System" (《國有企業貫徹落實「三重一大」決策制度》) and the "Requirements of Incorruptible Employment for State-owned Enterprises Leaderships" (《國有企業領導人員廉潔從業若干規定》). The company's commission for disciplinary inspection (公司紀委) implemented and executed "Discipline Inspection and Management System of Shenyang Brilliance JinBei Automobile Co., Ltd." (《瀋陽華晨金杯汽車有限公司紀檢監察管理制度》), the "System of Accountability for Improving Party Conduct and Upholding Integrity of Shenyang Brilliance JinBei Automobile Co., Ltd." (《瀋陽華晨金杯汽車有限公司黨風廉政建設責任制度》) and the "Implementation Rules of Integrity and Risk Prevention of Shenyang Brilliance JinBei Automobile Co., Ltd." (《瀋陽華晨金杯汽車有限公司廉潔從業風險防範工作實施細則》).

The Company and its staff have exercised their best endeavours to strictly follow the applicable rules, regulations, law and industry standard. The directors are not aware of any breach of laws or regulations which have a significant impact on the Group, nor are they aware of any litigation or cases of corruption, bribery, extortion, fraud and money laundering involving the Group in 2017.

Relationship with stakeholders and its importance

Stakeholder involvement is an integral part of the Company's development. The Company strives to maintain communications with its stakeholders, including investors, customers, employees and suppliers. The Company also engages its stakeholders to develop mutually beneficial relationships, seeks their suggestions on the Company's business and views on its work plans, and promotes sustainable development of the market, workplace, community and environment.

Key stakeholders	Importance
Investors	One of the Company's objectives is to create value for the investors. The Company is committed to enhancing its operational efficiency and providing reasonable, sustainable and stable returns on their investments.
Customers	The Company strives to satisfy the market demand in terms of product design and quality, and pursues technological innovation, in a bid to maintain a stable supply of high-quality products to customers. The major client of RBJAC is a subsidiary of Shanghai Shenhua Holdings Co., Ltd. (上海申華控股股份有限公司) ("**Shanghai Shenhua**") and a related party of the Company. Being an experienced auto brand agent, it has been purchasing and selling JinBei brand products since 2013, and has maintained a business relationship with RBJAC. RBJAC provides the same credit conditions for its major clients as for other clients. Following the end of the financial year, the payments receivable from major clients are successively collected, with no provision being made. RBJAC relies on major clients to sell its products. To reduce the demand changes brought by the changing distribution capacity of downstream clients, the company reviews its product mix from time to time to ensure its products meet customer demand. The company also undertakes product promotion, intensive management of 4S stores, and monitors downstream distribution channels.
Employees	Employees are an important cornerstone for corporate development. The Group places high priority on occupational health and safety, and strives to create an attractive working environment to motivate and retain talents, so as to enhance the sustainability of the Group.
Suppliers	Suppliers are fundamental to the production processes of the Group. In the principles of mutual benefit, risk sharing and co-development, the Group seeks to foster a win-win partnership with its suppliers. In identifying suitable suppliers, the Group focuses on partners with strong technology development ability, fast response, stability and consistency in design and production quality, high level of project management, cost competitiveness, and intention to cooperate. In 2017, the Group established good cooperative relations with suppliers in the win-win principle, with no major disagreement with them.

In 2017, the Company was engaged in positive and candid communication with its shareholders and investors through various channels, including general meetings, results press conferences, product launch events, and analyst and investor meetings. Such communication enabled the investors and customers to further understand the operation and development of the Company, and provided the investors with a platform to express their views to the management of the Company.

RBJAC holds annual conventions, board meetings, and economic and management meetings on a regular basis, to discuss how to respond to the views and demands of the stakeholders. By collecting customer advice through surveys, RBJAC has built its data base on customer satisfaction and implement improvement measures on drawbacks, aiming to further improve product quality and customer satisfaction. RBJAC offers its staff suggestion forms, through which staff members can raise their suggestions on the company and positions. Staff members whose suggestions are accepted will be rewarded. RBJAC convenes regular meetings with its suppliers, to discuss and address recent issues and solidify a harmonious relationship with them.

CASH FLOW POSITION

The cash flow position of the Group for the year ended 31st December, 2017 is set out and analysed in the consolidated statement of cash flows on page 77 and in note 34 to the financial statements.

DIVIDENDS

During the year under review, the directors have declared a dividend of HK$0.11 per ordinary share of the Company to shareholders whose names appeared on the register of members of the Company as at 13th October, 2017 (2016: HK$0.11 per ordinary share). The dividend was paid on 27th October, 2017.

The directors did not recommend any dividend payment at the Board meeting held on 28th March, 2018 in respect of the Group's 2017 annual results (2016: nil).

CLOSURE OF REGISTER OF MEMBERS

The Company's forthcoming annual general meeting will be held on Friday, 22nd June, 2018 at 9:00 a.m. (the "**2018 AGM**"). Notice of the 2018 AGM, which constitutes part of the circular to shareholders, is sent together with this annual report. The notice of the 2018 AGM and the proxy form are also available on the website of the Company.

The register of members of the Company will be closed from Friday, 15th June, 2018 to Friday, 22nd June, 2018, both days inclusive, during which period no transfer of shares will be registered. The record date for the 2018 AGM is Friday, 15th June, 2018. Only shareholders of the Company whose names appear on the register of members of the Company on Friday, 15th June, 2018 or their proxies or duly authorised corporate representatives are entitled to attend and vote at the 2018 AGM. In order to qualify for attending and voting at the 2018 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m., Hong Kong time, on Thursday, 14th June, 2018.

PROXY LODGMENT DEADLINE DATE AND TIME

Whether or not a shareholder is able to attend the 2018 AGM, he/she is requested to complete the proxy form in accordance with the instructions printed thereon and return it to the office of the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong before 9:00 a.m., Hong Kong time, on Wednesday, 20th June, 2018, or not less than 48 hours before the time appointed for the holding of any adjourned meeting of the 2018 AGM.

Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the 2018 AGM or any adjourned meeting thereof if they so wish and in such event, the form of proxy will be deemed to be revoked.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 3.

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31st December, 2017 are set out in notes 32 and 36, respectively to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31st December, 2017 are set out in note 13 to the financial statements.

SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Particulars of the subsidiaries, joint ventures and associates are set out in notes 37, 15 and 16, respectively to the financial statements.

SHARE CAPITAL

Details of the Company's share capital as of 31st December, 2017 are set out in note 31(a) to the financial statements.

SHARE OPTIONS

At a special general meeting held on 11th November, 2008, shareholders of the Company adopted a share option scheme (the "**Share Option Scheme**"). The Share Option Scheme came into effect on 14th November, 2008.

Pursuant to the Share Option Scheme, the directors of the Company may, at their absolute discretion, invite the following persons to take up options to subscribe for ordinary shares with a par value of US$0.01 each (the "**Shares**") of the Company: (a) any eligible employee as defined in the Share Option Scheme; (b) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any entity in which the Group holds any equity interest (the "**Invested Entity**"); (c) any supplier of goods or services to any member of the Group or any Invested Entity; (d) any customer of the Group or any Invested Entity; (e) any person or entity acting in their capacities as advisers or consultants that provides research, development or other technological support to the Group or any Invested Entity; (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and (g) any other group or classes of participants from time to time determined by the directors of the Company as having contributed or may contribute to the development and growth of the Group and any Invested Entity.

A consideration of HK$1.00 is payable on acceptance of the offer of grant of an option.

The maximum number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Company) to be granted under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 10% of the Shares in issue as at the date of approval of the Share Option Scheme (i.e. 366,976,590 Shares, representing 7.27% of the total number of Shares in issue as at the date of this annual report).

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Company (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval in general meeting with such participant and his close associates abstaining from voting.

The subscription price per Share in respect of any option granted under the Share Option Scheme shall be a price determined by the directors, but shall not be lower than the higher of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of options, which must be a trading day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of options; and (c) the nominal value of a Share of the Company.

The Share Option Scheme will remain in force for a period of 10 years from 14th November, 2008. The period during which an option may be exercised will be determined by the directors in their absolute discretion, save that no option shall be exercised later than 10 years from the date of grant.

A summary of movements of the share options of the Company under the Share Option Scheme during the year ended 31st December, 2017 is set out below:

Category and name of participants *(Note 1)*	Date of grant	Number of share options: Outstanding as at 1st January, 2017	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31st December, 2017	Option period	Subscription price per Share (HK$)
Directors									
Mr. Qi Yumin	22nd December, 2008 *(Note 2)*	1,800,000	–	1,800,000	–	–	–	22nd December, 2008 – 21st December, 2018	0.438
Mr. Qian Zuming	22nd December, 2008 *(Note 2)*	600,000	–	600,000	–	–	–	22nd December, 2008 – 21st December, 2018	0.438
Employees (in aggregate)	22nd December, 2008 *(Note 2)*	3,000,000	–	3,000,000	–	–	–	22nd December, 2008 – 21st December, 2018	0.438
Others (in aggregate)	22nd December, 2008 *(Note 2)*	–	–	–	–	–	–	22nd December, 2008 – 21st December, 2018	0.438
Total		5,400,000	–	5,400,000 *(Note 3)*	–	–	–		

Notes:

(1) During the year ended 31st December, 2017:

(a) no share options under the Share Option Scheme have been granted to any directors, chief executive or substantial shareholders of the Company or their respective associates;

(b) there is no participant with options granted in excess of the individual limit; and

(c) no share options under the Share Option Scheme have been granted to any supplier of goods or services to any member of the Group or any Invested Entity.

(2) The share options were granted on 22nd December, 2008 and vested immediately upon the grant and are exercisable within a period of 10 years. The closing price of the Shares immediately before the date on which the share options were granted is HK$0.445 per Share.

(3) The weighted average closing price of the Shares immediately before the date on which the share options were exercised was HK$12.8661 per Share.

As no share options have been granted by the Company under the Share Option Scheme for the year ended 31st December, 2017, no expenses were recognised by the Group for 2017 (2016: nil).

DIRECTORS

The directors of the Company who held office during the year ended 31st December, 2017 and up to the date of this annual report are:

Executive directors:

Mr. Wu Xiao An *(chairman of the Board)*
Mr. Qi Yumin *(chief executive officer)*
Mr. Qian Zuming *(chief financial officer)*
Mr. Zhang Wei

Independent non-executive directors:

Mr. Xu Bingjin
Mr. Song Jian
Mr. Jiang Bo

Pursuant to bye-law 99 and the code provision A.4.2 of Appendix 14 to the Listing Rules, Mr. Wu Xiao An, Mr. Qi Yumin and Mr. Xu Bingjin will retire by rotation at the 2018 AGM.

Each of Mr. Wu Xiao An, Mr. Qi Yumin and Mr. Xu Bingjin, being eligible, will offer himself for re-election and the Board has recommended them for election at the 2018 AGM.

Biographical details of the directors standing for re-election at the 2018 AGM are set out in the circular sent to the shareholders of the Company together with this annual report.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of the directors of the Company since the date of the 2017 interim report is set out below:

(1) Each of Mr. Wu Xiao An, Mr. Qi Yumin and Mr. Zhang Wei was appointed as a director of RBJAC, a subsidiary of the Company, with effect from 1st January, 2018.

(2) Mr. Qian Zuming resigned as a director of RBJAC with effect from 1st November, 2017.

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

As at 31st December, 2017, so far as is known to the directors or chief executives of the Company, the following persons other than a director or chief executive of the Company had an interest or a short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

	Number and class of Shares held/ Approximate shareholding percentage *(Note 1)*					
Name of shareholders	**Long position**	**%**	**Short position**	**%**	**Lending pool**	**%**
Huachen *(Note 2)*	2,135,074,988 ordinary	42.32	–	–	–	–
J.P. Morgan Chase & Co. *(Note 3)*	401,218,781 ordinary	7.95	13,229,029	0.26	313,858,660	6.22
Templeton Asset Management Ltd. *(Note 4)*	345,983,276 ordinary	6.86	–	–	–	–

Notes:

1. The percentage of shareholding is calculated on the basis of 5,045,269,388 Shares in issue as at 31st December, 2017.

2. The 2,135,074,988 Shares in long position were held in the capacity as beneficial owner.

3. The 401,218,781 Shares in long position were held as to 19,880,898 Shares in the capacity as beneficial owner, as to 67,450,173 Shares in the capacity as investment manager, as to 29,050 Shares in the capacity as trustee and as to 313,858,660 Shares in the capacity as custodian corporation/approved lending agent. The 13,229,029 Shares in short position were held in the capacity as beneficial owner.

4. The 345,983,276 Shares in long position were held in the capacity as investment manager.

Save as disclosed herein, as at 31st December, 2017, there was no other person so far known to the directors or chief executives of the Company, other than a director or chief executive of the Company as having an interest or a short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2017, the interests and short positions of each director, chief executive and their respective close associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, are set out below:

The Company

		Number and class of shares held/ Approximate shareholding percentage *(Note)*				Number of share options granted (Percentage of the Company's issued share capital)
Name of directors/ chief executives	**Type of interests**	**Long position**	**%**	**Short position**	**%**	
Mr. Wu Xiao An	Personal	6,200,000 ordinary	0.12%	–	–	–
Mr. Qi Yumin	Personal	4,500,000 ordinary	0.09%	–	–	–
Mr. Qian Zuming	Personal	600,000 ordinary	0.01%	–	–	–

Note: The percentage of shareholding is calculated on the basis of 5,045,269,388 Shares in issue as at 31st December, 2017.

Associated Corporation of the Company

Name of director/ chief executive	Name of associated corporation	Type of interests	Number and class of shares held/ Approximate shareholding percentage *(Note 1)* Long position	%	Short position	%
Mr. Wu Xiao An	Power Xinchen	Trustee and interest in a controlled corporation *(Note 2)*	33,993,385 ordinary	2.65%	–	–
		Beneficial interest (in shares) *(Note 3)*	8,320,041 ordinary	0.65%	–	–

Notes:

1. The percentage of shareholding is calculated on the basis of 1,282,211,794 shares in issue of Power Xinchen as at 31st December, 2017.

2. As at 31st December, 2017, Power Xinchen was indirectly held as to approximately 31.20% by the Company. The 33,993,385 shares in long position are interests of a discretionary trust under an incentive scheme of Power Xinchen. The said trust held 33,993,385 shares of Power Xinchen. Mr. Wu Xiao An is one of the trustees of the aforementioned trust. Mr. Wu also held 50% interests in Lead In Management Limited which is also a trustee of the said trust. Accordingly, Mr. Wu was deemed or taken to be interested in the 33,993,385 shares of Power Xinchen, representing approximately 2.65% of its issued share capital as at 31st December, 2017.

3. Mr. Wu Xiao An held 8,320,041 shares of Power Xinchen in the capacity of beneficial owner, representing approximately 0.65% of its issued share capital as at 31st December, 2017.

Save as disclosed above, as at 31st December, 2017, none of the directors, chief executives of the Company or their respective close associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31st December, 2017 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate; and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed herein, no transactions, arrangements or contracts of significance to which the Company was a party and in which a director of the Company or an entity connected with such director is or was materially interested, whether directly or indirectly, subsisted during or at the end of the financial year.

DIRECTORS' SERVICE CONTRACTS

None of the directors of the Company who are proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with members of the Group that is not determinable by the employer within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the financial year ended 31st December, 2017, none of the directors of the Company was considered to have interests in business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PERMITTED INDEMNITY PROVISIONS

During the financial year and up to the date of this annual report, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the directors and officers of the Company and its subsidiaries. The permitted indemnity provisions are provided for in the Company's bye-laws and in the directors & officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against such persons.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities in 2017.

ANALYSIS OF INTEREST CAPITALISED

Details of interest capitalised are set out in note 6 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

In 2017, the aggregate sales attributable to the Group's five largest customers, excluding the Group's associates and joint ventures, represented approximately 58.81% of the Group's total revenue from sales of goods or rendering of services while the sales attributable to the Group's largest customer represented approximately 20.61% of the Group's total revenue. The aggregate purchases attributable to the Group's five largest suppliers, excluding the Group's associates and joint ventures, during the year represented approximately 20.55% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 9.57% of the Group's total purchases.

None of the directors, their close associates or any shareholders that, to the knowledge of the directors is interested in more than 5% of the number of issued shares of the Company, has any interests in the above five largest customers or suppliers of the Group.

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 maintains the prescribed percentage of public float under the Listing Rules.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

In 2017, the Group entered into certain related party transactions which also constitute connected transaction and continuing connected transactions under Chapter 14A of the Listing Rules. The connected transaction and continuing connected transactions during the year that are not exempt from the annual reporting requirement in Chapter 14A of the Listing Rules are listed below and these transactions are, among others, also set out in note 33(a) to the financial statements. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. Announcements have been made on these connected transaction and continuing connected transactions and the relevant shareholders' approvals have been obtained, if necessary.

Connected Transaction for 2017

– *The 2017 Cross Guarantee*

On 4th November, 2016, Xing Yuan Dong, a wholly-owned subsidiary of the Company, and JinBei entered into an agreement for the provision of cross guarantees in respect of each other's banking facilities in the maximum amount of RMB600 million for a term of one financial year commencing from 1st January, 2017 to 31st December, 2017 (the "**2017 Cross Guarantee**"). At the time of entering into the agreement, JinBei was interested in 39.1% of equity interests in RBJAC (formerly known as Shenyang Automotive). RBJAC was then owned as to 60.9% by the Company. As a substantial shareholder of a subsidiary of the Company, JinBei was considered as a connected person of the Company under the Listing Rules as at the time of entering into of the agreement. The 2017 Cross Guarantee constituted a connected transaction for the Company under the Listing Rules. It is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Details of the 2017 Cross Guarantee are set out in the announcement of the Company dated 4th November, 2016. The 2017 Cross Guarantee is not a notifiable transaction under Chapter 14 of the Listing Rules.

As at 31st December, 2017, Xing Yuan Dong provided a guarantee in respect of JinBei's banking facilities in the amount of approximately RMB356 million.

Continuing Connected Transactions for 2017

– *Continuing Connected Transactions*

Currently, the Group is principally engaged in the manufacture and sale of automobiles and automotive components, and the provision of auto financing service in the PRC through its major operating subsidiaries, and the manufacture and sale of BMW vehicles in the PRC through its major joint venture, BMW Brilliance.

On 12th November, 2014,

(a) the Company and JinBei entered into a framework agreement in relation to the purchases of materials and automotive components by members of the Group from JinBei and its subsidiaries and its 30%-controlled companies, but excluding RBJAC (collectively, the "**JinBei Group**") for a period of three financial years commencing from 1st January, 2015 to 31st December, 2017;

(b) the Company and Huachen entered into a framework agreement in relation to the sale of automobiles, materials and/or automotive components by members of the Group to Huachen and its subsidiaries and its 30%-controlled companies (collectively, the "**Huachen Group**") for a period of three financial years commencing from 1st January, 2015 to 31st December, 2017;

(c) the Company and Huachen entered into a framework agreement in relation to the purchases of materials and automotive components by members of the Group from members of the Huachen Group for a period of three financial years commencing from 1st January, 2015 to 31st December, 2017; and

(d) the Company and Huachen entered into a comprehensive service agreement in relation to the provision/purchase of services by members of the Group to/from members of the Huachen Group for a period of three financial years commencing from 1st January, 2015 to 31st December, 2017.

The framework agreements and the comprehensive service agreement only set out the overriding and major terms of the transactions to be carried out by relevant parties. Details of the terms and conditions (including payment mode and payment terms) for the transactions contemplated under the framework agreements will be dealt with in the purchase orders to be placed by the relevant purchaser, which will be in line with the company policies adopted by the relevant vendor from time to time and may be varied in accordance with the prevailing market situation. The scope and fees for services to be provided or purchased by members of the Group pursuant to the comprehensive service agreement will be agreed by the relevant parties with reference to the pricing policies of the relevant service provider and the prevailing market condition. All the payments under the framework agreements and the comprehensive service agreement shall be settled in cash or note payable with credit terms ranging from 30 to 90 days, which is the usual credit term policy adopted by the Group.

At the time of entering into of the aforesaid agreements, JinBei owned 39.1% of the equity interests of RBJAC, which was in turn owned as to 60.9% by the Company. Being a substantial shareholder of a subsidiary of the Company, JinBei was considered as a connected person of the Company under the Listing Rules as at the time of entering into of the agreements. Transactions between members of the Group (including RBJAC) and members of the JinBei Group (other than RBJAC) constitute continuing connected transactions under Rule 14A.23 of the Listing Rules.

At the time of entering into of the aforesaid agreements, Huachen was interested in approximately 42.48% of the entire issued share capital of the Company. Being a substantial shareholder of the Company, Huachen was considered as a connected person of the Company under the Listing Rules as at the time of entering into of the agreements. Transactions between members of the Group and members of the Huachen Group constitute continuing connected transactions under Rule 14A.23 of the Listing Rules.

Among the abovementioned transactions, the purchases of materials and automotive components from the Huachen Group; and the sale of automobiles, materials and automotive components to the Huachen Group are subject to the reporting, announcement and independent shareholders' approval requirements as set out in Chapter 14A of the Listing Rules. At a special general meeting held on 29th December, 2014, the independent shareholders of the Company approved these transactions and the relevant annual caps for a period of three financial years ending 31st December, 2017.

The provisions of services to/by the Huachen Group are de minimus transactions exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements under Rule 14A.76(2) of the Listing Rules. Since JinBei was a connected person of the Company at the subsidiary level as at the time of entering into of the agreements, the purchases of materials and automotive components from the JinBei Group are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Rule 14A.101 of the Listing Rules.

Details of the above transactions are set out in an announcement of the Company dated 12th November, 2014 or the circular of the Company dated 10th December, 2014.

The actual monetary value of the above continuing connected transactions for the financial year ended 31st December, 2017 (the "**Continuing Connected Transactions**") is set out below (the transactions are numbered in the same order as they appear in the announcement dated 12th November, 2014).

Continuing Connected Transactions	Major type of products	Actual monetary value for the financial year ended 31st December, 2017 RMB'000
A. Purchases of materials and automotive components by members of the Group (including RBJAC) from members of the JinBei Group		
A1. Purchases of materials and automotive components by RBJAC	Bracket right assemblies, seats, strut beam rear panels and driving shaft assemblies	335,335
A2. Purchases of materials and automotive components by Xing Yuan Dong	Back axle brake assemblies, power steering gear assemblies and rubber parts	26,194
B. Sale of automobiles, materials and/or automotive components by members of the Group to members of the Huachen Group		
B1. Sale of materials and automotive components by Xing Yuan Dong	Interior trim parts and anti-freezing fluid	49,068
B2. Sale of materials and automotive components by Dongxing Automotive	Press parts, welding parts and complete outsourced parts	166,875
B3. Sale of materials and automotive components by Shenyang Jindong	A0 assemblies and matching components	54,141
B4. Sale of materials and automotive components by Mianyang Ruian	Camshafts	–
B5. Sale of materials and automotive components by Ningbo Yuming	Side triangle window assemblies, sun roof assemblies, triangular windows and sealing bars	13,598
B6. Sale of materials and automotive components by Ningbo Ruixing	Rear view mirrors	–
B7. Sale of automobiles, materials and automotive components by RBJAC	Automobiles, chassis, engines and transmissions	1,090,763
B8. Sale of materials and automotive components by Shanghai Hidea	Matching components	–

Continuing Connected Transactions		Major type of products	Actual monetary value for the financial year ended 31st December, 2017 RMB'000
C.	**Purchases of materials and automotive components by members of the Group from members of the Huachen Group**		
C1.	Purchase of materials and automotive components by Dongxing Automotive	Steels	75,022
C2.	Purchase of materials and automotive components by RBJAC	Press parts and power trains	538,355
C3.	Purchase of materials and automotive components by Shanghai Hidea	Matching components	–
C4.	Purchase of materials and automotive components by Shenyang Jindong	Scrap materials and window materials	74,093
D.	**Comprehensive service agreement**		
D1.	Provision of services by members of the Group to members of the Huachen Group		34,408
D2.	Purchase of services by members of the Group from members of the Huachen Group		140,982

The independent non-executive directors of the Company have reviewed and confirmed that the internal control procedures put in place by the Company are adequate and effective and the Continuing Connected Transactions have been entered into:

1. in the ordinary and usual course of business of the Group;

2. either on normal commercial terms or better; and

3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the Continuing Connected Transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Subsequent events

(A) Continuing Connected Transactions with Huachen

– Agreements signed on 15th November, 2017

On 15th November, 2017, the Group entered into certain framework agreements and comprehensive service agreements with members of the Huachen Group so as to continue to conduct a number of continuing connected transactions for a period of three financial years commencing from 1st January, 2018 to 31st December, 2020. At the time of entering into of the agreements, Huachen was interested in 42.32% of the entire issued share capital of the Company, and therefore was a connected person of the Company under Chapter 14A of the Listing Rules. The transactions to be conducted with the Huachen Group constitute continuing connected transactions under the Listing Rules.

Among these transactions, the continuing connected transactions falling within the categories of (i) sale of automobiles, materials and automotive components to the Huachen Group; (ii) purchases of materials and automotive components from the Huachen Group; and (iii) provision of services by the Huachen Group are subject to reporting, announcement and independent shareholders' approval requirements as set out in Chapter 14A of the Listing Rules. At a special general meeting held on 21st December, 2017, the independent shareholders of the Company approved these transactions and the relevant annual caps for a period of three financial years ending 31st December, 2020.

The continuing connected transactions falling within the category of provision of services to the Huachen Group are de minimus transactions exempt from the circular, independent financial advice and shareholders' approval requirements but are subject to the reporting and announcement requirements under the Listing Rules.

Details of the transactions are set out in an announcement of the Company dated 15th November, 2017 and the circular of the Company dated 5th December, 2017.

– Agreements signed on 15th December, 2017

The Company entered into a framework cooperation agreement (the "**Framework Cooperation Agreement**") on 4th July, 2017 with Renault (together with its subsidiaries, the "**Renault Group**") in relation to the disposal of 49% equity interest in Shenyang Automotive (now known as RBJAC) from the Group to Renault (the "**Disposal**").

Following the completion of the Disposal, RBJAC, i.e. the new Renault joint venture, will begin manufacturing and distribution of LCV products under the Renault brand. During the course of its business, RBJAC will acquire and obtain automotive production related components and services from both the Huachen Group and the Renault Group, on an ongoing basis.

To fulfil certain conditions precedent to the Framework Cooperation Agreement, on 15th December, 2017, RBJAC entered into five agreements with Huachen in its ordinary and usual course of business. These agreements include:

(i) a technology license agreement in relation to the licensing by Huachen to RBJAC of certain technology owned by Huachen to manufacture, assemble, sell and provide aftersales services for licensed products for a period of 10 years commencing from 15th December, 2017;

(ii) a trademark license agreement in relation to the licensing of rights by Huachen to RBJAC to use certain "Huasong" trademarks owned by Huachen for a period of 50 years commencing from 15th December, 2017;

(iii) a general services agreement in relation to the provision of general services by Huachen to RBJAC, the term of which commences from 15th December, 2017 and will be in force as long as the joint venture contract of RBJAC is in effect;

(iv) a lease agreement in relation to the lease of certain factory facilities, workshops and office space by Huachen to RBJAC for a period of 20 years commencing from 1st December, 2017; and

(v) a personnel transfer agreement in relation to the transfer of certain employees from RBJAC to Huachen, and from Huachen to RBJAC.

As at the date of signing of the five agreements, Huachen was interested in 42.32% of the entire issued share capital of the Company, and was therefore a connected person of the Company under the Listing Rules. The transactions to be conducted with Huachen constitute continuing connected transactions under the Listing Rules.

Among these continuing connected transactions contemplated with Huachen, some are fully exempt and some are subject to the reporting and announcement requirements under the Listing Rules. Further, as some of these continuing connected transactions with Huachen exceeds a period of three years, an independent financial adviser was appointed to issue an independent opinion to explain the reasons for requiring a duration longer than three years and to confirm that the period of each of the aforesaid agreements with Huachen exceeding three years is consistent with the practice adopted for similar types of transactions.

Details of the transactions are set out in an announcement of the Company dated 20th December, 2017.

(B) Continuing Connected Transactions with Renault

Similarly, to fulfil certain conditions precedent to the Framework Cooperation Agreement, on 15th December, 2017, RBJAC entered into three agreements with Renault in its ordinary and usual course of business. These agreements include:

(i) a framework technology license contract in relation to the licensing by Renault to RBJAC of certain technological rights owned by Renault to RBJAC to manufacture, assemble, sell and provide after sales services for licensed products for a period of 10 years commencing from 15th December, 2017 (the "**Renault Framework Technology License Contract**");

(ii) a trademark license agreement in relation to the licensing of rights by Renault to RBJAC to use certain trademarks owned by Renault for a period of 50 years commencing from 15th December, 2017; and

(iii) a framework imported parts supply agreement in relation to the sale of imported automotive production related components by Renault to RBJAC. The term of the agreement commences on 15th December, 2017 and will be in force as long as the joint venture contract and the Renault Framework Technology License Contract are in effect.

Upon completion of the Disposal, Renault was interested in 49% equity interest in RBJAC. Accordingly, Renault is a connected person of the Company by virtue of being a controlling shareholder of the Company's non-wholly owned subsidiary and therefore the transactions to be conducted with Renault constitute continuing connected transactions of the Company under the Listing Rules.

Among such continuing connected transactions contemplated with Renault, some are fully exempt and some are subject to the reporting and announcement requirements under the Listing Rules. In addition, as some of the transactions exceed a period of three years, an independent financial adviser was appointed to issue an independent opinion to explain the reasons for requiring a duration longer than three years and to confirm that the period of each of these agreement with Renault exceeding three years is consistent with the practice adopted for similar types of transactions.

Details of the transactions are set out in an announcement of the Company dated 20th December, 2017.

Report of Directors (Cont'd)

The Group also entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of these transactions are disclosed in note 33 to the financial statements of this annual report.

Save as disclosed above, in the opinion of the directors, the transactions disclosed as related party transactions in note 33 to the financial statements do not constitute connected transactions or continuing connected transactions (as defined under the Listing Rules in force at the time of the entering into of the relevant transactions) that are required to be reported pursuant to Chapter 14A of the Listing Rules.

AUDITOR

Grant Thornton Hong Kong Limited will retire at the conclusion of the 2018 AGM and be eligible to offer itself for re-appointment. A resolution will be submitted to the 2018 AGM to seek shareholders' approval on the appointment of Grant Thornton Hong Kong Limited as our auditor until the conclusion of the next annual general meeting and to authorise the Board to fix its remuneration.

By order of the Board

Wu Xiao An
(also known as Ng Siu On)
Chairman

Hong Kong,
28th March, 2018

Management's Discussion & Analysis

BUSINESS DISCUSSION AND ANALYSIS

A review of the business of the Group during the financial year ended 31st December, 2017 and the outlook of the Group's business are discussed throughout this annual report including the sections headed "Chairman's Statement" and "Business Review" on pages 4 to 6 and pages 9 to 14 of this annual report.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2017, the Group had RMB1,732.1 million in cash and cash equivalents (As at 31st December, 2016: RMB936.9 million), RMB62.0 million in cash at central bank (As at 31st December, 2016: RMB4.0 million), RMB43.4 million in short-term bank deposits (As at 31st December, 2016: RMB193.1 million) and RMB1,713.8 million in pledged short-term bank deposits (As at 31st December, 2016: RMB1,339.0 million). As at 31st December, 2017, the Group had notes payable in the amount of RMB2,780.6 million (As at 31st December, 2016: RMB2,330.1 million).

As at 31st December, 2017, the Group had outstanding short-term bank borrowings of RMB2,809.9 million (As at 31st December, 2016: RMB1,325 million) and outstanding long-term bank borrowings of RMB80 million (As at 31st December, 2016: nil).

All short-term bank borrowings as at 31st December, 2017 were due within one year, being repayable from 8th January, 2018 to 29th November, 2018 (As at 31st December, 2016: repayable from 10th January, 2017 to 12th December, 2017). As at 31st December, 2017, these borrowings were at fixed interest rates and were denominated in Renminbi (As at 31st December, 2016: same). All long-term bank borrowings as at 31st December, 2017 were due within 4 years, being repayable on 1st December, 2021 (As at 31st December, 2016: nil). As at 31st December, 2017, these borrowings were interest-bearing at 5.23% per annum, and were denominated in Renminbi (As at 31st December, 2016: nil).

The Group also aims to improve liquidity by ways such as monitoring the accounts receivable turnover and inventory turnover. For the year ended 31st December, 2017, the accounts receivable turnover rate and inventory turnover rate were 4.07 and 4.77, respectively (Year ended 31st December, 2016: 3.38 and 4.28, respectively).

CAPITAL STRUCTURE AND FUNDING POLICIES

As at 31st December, 2017, the Group's total assets was RMB37,856.1 million (As at 31st December, 2016: RMB31,043.0 million), which was funded by the following: (a) share capital of RMB397.2 million (As at 31st December, 2016: RMB396.8 million), (b) reserves of RMB26,125.8 million (As at 31st December, 2016: RMB23,327.0 million), (c) total liabilities of RMB11,155.9 million (As at 31st December, 2016: RMB8,444.5 million) and (d) contribution from non-controlling interests of RMB177.3 million (As at 31st December, 2016: negative contribution of RMB1,125.3 million).

As at 31st December, 2017, 94.3% (As at 31st December, 2016: 78.5%) of the Group's cash and cash equivalents (comprising cash on hand, bank balances and demand deposits within 3 months of maturity when acquired) were denominated in Renminbi, whereas 2.7% (As at 31st December, 2016: 14.6%) were denominated in U.S. Dollar. The remaining balance of 3% (As at 31st December, 2016: 6.9%) were denominated in other currencies.

Apart from the borrowings, banking facilities have been put in place for contingency purposes. As at 31st December, 2017, the Group's total available banking facilities for its daily operations amounted to RMB315.8 million (As at 31st December, 2016: RMB545 million) without any committed banking facilities.

The Group funds its short-term working capital requirement mainly through its own operational cash flow, short-term bank borrowings, issue of bank guaranteed notes and payment credit from its suppliers. The Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations, expected expansion and product developments. The management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

For long-term capital expenditures, the Group's strategy is to fund these long-term capital commitments by a combination of operational cash flow, bank borrowings, dividends from joint ventures and associates, if any, and fund raising exercises in the capital market, if and when necessary.

CAPITAL EXPENDITURES AND COMMITMENTS

In 2017, the Group incurred capital expenditures of RMB670.5 million (2016: RMB398.0 million) mainly for acquisition of land use rights, tools and moulds, machinery and equipment, and development costs for minibus.

As at 31st December, 2017, the Group's capital commitments, including those authorised but not yet contracted for, amounted to RMB412.3 million (As at 31st December, 2016: RMB474.7 million). Among such, contracted capital commitments amounted to RMB310.4 million (As at 31st December, 2016: RMB367.2 million), which was primarily related to the capital expenditures in respect of construction projects and acquisition of plant and machinery.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 23rd June, 2017, SJAI (an indirectly wholly-owned subsidiary of the Company) and JinBei entered into an acquisition agreement, pursuant to which SJAI agreed to acquire 39.1% equity interest in Shenyang Automotive (now known as RBJAC) from JinBei for cash consideration of RMB1. Subsequently, on 4th July, 2017, the Company and Renault entered into the Framework Cooperation Agreement, pursuant to which the Group agreed to dispose of 49% equity interest in Shenyang Automotive (now known as RBJAC) to Renault for cash consideration of RMB1.

As at the date of this annual report, Renault is a shareholder of Shenyang Automotive (now known as RBJAC) whose equity interests are owned as to 51% by SJAI and 49% by Renault. Shenyang Automotive was renamed to RBJAC.

Apart from those disclosed herein, there were no significant investments held, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31st December, 2017.

NEW BUSINESS AND NEW PRODUCTS

To meet the changing customer demands and to strengthen our market position in the PRC, RBJAC will continue to evaluate, on an ongoing basis, the development of new LCV and MPV models, upgrading of existing products, expansion of its product portfolio, and potential strategic partnerships.

Following the completion of the Disposal, it is planned that RBJAC will engage in the manufacture and sale of LCV products under the JinBei, Renault and Huasong brands.

The first goal of RBJAC will be to try to invigorate the JinBei brand and then to manufacture the Renault LCVs in the PRC by 2020.

EMPLOYEES, REMUNERATION POLICY AND TRAINING PROGRAMMES

The Group employed approximately 6,280 employees as at 31st December, 2017 (As at 31st December, 2016: approximately 7,280). Employee costs amounted to RMB736.0 million for the year ended 31st December, 2017 (For the year ended 31st December, 2016: RMB750.2 million). The Group will endeavour to ensure that the salary levels of its employees are in line with industry practices and prevailing market conditions, and that employees' remuneration is based on performance. In addition, employees are eligible for share options under the share option scheme adopted by the Company. More details in respect of the Company's emolument policy and the basis for determining the emolument payable to the Company's directors are set out in note 11(b) to the financial statements.

To enhance the overall quality and professional expertise standard of all employees, the Group provides training to its employees from time to time. RBJAC has developed and implemented "Methods for Training Management" (《培訓管理辦法》), and developed a training system and workflow incorporating induction training for new employees, training for personnel of special positions, management training, professional expertise training and quality training. The programmes cover a broad spectrum of topics such as professional skills, quality and ability, working efficiency, team cooperation, ethics and professional conduct. Employees are encouraged to attend training sessions to acquire the latest industry information and knowledge, new trends in vocational area and new information via different learning media including internet, in-house classes and external seminars, so as to enhance their ability and work quality.

CHARGE ON ASSETS

As at 31st December, 2017, short-term bank borrowings of RMB575 million (As at 31st December, 2016: RMB130 million) were secured by the Group's buildings, tools and moulds, machinery and equipment with total net book values of approximately RMB197.1 million (As at 31st December, 2016: RMB193.2 million) and guaranteed bank notes of RMB250 million (As at 31st December, 2016: nil).

As at 31st December, 2017, long-term bank borrowings of RMB80 million (As at 31st December, 2016: nil) were secured by the Group's land lease prepayments with a net book value of RMB31.2 million (As at 31st December, 2016: nil) and buildings, plant and equipment with total net book value of RMB45.3 million (As at 31st December, 2016: nil).

In addition, as at 31st December, 2017, the Group pledged short-term bank deposits of RMB1,503.2 million (As at 31st December, 2016: RMB1,128.4 million) for issue of bank guaranteed notes to trade creditors, and RMB210.5 million (As at 31st December, 2016: RMB210.5 million) to secure bank loans granted to a related party of the Group.

As at 31st December, 2017, the Group had also pledged bank guaranteed notes receivable from third parties and affiliated companies in the amount of RMB64.2 million (As at 31st December, 2016: RMB116.5 million) and RMB250 million (At at 31st December, 2016: nil) to secure the issue of bank guaranteed notes and the bank borrowings, respectively.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR ADDITIONS OF CAPITAL ASSETS

As disclosed in the announcement of the Company dated 4th July, 2017, following the registration of Renault as a 49% shareholder of RBJAC (the "**Completion**"), the Company and Renault will complete an increase of the registered capital of RBJAC in an aggregate amount of RMB1.5 billion. Among this, RMB1 billion will be paid up, upon completion of the procedures for such capital increase and issuance of a new business license of RBJAC reflecting such capital increase, by the Company and Renault in proportion to their respective equity interests in RBJAC. The remaining RMB0.5 billion will be paid up, within 12 months after the Completion, by the Company and Renault in proportion to their respective equity interests in RBJAC.

Apart from those disclosed herein, there was no plan authorised by the Board for other material investments or additions of capital assets as at the date of this annual report.

GEARING RATIO

As at 31st December, 2017, the gearing ratio, computed by dividing total liabilities by total equity attributable to equity holders of the Company, was approximately 0.42 (As at 31st December, 2016: 0.36). The increase in the gearing ratio was primarily due to the increase in total liabilities as compared to the last year.

FOREIGN EXCHANGE RISKS

The Group considers that exchange rate fluctuations may have some effect on the overall financial performance of the Group but it is still at a manageable level. The Group will continue to monitor the situation and may consider entering into hedging arrangements in order to minimise foreign exchange risks, if and when necessary. There were no outstanding hedging transactions as at 31st December, 2017 (As at 31st December, 2016: nil).

CONTINGENT LIABILITIES

On 4th November, 2016, a subsidiary of the Group and JinBei entered into an agreement for the provision of cross guarantees in respect of each other’s banking facilities in the maximum amount of RMB600 million (2016: RMB600 million) for the period from 1st January, 2017 to 31st December, 2017. At the time of entering into of the agreement, JinBei was a connected person/related party of the Company. As at 31st December, 2017, under this agreement, JinBei and its subsidiaries had outstanding bank loans and other banking facilities totalling RMB356 million (As at 31st December, 2016: RMB470 million) of which RMB206 million (As at 31st December, 2016: RMB200 million) and RMB150 million (As at 31st December, 2016: RMB270 million) were supported by the Group’s bank deposits pledged to and corporate guarantee provided to the banks, respectively.

The Group no longer provided any corporate guarantee as at 31st December, 2017 for revolving bank loans and bank guaranteed notes to Shanghai Shenhua (As at 31st December, 2016: RMB60 million).

Directors, Senior Management and Company Secretary

The directors, senior management and company secretary of the Company as at 31st December, 2017 are set out below:

EXECUTIVE DIRECTORS

Mr. Wu Xiao An (also known as Mr. Ng Siu On), aged 56, has been the chairman of the Board since 18th June, 2002 and our executive director since 11th January, 1994. He is also a member of the remuneration committee and nomination committee of the Company. Mr. Wu has over 23 years of experience in the automotive industry and is primarily responsible for the overall strategic planning and business development of the Group. He was the vice chairman and the chief financial officer of the Company from January 1994 to June 2002. He has been a director of Huachen since October 2002, the chairman of BMW Brilliance since May 2003, and the chairman of BBAFC since April 2015. He was a director of RBJAC (formerly known as Shenyang Automotive) from January 1994 to August 2016; and has been a director of RBJAC since January 2018. From 1988 to 1993, he was the deputy manager of the Bank of China, New York Branch. Mr. Wu obtained a bachelor's degree of arts from Beijing Foreign Languages Institute (now known as Beijing Foreign Studies University) in 1985 and a master of business administration degree from Fordham University in New York in 1992. Currently, Mr. Wu is the chairman of the board of directors of Power Xinchen, a company listed on the main board of the Stock Exchange (stock code: 1148). In March 2011, Mr. Wu was appointed as a director and in April 2012 designated as an executive director of Power Xinchen.

Mr. Qi Yumin, aged 59, has been an executive director and the chief executive officer of the Company since 6th January, 2006. He is also a member of the remuneration committee and nomination committee of the Company. Mr. Qi was the chairman and president of Huachen during the period from December 2005 to January 2016 and has served as the chairman of Huachen since January 2016. Since November 2006, Mr. Qi has been a director of BMW Brilliance. He was the chairman and a director of RBJAC from January 2006 to August 2016; and has been a director of RBJAC since January 2018. From 1982 to 2004, Mr. Qi held various positions in 大連重工集團有限公司 (Dalian Heavy Industries Co., Ltd.), including chairman and general manager. From October 2004 to December 2005, he was the vice mayor of Dalian municipal government. Mr. Qi graduated from Xi'an University of Technology (formerly known as Shanxi Institute of Mechanical Engineering) Department of engineering and economics, with a major in machinery manufacturing management and engineering, in July 1982 and a master's degree in business administration from Dalian University of Technology in April 2004. He was qualified as a senior engineer (professor level) by the Personnel Department of Liaoning Province in December 1992. Since April 2009, Mr. Qi has been appointed as the chairman and a director of Shanghai Shenhua (stock code: 600653), a company listed on The Shanghai Stock Exchange. Mr. Qi was a director of Power Xinchen (stock code: 1148) from November 2011 to September 2016, and the chairman of the board and a director of JinBei (stock code: 600609), a company listed on The Shanghai Stock Exchange, from May 2009 to August 2016.

Mr. Qian Zuming, aged 55, has been an executive director of the Company since 12th September, 2016. Mr. Qian has been the chief financial officer of the Company since 1st July, 2008. He has around 35 years of experience in finance and accounting practice. Mr. Qian has been appointed as an assistant to the president of Huachen since December 2009 and a director of BBAFC since March 2017. He was a director of RBJAC from January 2010 to November 2017. From 1982 to 1996, Mr. Qian was the deputy section head (副科長) of the finance section of 上海海運局 (Shanghai Maritime Bureau) of Ministry of Transport. From 1996 to 1998 and from 1998 to 2000, he was the finance manager of 上海泰利船務有限公司 (Shanghai Tai Li Shipping Co., Ltd.) and 上海小松包裝機械有限公司 (Shanghai Xiao Song Packaging Machinery Co., Ltd.), respectively. From January 2006 to March 2007, Mr. Qian was the chief financial officer of 上海華盛集團有限公司 (Shanghai Hua Sheng Group Co., Ltd.). Mr. Qian is a fellow of the Institute of Financial Accountants of the United Kingdom since October 2010. He is also an academic member of the Association of International Accountants since April 2013. Mr. Qian obtained a master's degree in finance from the Graduate School, The Chinese Academy of Social Sciences in 1998 and a master's degree in business administration from The Wisconsin International University (USA), Ukraine in 2001. Since August 2016, Mr. Qian has been appointed as a director of Shanghai Shenhua (stock code: 600653), a company listed on The Shanghai Stock Exchange.

Mr. Zhang Wei, aged 44, has been an executive director of the Company since 12th September, 2016. Mr. Zhang has been a director of SJAI and RBJAC since June 2014 and January 2018, respectively. Mr. Zhang joined Huachen in 2003 and has since held various positions in Huachen, including but not limited to senior project manager of assets operation department, secretary of president, division leader of human resources department, deputy manager of administrative office and assistant to president. Mr. Zhang has been the secretary of the board of directors of Huachen since March 2016. From July 1996 to February 1997, and from February 1997 to January 2003, Mr. Zhang was a specialist of import and export department and a project manager, respectively, of 中國冶金進出口遼寧公司 (Liaoning Branch of China Metallurgical Import and Export Company*). Mr. Zhang obtained a bachelor's degree in engineering from Shenyang University of Technology in 1996. Mr. Zhang also received a master's degree of science, with a major in business and information technology, from University of Salford in 2001. Since August 2016, Mr. Zhang has been appointed as a director of Shanghai Shenhua (stock code: 600653), a company listed on The Shanghai Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Bingjin, aged 78, has been an independent non-executive director of the Company since 27th June, 2003 and his further appointment as an independent non-executive director of the Company was approved by our shareholders at the annual general meetings held on 18th May, 2012 and 2nd June, 2015. Mr. Xu is also the chairman of the audit committee, remuneration committee and nomination committee of the Company. Mr. Xu is currently the president of The Association of Sino-European Economic and Technical Cooperation. He was formerly an assistant minister of The Ministry of Foreign Economic and Trade Cooperation, the deputy director of the Office of National Mechanic and Electronic Products Importation and Exportation and the vice president of the World Trade Organization Research Association. Mr. Xu received a bachelor's degree in engineering economics from Jilin University of Technology in 1964 and holds the title of senior engineer. Mr. Xu was an independent non-executive director of Qingling Motors Co. Ltd. (stock code: 1122), a company listed on the main board of the Stock Exchange, from September 2004 to May 2015.

Mr. Song Jian, aged 61, has been an independent non-executive director of the Company since 17th September, 2004 and his further appointment as an independent non-executive director of the Company was approved by our shareholders at the annual general meetings held on 30th May, 2014 and 16th June, 2017. He is also a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Song is currently the vice director of the National Laboratory in Automotive Safety and Energy and an expert consultant to the Beijing Government. Mr. Song was formerly the dean of the Automotive Technology Institute at Tsinghua University and the deputy dean of the automotive engineering department at Tsinghua University. In 1998, Mr. Song received the Award for Outstanding Science and Technology Persons in the China Automotive Industry. In 2005, he was ranked first in the Class One China Automotive Industry and Technology Advancement Award. In 2006, Mr. Song was named jointly by The China Association of Automotive Industry, The China Society of Automotive Engineering and The China Automotive News as the best chief designer of the automobile industry in the PRC. In 2008, Mr. Song was awarded "The Outstanding People of the China Automotive Industry: Commemorating the 30th Anniversary of China's Reform and Opening-up". In 2009, Mr. Song won "China Academic Award for Creative Talents of Automotive Industry – First Prize" from the State Ministry of Education. Mr. Song holds a bachelor's degree and a doctorate, both in engineering science, from Tsinghua University. He is currently a professor of the automotive engineering department at Tsinghua University. Since May 2010, Mr. Song has been appointed as an independent non-executive director of Hybrid Kinetic Group Limited (stock code: 1188), a company listed on the main board of the Stock Exchange.

Mr. Jiang Bo, aged 58, has been an independent non-executive director of the Company since 27th September, 2004 and his further appointment as an independent non-executive director of the Company was approved by our shareholders at the annual general meetings held on 30th May, 2014 and 16th June, 2017. He is also a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Jiang is a certified public accountant and a certified public valuer in the PRC. Currently, Mr. Jiang is a managing partner of 瑞華會計師事務所 (RuiHua Certified Public Accountants) in the PRC. He was a director of Dandong Zhongpeng Accounting Firm from 1993 to 1999. Mr. Jiang has approximately 24 years of experience in auditing financial statements of companies listed on the PRC stock exchanges. Mr. Jiang has been a certified public valuer since 1998 and has been involved in asset appraisals of companies in preparation for listing in the PRC. He has participated in various listing projects of state-owned enterprises in the PRC and overseas and has gained experience in reviewing and analyzing the audited financial statements of companies listed in the PRC. Mr. Jiang has worked with one of the "Big-4" international accounting firms in the auditing of a state-owned enterprise. Mr. Jiang holds a bachelor of science degree in mathematics from Liaoning University and a diploma in accounting from Central Finance and Economics University. Mr. Jiang was an independent non-executive director of China HealthCare Holdings Limited (stock code: 673), a company listed on the main board of the Stock Exchange, from July 2007 to June 2016.

SENIOR MANAGEMENT

Mr. Qian Zuming, aged 55, has been the chief financial officer of the Company since 1st July, 2008. His biographical details are set out in the section headed " Executive Directors" above.

Ms. Lisa Ng is the executive vice president of the Company, with primary responsibilities in investor relations, capital market transactions, and financial reporting review. Ms. Ng is a director of RBJAC and BBAFC. She is also the company secretary to the board of directors and audit and compliance committee of BMW Brilliance. Ms. Ng is a qualified Chartered Professional Accountant with the Canadian Institute of Chartered Accountants. Ms. Ng graduated from the University of Waterloo with a bachelor of arts degree in chartered accountancy. She is also a graduate from the Schulich School of Business of York University with a master of business administration degree. Ms. Ng has extensive experience spanning from public accounting to corporate finance and private equity. Prior to joining the Group in October 2006, she had spent seven years with AIG Global Investment Corp. (Asia) Ltd. and was responsible for the sourcing and execution of private equity investments. She was also a member of the Listing Division of The Hong Kong Exchanges and Clearing Limited, as well as an auditor with Ernst & Young in Canada.

Ms. Huang Yu is currently the vice president and chief accountant of the Company. Ms. Huang has worked for RBJAC as a financial analyst and internal auditor from July 1999 to June 2000, and worked as a manager of the financial center of the Group from June 2002 to April 2007. She was appointed as the qualified accountant of the Company from May 2007 to January 2009 pursuant to the requirements set out in the Listing Rules. She has been the chief accountant of the Company since May 2007. Ms. Huang graduated with a bachelor's degree and a master's degree, both in economics, from South Western University of Finance and Economics. She is a certified public accountant of the PRC and also a member of the Association of Chartered Certified Accountants. Ms. Huang also holds the qualifications to be a lawyer in the PRC.

Mr. Liu Tongfu, aged 54, was previously the chairman of the board of director of RBJAC. He has been serving as director, executive vice president, member of the standing committee of the Communist Party of China and vice general manager of auto business unit of Huachen since March 2016. From February 2016 to March 2016, he was the director, executive vice president and member of the standing committee of the Communist Party of China of Huachen. From December 2015 to February 2016, he was the vice president and member of the standing committee of the Communist Party of China of Huachen. From June 2011 to December 2015, he served as the vice president and member of the leading party group of Huachen. From February 2008 to June 2011, he acted as president assistant of Huachen. From December 2006 to February 2008, Mr. Liu acted as the vice general manager of 大化集團有限責任公司 (Dahua Group Co., Ltd.). From August 1990 to December 2006, he held various positions in 大連重工集團有限公司 (Dalian Heavy Industries Co., Ltd.), including assistant to general manager, senior manager of development and planning department, and director of party office. Mr. Liu graduated from department of materials engineering in Jilin Colleage of Engineering with a major in metallic material in July 1986 and obtained a master's degree in metal material and heat treatment from department of materials in Dalian University of Technology in August 1990. In July 1998, he was qualified as a senior engineer by the Personnel Department of Liaoning Province.

Mr. Yang Huiqun, aged 56, was previously the general manager of RBJAC. He had worked as assistant to general manager of 金杯通用汽車有限公司 (Jinbei GM Automotive Co., Ltd.), general manager and party secretary of 金杯汽車物資總公司 (Brilliance Jinbei Materials Corporation), general manager and party secretary on Chinese side of 金亞汽車傳動軸有限公司 (Jinya Auto Transmission Shaft Co., Ltd.), and vice general manager of 華晨汽車國際國貿公司 (Brilliance Jinbei International Trade Corporation). Mr. Yang Huiqun obtained a master's degree in mechanical engineering from Shenyang Aerospace University. He holds the title of senior engineer.

COMPANY SECRETARY

Ms. Lam Yee Wah Eva has been the company secretary of the Company since 20th June, 2005. Ms. Lam is a fellow of The Hong Kong Institute of Chartered Secretaries and a fellow of The Institute of Chartered Secretaries and Administrators. Ms. Lam graduated from The City University of Hong Kong with a bachelor of arts (honours) degree in public and social administration. She was also awarded a postgraduate diploma in corporate administration by The City University of Hong Kong. Prior to joining the Company in March 2004, Ms. Lam worked in the company secretarial department of Hang Seng Bank Limited (stock code: 11) and Tom.com Limited (now known as TOM Group Limited (stock Code: 2383)), both of which are listed on the Stock Exchange. Ms. Lam also has five years' working experience in the company secretarial department of Ernst & Young, a certified public accountants firm in Hong Kong.

Corporate Governance Report

CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and its shareholders, and consistent with the "Corporate Governance Code" (the "**CG Code**") set out in Appendix 14 to the Listing Rules. The Group has considered the CG Code and has put in place corporate governance practices to meet the code provisions. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders.

Throughout the financial year ended 31st December, 2017, the Group has complied with all code provisions which were in effect in the financial year ended 31st December, 2017.

A. DIRECTORS

A.1 The Board

We are governed by the Board which assumes the responsibility for leadership and control of the Company. Our directors are collectively responsible for promoting the success of the Company by developing the strategic direction of the Group and directing and supervising the affairs of the Company.

The Board has a fiduciary duty and statutory responsibility towards the Group and is directly accountable to the shareholders.

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in its annual and interim reports and other financial disclosures as required under the Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements. The Board is also required to approve acquisitions or disposals that require shareholders' notification or approval under the Listing Rules.

Daily management and administration functions are delegated to the management. The responsibilities and matters specifically reserved to the Board are set out in paragraph D below.

The Board meets regularly, normally four times each year at approximately three-month intervals and additional meetings would be arranged if and when necessary. The dates of regular Board meetings for each year are normally made available to all directors at the beginning of the year to provide early notice to all directors so that they could grasp every opportunity to attend. Special Board meetings will be held when necessary. Matters on transactions where directors are considered having a material conflict of interest would not be dealt with by way of written resolutions and a separate Board meeting shall be held where independent non-executive directors who have no material interests should be present. Directors having a conflict of interest or material interests in a transaction will, before the meeting of the Board, declare his interest(s) therein in accordance with the bye-laws of the Company, and shall abstain from voting on the resolution(s) and shall not be counted in the quorum present at such Board meeting. Such declaration of interests will be duly noted in the minutes of the relevant Board meeting.

Notices are given to all the directors for attending regular Board meetings fourteen (14) days before such meetings. For other Board meetings, reasonable notices are generally given.

Board meetings involve the active participation, either in person or through other electronic means of communication, by all of the directors attending. The company secretary assists the chairman in preparing the meeting agenda and, during which, the directors are consulted for matters to be included in the agenda for all regular meetings of the Board. Each director may also request the inclusion of items in the meeting agenda.

Minutes of the Board meetings are recorded in detail and draft minutes are circulated within a reasonable time after the meeting to all directors for their review and comments before being approved by the directors attending the relevant meetings. All the minutes of the Board meetings are properly kept by the company secretary and are available for inspection by the directors during normal office hours.

Participation of individual directors at Board meetings in 2017 were as follows:

Number of meetings		**8**
	Attendance by director	**Attendance rate**
Executive directors:		
Mr. Wu Xiao An *(chairman of the Board)*	8/8	100%
Mr. Qi Yumin	8/8	100%
Mr. Qian Zuming	8/8	100%
Mr. Zhang Wei	8/8	100%
Independent non-executive directors:		
Mr. Xu Bingjin	8/8	100%
Mr. Song Jian	8/8	100%
Mr. Jiang Bo	8/8	100%
Average attendance rate		100%

During 2017, apart from the eight (8) meetings of the Board, consent/approval from the Board had also been obtained via circulation of written resolutions on a number of issues.

Participation of individual directors at the general meetings in 2017 were as follows:

Number of meetings		**3**
	Attendance by director	**Attendance rate**
Executive directors:		
Mr. Wu Xiao An *(chairman of the Board)*	3/3	100%
Mr. Qi Yumin	3/3	100%
Mr. Qian Zuming	3/3	100%
Mr. Zhang Wei	3/3	100%
Independent non-executive directors:		
Mr. Xu Bingjin	3/3	100%
Mr. Song Jian	3/3	100%
Mr. Jiang Bo	3/3	100%
Average attendance rate		100%

The Company considers that it has taken out appropriate insurance cover for its directors and officers in respect of legal actions that may be taken against directors and officers. The Company reviews the extent of the insurance coverage every year and is satisfied with the insurance coverage for year 2017.

A.2 Chairman and chief executive officer

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

The Company has segregated the roles of chairman of the Board and chief executive officer. Mr. Wu Xiao An is the chairman of the Board and Mr. Qi Yumin is the chief executive officer. On 20th June, 2005, the Board first adopted a set of clear guidelines regarding the powers and duties of each of the chairman and the chief executive officer, which were revised on 28th March, 2012 and were further revised with effect from 27th March, 2013 after a regular review by the Board.

One (1) meeting was held by the chairman of the Board with the non-executive directors (including the independent non-executive directors) without the executive directors present in 2017 in compliance with code provision A.2.7 of the CG Code. This provides an additional platform for direct communication of the non-executive directors (including the independent non-executive directors) with the chairman of the Board without the presence of the executive directors.

A.3 Board composition

Currently, the Board comprises seven directors: four executive directors and three independent non-executive directors. The current composition of the Board is as follows:

	Membership of Board Committee(s)
Executive directors:	
Mr. Wu Xiao An *(chairman of the Board)*	Member of the remuneration committee Member of the nomination committee
Mr. Qi Yumin *(chief executive officer)*	Member of the remuneration committee Member of the nomination committee
Mr. Qian Zuming *(chief financial officer)*	–
Mr. Zhang Wei	–
Independent non-executive directors:	
Mr. Xu Bingjin	Chairman of the audit committee Chairman of the remuneration committee Chairman of the nomination committee
Mr. Song Jian	Member of the audit committee Member of the remuneration committee Member of the nomination committee
Mr. Jiang Bo	Member of the audit committee Member of the remuneration committee Member of the nomination committee

Under the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors. And, with effect from 31st December, 2012, every listed issuer is required by the Listing Rules to have such number of independent non-executive directors representing at least one-third of the Board, and at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Throughout the year 2017, the number of independent non-executive directors has fulfilled the minimum requirement of the Listing Rules. Mr. Jiang Bo is a certified public accountant and a certified public valuer in the PRC. Mr. Jiang has approximately 24 years of experience in auditing financial statements of companies listed on the stock exchanges of the PRC, has participated in various listing projects of state-owned enterprises in the PRC and overseas, and has experience in reviewing and analyzing the audited financial statements of companies listed in the PRC.

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 nomination committee has assessed the independence of all the independent non-executive directors and the Board is satisfied with their independence.

The Board members do not have any family, financial, business or other material/relevant relations with each other.

The biographies of our directors are set out on pages 34 and 35 of this annual report.

The list of directors has been published on the website of the Company and that of the Stock Exchange, and is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

A.4 Appointment, re-election and removal of directors

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Pursuant to bye-law 102(B) of the Company, a director appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting while a director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting.

The Company had signed a formal letter of appointment or service agreement with each director (including independent non-executive directors) and whose appointment was for a specific term of three (3) years subject to the retirement by rotation provisions in the bye-laws of the Company. At every annual general meeting, one-third of the directors for the time being, or if their number is not three or in a multiple of three, the number nearest to but not greater than one-third, shall retire from office by rotation according to bye-law 99 of the Company. All directors of the Company are subject to the retirement by rotation provision in the bye-laws of the Company and are subject to the retirement by rotation at least once every three years pursuant to code provision A.4.2.

To comply with code provision A.4.2 and in accordance with bye-law 99, Mr. Wu Xiao An, Mr. Qi Yumin and Mr. Xu Bingjin will retire by rotation at the 2018 AGM and have offered themselves for re-election at the 2018 AGM.

Pursuant to code provision A.4.3, serving more than nine (9) years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than nine (9) years, his/her further appointment will be subject to a separate resolution to be approved by shareholders.

Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo were first appointed as the independent non-executive directors of the Company on 27th June, 2003, 17th September, 2004 and 27th September, 2004, respectively. All of them have continuously served as our independent non-executive directors for more than nine (9) years. The latest re-appointment of each of them as our independent non-executive directors has been approved by our shareholders at the general meeting held on 2nd June, 2015, 16th June, 2017 and 16th June, 2017, respectively.

A.5 Responsibilities of directors

Each newly appointed director is provided with a package of orientation materials setting out the required duties and responsibilities of directors under the Listing Rules and other relevant statutory requirements of Hong Kong. An orientation as to a director's duties and obligations under the Listing Rules and relevant legislations will be arranged for all newly appointed directors. Our directors are kept informed from time to time on the latest development of any changes to the regulatory requirements and the progress of compliance of applicable rules and regulations by the Company. Our directors will also be updated from time to time on the business development and operation plans of the Company.

In compliance with code provision A.6.5, the Company has arranged for, and provided fund for, all the directors of the Company to participate in continuous professional development organized in the form of in-house training, seminars or other appropriate courses to keep them abreast of their knowledge, skill and understanding of the Group and its business or to update their skills and knowledge on the latest development or changes in the relevant statutes, the Listing Rules and corporate governance practices. As part of the continuous professional development program, the Company has also updated the directors of any material changes in the Listing Rules and corporate governance practices from time to time. Directors are provided with reading materials summarizing the duties and responsibilities in acting as directors from time to time to keep the directors abreast of such duties and responsibilities.

In addition to directors' attendance at meetings and review of papers and circulars distributed by management during 2017, each director has participated in the continuing professional development arranged and funded by the Company as follows:

Name of directors	Reading regulatory updates	Attending in-house seminars
Mr. Wu Xiao An	√	√
Mr. Qi Yumin	√	√
Mr. Qian Zuming	√	√
Mr. Zhang Wei	√	√
Mr. Xu Bingjin	√	√
Mr. Song Jian	√	√
Mr. Jiang Bo	√	√

The functions of non-executive directors include the functions as specified in code provision A.6.2(a) to (d) of the CG Code.

All independent non-executive directors have attended the annual general meeting held on 16th June, 2017 ("**2017 AGM**") in person as required by code provision A.6.7 of the CG Code.

The Company has adopted the standard set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") of the Listing Rules, in relation to the dealings in securities of the Company by the directors.

Having made specific enquiry of all directors, each director of the Company has confirmed that he has complied with the standard set out in the Model Code during the year ended 31st December, 2017.

The Company has also established on 17th June, 2005 written guidelines on no less exacting terms than the Model Code (the "**Code for Securities Transactions by Employees**") for securities transactions by employees of the Company or directors or employees of its subsidiaries and its holding company, who because of such office or employment, are likely to be in possession of unpublished inside information of the Group or the securities of the Company. The guidelines were revised in 2009 to incorporate amendments to the Model Code which came into effect on 1st April, 2009. Slight amendments have also been made to the guidelines on 28th March, 2012 and 27th March, 2013 to keep the guidelines in line with the current practices of the Company and the statutory requirements.

No incident of non-compliance of the Code for Securities Transactions by Employees by the employees during the year was noted by the Company.

A.6 Directors' commitments

The Company has signed a formal letter of appointment or service agreement setting out the key terms and conditions of the directors' appointments. All directors are committed to devote sufficient time and attention to the affairs of the Group. The directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organizations and other significant commitments, with the identity of the public companies or organizations. The directors are reminded to notify the Company in a timely manner and at least bi-annually to confirm to the Company of any changes of such information. With respect to those directors who stand for re-election at the 2018 AGM, all of their directorships held in listed public companies in the past three years are also set out in the document accompanying the notice of the 2018 AGM.

A.7 Supply of and access to information

With respect to regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all directors in a timely manner as permitted under the circumstances. Notices are given to all the directors for attending regular Board meetings fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given. It has been the practice of the Board and accepted by all members of the Board that relevant information of Board meetings will be sent to all directors three (3) days in advance of the relevant meetings or any reasonable time before such meetings where it is not practicable to send out the information three (3) days in advance.

Members of the management have been reminded that they have an obligation to supply the Board and the Board committees with adequate information on a timely basis to enable each of them to make informed decisions. The Board and each director have separate and independent access to the Group's senior management.

All directors are entitled to have access to board papers, minutes and related materials.

B. BOARD COMMITTEES

B.1 Nomination committee

The Board follows a formal and transparent procedure for the appointment of new directors to the Board. The appointment of a new director is a collective decision of the Board, taking into consideration the candidate's qualification, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as directors must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director must also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

The nomination committee was established on 28th March, 2012 with specific written terms of reference (as amended with effect from 27th March, 2013 for incorporation of certain amendments to the CG Code effective from September 2013). Terms of reference of the nomination committee have included the duties set out in code provision A.5.2(a) to (d) of the CG Code. The existing members of the nomination committee include Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive directors. Mr. Wu Xiao An and Mr. Qi Yumin, both of whom are executive directors, are also members of the nomination committee. Mr. Xu Bingjin is the chairman of the nomination committee.

During 2017, the nomination committee met on two (2) occasions and discharged its responsibilities. Attendance of individual members at nomination committee meetings in 2017 were as follows:

Number of meetings	**2**
Mr. Xu Bingjin *(chairman of the nomination committee)*	2/2 (100%)
Mr. Song Jian	2/2 (100%)
Mr. Jiang Bo	2/2 (100%)
Mr. Wu Xiao An	2/2 (100%)
Mr. Qi Yumin	2/2 (100%)
Average attendance rate	100%

The nomination committee is responsible for reviewing the Board's composition and diversity, developing the relevant procedures for nomination and appointment of directors and assessing the independence of the independent non-executive directors to ensure that the Board has a balance of expertise, experience and diversity of perspectives appropriate to the requirements of the Company's business and for formulating succession plans for executive directors and senior executives. The nomination committee is also authorised to obtain outside professional advice and to seek information from employees, and the Company will provide sufficient resources to the nomination committee for performance of its duties.

The Company adopted a board diversity policy on 13th August, 2013. The Company recognizes and embraces the benefits of diversity in Board members and a truly diverse Board will include and make good use of differences in the skills, industry experience, background and other qualities of directors. Selection of candidates will be based on a range of diversity perspectives, including but not limited to educational background, professional experience and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The nomination committee will review annually on the composition of the Board under diversified perspectives, and monitor the implementation of the board diversity policy to ensure the effectiveness of the policy. It will also review the policy and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The work performed by the nomination committee during 2017 included:

– making recommendation on re-election of directors at the 2017 AGM;

– assessing the independence of the independent non-executive directors;

– reviewing the current Board's structure, size and composition;

– reviewing the current Board's composition in terms of the current requirements of the Listing Rules on the number of independent non-executive directors and requisite qualification and expertise under Rule 3.10(2) of the Listing Rules; and

– reviewing the terms of reference of the nomination committee and the board diversity policy.

Full minutes of the nomination committee meetings are kept by the company secretary. Draft and final versions of the minutes of the nomination committee meetings are sent to all members of the nomination committee for comments and approval and all decisions and recommendations of the nomination committee are reported to the Board.

The terms of reference of the nomination committee are available on the website of the Company and the website of the Stock Exchange.

B.2 Remuneration committee

The remuneration committee was established on 17th June, 2005 with specific written terms of reference (as amended with effect from 28th March, 2012 and 27th March, 2013, respectively for incorporation of certain amendments after a regular review by the Board). The existing members of the remuneration committee include Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive directors. Mr. Wu Xiao An and Mr. Qi Yumin, both of whom are executive directors, are also members of the remuneration committee. Mr. Xu Bingjin is the chairman of the remuneration committee. The terms of reference of the remuneration committee are adopted with reference to the CG Code, including the specific duties set out in code provision B.1.2(a) to (h) of the CG Code.

During 2017, the remuneration committee met on one (1) occasion and discharged its responsibilities. Attendance of individual members at remuneration committee meeting in 2017 were as follows:

Number of meeting	**1**
Mr. Xu Bingjin *(chairman of the remuneration committee)*	1/1 (100%)
Mr. Song Jian	1/1 (100%)
Mr. Jiang Bo	1/1 (100%)
Mr. Wu Xiao An	1/1 (100%)
Mr. Qi Yumin	1/1 (100%)
Average attendance rate	100%

The remuneration committee is responsible for making recommendations to the Board regarding the Group's policy and structure for all remuneration of directors and senior management and approving the remuneration package of the individual executive directors. The remuneration committee is authorised to seek any information it requires from any employee of the Group and has the power to request the executive directors and other persons to attend its meetings. The remuneration committee is also authorised to obtain outside professional advice and to secure the attendance of other persons with relevant experience and expertise if it considers as necessary, and the Company will provide sufficient resources to the remuneration committee for performance of its duties.

The work performed by the remuneration committee during 2017 included:

- reviewing the terms of reference of the remuneration committee and the "Policy and Guidelines of The Remuneration Committee";

- reviewing the remuneration package of the individual directors and the senior management of the Company; and

- considering and approving renewal of the directors' service agreements entered into between the Company and two executive directors for a term of three years commencing from 1st January, 2018.

During the process of consideration, no individual director will be involved in decisions relating to his own remuneration.

Full minutes of the remuneration committee meetings are kept by the company secretary. Draft and final versions of the minutes of the remuneration committee meetings are sent to all members of the remuneration committee for comments and approval and all decisions and recommendations of the remuneration committee are reported to the Board.

The terms of reference of the remuneration committee are available on the website of the Company and the website of the Stock Exchange.

B.3 Audit committee

The audit committee was established on 20th December, 1999 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. On 11th December, 2015, a revised terms of reference of the audit committee was adopted with effect from 1st January, 2016 for incorporation of certain amendments after a regular review by the Board. The terms of reference of the audit committee have included the duties set out in code provision C.3.3(a) to (n) of the CG Code. The existing members of the audit committee comprise Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive directors. Mr. Xu Bingjin is the chairman of the audit committee. The audit committee does not have a former partner of the Group's existing audit firm as its member. The Company has adopted on 28th March, 2012 policy for hiring of employees and former employees of its external auditor to ensure judgment or independence for the audit of the Group will not be impaired.

During 2017, the audit committee met on three (3) occasions and discharged its responsibilities. Attendance of individual members at audit committee meetings in 2017 were as follows:

Number of meetings	**3**
Mr. Xu Bingjin *(chairman of the audit committee)*	3/3 (100%)
Mr. Song Jian	3/3 (100%)
Mr. Jiang Bo	3/3 (100%)
Average attendance rate	100%

The principal duties of the audit committee included reviewing the Company's financial controls, internal control and risk management system, annual reports, accounts and semi-annual reports. The audit committee is also authorised to obtain outside professional advice and to seek information from employees, and the Company will provide sufficient resources to the audit committee for performance of its duties.

The following is a summary of the work performed by the audit committee during 2017:

– reviewing the auditor's management letter and management's response;

– noting the recently issued accounting standards, the adoption of new accounting standards and the change in significant accounting policies;

– reviewing the audited financial statements and final results announcement for the year ended 31st December, 2016;

– reviewing the interim report and the interim results announcement for the six months ended 30th June, 2017;

– meeting with the auditor to go through any significant audit issues or key findings noted during the audit of the Group's 2016 final results;

– meeting with the auditor to go through any significant key findings on the internal control and financial reporting matters based on the agreed-upon procedures performed for the Group's 2017 unaudited interim results;

– reviewing the continuing connected transactions and connected transactions for 2016;

– making recommendations to the Board for seeking shareholders' approval on the re-appointment of external auditor and the fixing of auditor's remuneration;

– reviewing the terms of reference of the audit committee;

- reviewing the hiring policies for employees and former employees of the external auditor;
- reviewing the pricing policies adopted by the Group; and
- reviewing the effectiveness of the Group's risk management and internal control system.

All issues raised by the audit committee have been addressed by the management. The work and findings of the audit committee have been reported to the Board. During 2017, no issues brought to the attention of the management and the Board were of sufficient importance to require disclosure in this annual report.

In 2017, the audit committee has met with the auditor in the absence of management pursuant to code provision C.3.3 note (1)(iii) of the CG Code.

Full minutes of the audit committee meetings are kept by the company secretary. Draft and final versions of the minutes of the audit committee meetings are sent to all members of the audit committee for comments and approval and all decisions and recommendations of the audit committee are reported to the Board.

The terms of reference of the audit committee are available on the website of the Company and the website of the Stock Exchange.

This annual report has been reviewed by the audit committee.

B.4 Corporate governance function

The Company has adopted the terms of reference for the corporate governance function of the Board on 28th March, 2012 in compliance with code provision D.3 of the CG Code, effective from 1st April, 2012. Pursuant to the terms of reference of the corporate governance function, the Board shall be responsible for developing, reviewing and/or monitoring the policies and practices on corporate governance of the Company; training and continuous professional development of directors and senior management; and compliance with legal and regulatory requirements of the Company. This corporate governance report has been reviewed by the Board in discharge of its corporate governance function.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Management shall provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other matters put before the Board for approval.

The directors are responsible for overseeing all financial aspects of the Company and for keeping proper accounting records and preparing financial statements for each financial period, that give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31st December, 2017, the directors have:

- approved the adoption of all applicable Hong Kong Financial Reporting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;
- noted any changes in accounting policies and practices;
- selected and applied consistently appropriate accounting policies;
- made judgments and estimates that are prudent and reasonable; and
- prepared the accounts on a going concern basis.

The Board is accountable to its shareholders for a clear and balanced assessment of the Company's financial position and prospects. In this regard, the directors' responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports and other financial disclosures required under the Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements.

Financial results of the Group are announced in a timely manner in accordance with all statutory requirements, particularly the timeframe stipulated in Rule 13.49(1) and (6) of the Listing Rules.

Directors are provided with monthly updates of the Company pursuant to code provision C.1.2 of the CG Code.

All directors acknowledge their responsibility for preparing the financial statements for the year ended 31st December, 2017.

Currently, the Company's external auditor is Grant Thornton Hong Kong Limited (the "**Auditor**").

For the year ended 31st December, 2017, the audit and non-audit service fees paid or payable to the Auditor by the Company amounted to approximately HK$2,660,000 (approximately RMB2,306,000) (2016: HK$1,980,000, or approximately RMB1,687,000) and HK$420,000 (approximately RMB364,000) (2016: HK$420,000, or approximately RMB358,000), respectively. The non-audit services mainly included conducting agreed-upon procedures on the 2017 interim consolidated financial statements. Further, as stated in note 7 to the financial statements on page 113 of this annual report, the auditors' remuneration paid or payable by the Group for the year ended 31st December, 2017 amounted to approximately RMB3,285,000 (2016: approximately RMB2,822,000) in aggregate. The said auditors' remuneration was incurred for the audit works performed for the Company and its subsidiaries.

The statement of the Auditor about its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 69 and 70 of this annual report.

C.2 Risk management and internal controls

The Board is entrusted with the responsibility of evaluating and determining the nature and extent of the risks exposure for the Company, and ensuring that the Company has established and maintained appropriate and effective risk management and internal control systems for the Group's various business and operational functions. The Board is also responsible for overseeing such systems on an ongoing basis and reviewing its effectiveness so that the interests of the shareholders are well protected. Such systems are designed to manage rather than eliminate the risks of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The major operating companies of the Group (such as RBJAC, formerly known as Shenyang Automotive) have defined the principal functions, authorities and responsibilities of each business and operating department to ensure that each department can effectively discharge its duties and to achieve effective mutual coordination and balance, and procure the proper implementation of business policies and strategies. The management of the Company has assisted the Board to carry out risk and control policies and procedures so as to identify and assess the risks we faced, and were involved in designing, implementing and monitoring appropriate internal control measures to reduce and control such risks. The Board has overseen the management's design, implementation and supervision of risk management and internal control systems and authorized the audit committee to monitor the effectiveness of such risk management and internal control systems.

Risk Management

During the year, RBJAC has continued to carry out risk management from risk information collection and risk assessment, formulation of risk management strategies, proposal and implementation of risk management solutions to monitor improvements, all of which were processed in an orderly manner.

RBJAC has determined that the company's overall risk management shall be led by the vice general manager/chief financial officer who is responsible for finance, and the economic management committee (經管會) of the company is the authority to manage the internal audit function including overall risk management, which shall exercise the decision-making power for various aspects of the overall risk management. RBJAC has set up risk management responsible persons (風險管理負責人) and risk administrators (風險管理員) in various company systems with a number of related department positions including staff administration (人事行政), engineering planning (配套工藝規劃), production (生產), quality (質量), finance (財務) and Party (黨群).

Based on the risk management strategies, each system/department of the company has formulated and adopted prevention and control measures on the major risks arising from daily management and business activities, identified risk management objectives, responsible persons, the management and business processes involved, the prevention measures before risk occurs and the control and corresponding measures after risk occurs. and formed the "major risk information base" (《主要風險信息庫》) of each system which shall be updated on a quarterly basis.

RBJAC has identified five risk areas namely, strategic risk (戰略風險), financial risk (財務風險), operational risk (運營風險), market risk (市場風險) and legal risk (法律風險). Its risk management system categorised risks in each area into three types: significant risk (重大風險), important risk (重要風險) and general risk (一般風險). The three risk categories form a "main risk list" (《主要風險清單》) for each system/department which shall be updated regularly. The legal department (法律服務處) regularly supervises and evaluates the risk management of each system, and urges the responsible entity to make timely improvement when deficiency and shortcoming have been identified. The actual or potential risks identified by each system in the daily works will be reported to risk administrators and risk management responsible persons in a timely manner, and communicated with the legal department and reported to the economic management committee for discussion. A report prepared by the legal department will be presented to the Company's audit committee and chief executive officer annually, which reports the risk management and internal control issues.

In 2017, RBJAC has added certain "risk spots" (風險點) and "control measures" (管控措施) in the existing workflows and undergone inspection and direction by the legal department and the board office (董事會辦公室) of the company in the fourth quarter and obtained positive feedback. During the year, RBJAC has sorted out 115 main risk spots, 4 of which were significant risks, and has formulated and implemented solutions to control such risks. Each system will be evaluated at least once every six months against significant risks and significant risk events.

The company has engaged external legal adviser to conduct risk business training for the risk administrators of each system from time to time, and to further broaden relevant knowledge of overall risk management and improve the risk management awareness of staffs at all levels.

Internal control

In terms of internal control, RBJAC has established an internal control and audit panel (內控內審小組) led by legal department and comprised the risk administrators and financial personnel of various departments of the company, to conduct regular internal audit. An internal audit plan is developed at the beginning of every year, and the internal control and audit work is carried out in accordance with the plan. In terms of the issues identified in the internal audit work, the responsible departments will be required to make improvements to prevent reoccurrence in the future. In addition, the company has provided financial related personnel with training in taxation and law every year. In 2017, the internal control and audit panel further improved the organization, job responsibilities and workflow in this area. Internal control and audit work is to be performed in accordance with the annual plan, and inspection work is performed weekly with records kept. When problems are identified, the company will designate responsible personnel to rectify the problems within a specified timeframe, and the panel members will be involved in overseeing the implementation according to the rectification plan.

- *Financial Control*

  The major operating subsidiaries of the Company have external audits every year, including annual statement audit, taxation audit, group audit and irregular government audit.

  To ensure the reliability of the financial reports and the truthfulness and completeness of the accounting information, RBJAC has developed "Company Accounting Audit Guidelines" (《公司會計核算指引》) ("**Guidelines**") in accordance with "Accounting Standards for Business Enterprises-Basic Standards" (《企業會計準則 – 基本準則》) issued by the Order No.33 of the Ministry of Finance of the People's Republic of China, and "Accounting Standards for Business Enterprises-Specific Principles No.1 to No.38" (《企業會計準則 – 第1號至第38號具體準則》) issued by Cai Kuai (財會) [2006] No. 3 of the Ministry of Finance and other relevant national laws and regulations. The Guidelines ensure that RBJAC has complied with the relevant principles to ascertain the integrity and reliability of its financial information during the account audit.

  In order to strengthen internal control and prevent financial risks, RBJAC has developed a "Financial Certification Management System" (《財務憑證管理制度》) to ensure consistency between journal voucher amount and original certificate amount, and that the contents and attachments of the original certificate are complete, legal and valid. It also stipulates the control procedures of enterprise financial reports, and the examination systems for approval and control of daily information. Multiple audit systems have been implemented on the financial statements. RBJAC has designed an SAP internal management control process on four aspects, namely, materials procurement, manufacturing, sales of products and financial management, and utilizes such information technology to ensure the reliability of financial information.

  The Group will engage domestic and international accounting firms to conduct audits or reviews of our subsidiaries on a semi-annual basis. The legality, rationale and efficiency of enterprise economic activities will be audited, monitored and evaluated to ensure the integrity and reliability of the enterprises' financial information. At the beginning of each year, we are also subject to final accounts examination by State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and Department of Finance (財政廳), so as to ensure the information in the company's financial reports are true and reliable.

- *Operational Control*

  RBJAC has formulated various relevant management systems and business approval processes for protecting its asset safety. It established an Inventory Counting Management System (《存貨盤點管理制度》) to conduct an inventory count every half year, and formulated the Fixed Assets Management System (《固定資產管理制度》), Fixed Assets Changes Approval Form (《固定資產變動審批表》) and Management Measures for Assets Retirement (《資產報廢管理辦法》) etc. to standardise the determination criteria for fixed assets classification, the relevant responsibilities and roles of the user department, management department and finance department to regulate the purchase, acceptance, repair and alteration, and transfer and adjustment of assets, inventory counting and retirement of assets.

  To ensure capital safety, we established Management Measures of Cash Flow Control (《現金流量控制管理辦法》), where the operational standards such as the preparation of the capital revenue and expenditure plans, receivables, payments, reimbursement tracking and warning systems were clearly stipulated.

  RBJAC has prepared 5 years' and annual operation plans in its bottom-up and top-down planning processes. The annual plan mainly includes three aspects, namely, product plan, expense plan and investment plan. Before making any project investment, generally, the company will conduct a feasibility study and an operability study on project implementation, make forecasts of project input and output, expected project investment term and finance costs. In addition, we also prepare quarterly or monthly rolling budgets according to the actual situation. Since the auto market can be volatile and unpredictable, we refine and update the assumed sales volume, product structure and profit situation in the remaining months to adjust the business plan established at the beginning of the year in a timely manner, in an effort to facilitate decision for adjustments to production and marketing so as to minimalise costs. After the monthly settlement, we will analyse product profitability and identify the reasons for variances, and then provide timely feedback to the management for making changes to sales strategies, pursue higher sales, expand market share and increase product profitability, in order to ensure the sustainable development of the enterprises.

  The company also regulates the authorization power of the management for various transactions. The classification and amounts of projects determine different levels of management approval authorities.

- *Compliance Control*

  In terms of compliance, the companies of the Group have been strictly following the laws and regulations at both the national and local levels, and have been legally operating in accordance with the requirements of such laws and regulations. None of the directors of the Company was aware of any breach of laws or regulations that may have a significant impact on the Group, nor did they note any litigation or any case of corruption, bribery, extortion, fraud and money laundering involving the Group in 2017.

  The Company places great importance to the procedures for the processing and releasing of inside information. It is the responsibility of the Company to disclose to the public as soon as reasonably practicable any inside information (as defined in the Listing Rules) that has come to its knowledge to avoid a false market in its securities.

  The Company adheres to the guidelines and relevant information on disclosure of inside information issued and updated by the Securities and Futures Commission from time to time. The Board has adopted a set of policies on disclosure control and procedures in order to ensure compliance with the requirements regarding the continuous disclosure obligation under the Listing Rules and the SFO.

  In respect of enquiries made by external parties on the Group's affairs, the Company has designated and authorised directors and certain management personnel as the Company's spokespersons to respond to enquiries with respect to specific categories (subject to the permission of the Listing Rules and any regulatory requirements).

The Company adopted a bottom-up approach to communicate information about its business and corporate developments. Employees from different departments are obliged to notify their department heads of any potential transactions or corporate developments that may require actions by the Company to fulfill its disclosure obligations. The department heads are responsible for providing the Board with adequate, reliable and timely information via the Working Team (as described below) to enable the directors to make an informed decision on whether the transaction or developments are likely to constitute inside information and whether it should be announced immediately.

The chairman of the Board and the chief executive officer, serving as the overall supervisors, shall be responsible for overseeing the implementation and operation of the disclosure control and procedures. A working team (the "**Working Team**") was established to collate the information submitted by the department heads to the Board, review any potential inside information that may need to be disclosed and make recommendations to the Board for its final decision and action. The Working Team also offers help in managing the drafting and review process of announcements, overseeing the trading halt of the shares of the Company (if appropriate), and coordinating the continuous education of the personnel involved in the disclosure process (if appropriate). External legal advisors will be involved in the process of assessing the potential inside information, the preparation of announcements and any other compliance documentation, if and when necessary.

The Company shall keep the written records of any discussion concerning the assessment of potential inside information and the reason for the conclusion. Back-up files supporting information contained in the disclosure documents shall also be kept.

In cases where a decision by the Board is pending or in cases of incomplete negotiations or proposals, the Company shall implement procedures to maintain the confidentiality of such information.

Summary

In 2017, the Company conducted an annual review on the effectiveness of the Group's major risk management and internal control systems. The Board also reviewed resources, staff qualifications and experience in terms of accounting, internal auditing and financial reporting functions, as well as the employee training courses and sufficiency of the relevant budget. The Company is of the view that the risk management and internal control systems are generally efficient and adequate, and no significant matters that could affect shareholders and demand attention were found during the year. To the knowledge of the Board, there are no material control failings or weaknesses in finance, operation and compliance control during the year under review. The Board and the audit committee will continue to improve the effectiveness of the Group's risk management and internal control systems, where necessary and to monitor the systems and the progress of improvements. The Board and the audit committee considered that the key areas of the Group's risk management and internal control systems are reasonably implemented and the Group has generally complied with the provisions of Corporate Governance Code on risk management and internal control systems.

D. DELEGATION BY THE BOARD

Management functions

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management. These arrangements will be reviewed periodically to ensure that they remain appropriate to the Company's needs. The Board has adopted a revised memorandum on the respective functions of the Board and management on 27th March, 2013 after a regular review. The Board is entrusted with the following reserved powers:

1. *Business strategy*

    - approval of strategic objectives, annual plans and performance targets for the Group;
    - approval of proposals for expansion or closures other than those which have been specifically approved in the strategic objectives and/or annual plans of the Group;
    - approval of budgets; and
    - approval of performance indicators.

2. *Appointment*

    - appointment of any person as director to fill a casual vacancy or as an additional director;
    - appointment of the chairman and chief executive officer;
    - appointment of senior executives;
    - fixing of auditor's remuneration;
    - selection, appointment and dismissal of company secretary; and
    - formation of board committees and approval of the membership and terms of reference of the board committees.

3. *Board and senior management*

    - delegation of authority to the chairman, chief executive officer, management and board committee(s);
    - approval of remuneration and incentive policies;
    - approval of group benefit policies;
    - approval of remuneration of directors and senior management; and
    - assessment of the performance of the Company and the Board.

4. *Relations with the shareholders*

    - arrangements for the annual general meeting and any other shareholders' meetings;
    - matters relating to disclosure as required by the applicable laws and regulations; and
    - formation of shareholders' communication policy.

5. *Financial matters*

    - approval of annual accounts and directors' reports;
    - approval of accounting policies;

- approval of any substantial change in the policies of the Company for statements of financial position management including but without limitation capital adequacy, credit, liquidity, debt maturity profile, interest rate and exchange rate risks and asset concentration both geographically and by sector;
- approval of internal audit plan;
- approval of internal control policy and procedures;
- acceptance of auditor's reports including management letters; and
- declaration of interim dividends and making recommendations on final dividends.

6. *Capital expenditures*
   - approval of the capital expenditures budget;
   - approval of capital commitment, whether or not the same has been provided for in the capital expenditures budget and/or annual budget; and
   - approval of priorities.
7. Any transaction that constitutes notifiable transaction or connected transaction for the Company under the Listing Rules (as amended from time to time).
8. To assess the likely impact of unexpected and significant events and other events which can affect the price and market activity of the shares of the Company and to decide whether the relevant information would be price-sensitive and needs to be disclosed.
9. *Risk management*
   - risk assessment and insurance; and
   - risk management policies.
10. *Internal controls and reporting system*
    - approval and establishment of any effective procedures for monitoring and control of operations including internal procedures for audit and compliance.
11. Use of the company seal(s).
12. Donations and sponsorships (if any) above approved limits.

E. COMPANY SECRETARY

Ms. Lam Yee Wah Eva, the company secretary appointed by the Board and an employee of the Company, in the opinion of the Board, possesses the necessary qualification and experience and is capable of performance of the functions of the company secretary. The Company will provide funds for Ms. Lam to take not less than 15 hours of appropriate professional training in each financial year as required under Rule 3.29 of the Listing Rules. During 2017, Ms. Lam has attended training programs and seminars arranged by The Hong Kong Institute of Chartered Secretaries and the Stock Exchange and has satisfied the 15 hours of professional training requirement of the Listing Rules.

F. COMMUNICATION WITH SHAREHOLDERS

F.1 Effective communication

The Company attaches great importance to communications with shareholders. Information on the Group's activities, business, strategies and developments is provided in the Company's annual reports and interim reports. Shareholders of the Company are encouraged to attend the annual general meetings of the Company which offer a valuable forum for dialogue and interaction with management.

In line with the practice of the Company, in respect of each issue to be considered at the annual general meetings and special general meetings, including the re-election of directors, a separate resolution will be proposed by the chairman of the meeting.

In accordance with code provision E.1.2 of the CG Code, Mr. Wu Xiao An, the chairman of the Board, and Mr. Xu Bingjin, the chairman of the audit committee, remuneration committee and nomination committee, have attended the 2017 AGM. Mr. Song Jian and Mr. Jiang Bo, both of whom are members of the three committees, also attended the 2017 AGM. All other directors attended the 2017 AGM by way of telephone conference. Further, Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all members of an independent board committee, attended by way of telephone conference the special general meeting held on 21st December, 2017 at which approval was sought from the shareholders in relation to certain continuing connected transactions, and to answer questions raised by the shareholders at the meeting. All other directors also attended the meeting in person or by way of telephone conference.

The Company has arranged for notice and related documents to shareholders for the 2017 AGM at least twenty (20) clear business days before the meeting pursuant to code provision E.1.3 of the CG Code. A separate resolution was prepared for each substantive matter presented to shareholders for approval at the 2017 AGM.

The chairman of the Board, the chairman of the audit committee, remuneration committee and nomination committee, or in their absence, another member of the relevant committee or an appointed representative, will attend the 2018 AGM to answer questions of shareholders.

Pursuant to code provision E.1.2 of the CG Code, the Company will invite representatives of the Auditor to attend the 2018 AGM to answer shareholders' questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

F.2 Voting by poll

At the 2017 AGM, the chairman has provided an explanation of the procedures for conducting a poll at the commencement of the meeting. Poll results were posted on the website of the Stock Exchange (as well as on the website of the Company) on the day of the holding of the shareholders' meeting.

G. SHAREHOLDERS' RIGHT

Shareholders' right to convene special general meeting

Pursuant to bye-law 62 of the Company's bye-laws and section 74 of The Companies Act 1981 of Bermuda (as amended), shareholder(s), holding not less than one-tenth of the issued and paid-up share capital of the Company carrying voting right at general meetings of the Company, have the right to make written requisition (the "**Requisition**") to the Board to convene a special general meeting.

Procedures for shareholders to convene and put forward proposals at special general meeting

The Requisition to convene and put forward proposals at special general meeting must be in writing and signed by all requisitionist(s) (being the shareholder(s) making the Requisition) and must be deposited at the registered office of the Company at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda, with a copy sent to the Company' head office address at Suites 1602–05, Chater House, 8 Connaught Road Central, Hong Kong.

Shareholders' enquiries

The Company has adopted a shareholders' communication policy on 28th March, 2012 (as revised with effect on 27th March, 2013 after a regular review by the Board) and the policy is available on the website of the Company.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

The Company has an investor relationship personnel to attend to enquiries from the shareholders. Contact details of the investor relationship personnel are set out in the shareholders' communication policy.

H. INVESTOR RELATIONS

Significant changes in the Company's bye-laws

There was no amendment made to the bye-laws of the Company during the year 2017.

Environmental, Social and Governance Report

OVERALL APPROACH

The Board has overall responsibility for the Group's environmental, social and governance (ESG) strategy and reporting. The Board is responsible for evaluating and identifying the Group's ESG risks and ensuring that the Company has an appropriate and effective ESG risk management system in place.

ESG helps to raise corporate awareness and enhance corporate responsibility. It also helps an enterprise better understand its supply chain needs, enhance reputation as well as fundraising and risk management ability, attract investors, retain talents, enhance innovation ability, obtain social recognition, reduce cost and improve profitability. ESG enables the Company to identify the relevant problems facing the Company and seek solutions to such problems, for the purposes of improving the Company's business and operations. Meanwhile, the Company can conduct regular evaluations by establishing an ESG management system, and develop strategic sustainable development plans to materialise its sustainable development goals.

Below is a discussion of our environmental and social matters. Corporate governance is reported separately in the section headed "Corporate Governance Report" of this annual report. This report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" set out in Appendix 27 to the Listing Rules. RBJAC (formerly known as Shenyang Automotive) is the Company's major operating subsidiary in the PRC, which contributed nearly 76% of the revenue of the Group in 2017. Therefore, the following discussion mainly covers RBJAC.

The Company has complied with the "comply or explain" provision set out in the "Environmental, Social and Governance Reporting Guide" for the year ended 31st December, 2017.

SUBJECT AREA: (A) ENVIRONMENTAL

A1. Emissions

RBJAC has complied with applicable national and local laws, regulations, standards and relevant requirements, including the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) to establish its environmental protection management system. With the approach of "environmental protection, pollution prevention, law compliance and continuous improvement" (保護環境、防治污染、遵紀守法、持續改進), RBJAC has reinforced its target responsibility system in respect of environmental protection in the principle of "The person in charge bears the responsibility" (誰主管、誰負責). The company established and carried out the Environmental Management System Certification (環境管理體系認證) according to GB/T24001-2004 "Environmental Management System Requirements and User's Guide" (《環境管理體系要求及使用指南》).

RBJAC appoints qualified monitoring organizations to monitor the wastewater, exhaust gas and boundary noise of the company every year. In 2017, each monitoring indicator satisfied the requirements under the national and local standards on the discharge of pollutants, including the Integrated Wastewater Discharge Standard (污水綜合排放標準), the Integrated Emission Standard of Air Pollutants (大氣污染物綜合排放標準) and the Emission Standard for Industrial Enterprises Noise at Boundary (工業企業廠界環境雜訊排放標準). In 2017, RBJAC has achieved the target of "zero" environmental pollution incident and met the pollutant emission standards.

Hazardous wastes, as defined in the Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法) and mentioned in the National Catalogue of Hazardous Wastes (國家危險廢物名錄), are disposed by qualified hazardous waste management institutions in accordance with applicable requirements.

In 2017, the main pollutant emissions of RBJAC included COD (chemical oxygen demand) in the amount of 185.68 tons (2016: 157.12 tons) and SO_2 (sulfur dioxide) in the amount of 4.38 tons (2016: 20.35 tons), respectively. The level of pollutant emissions fell below the permitted level.

Greenhouse gas is not the main pollutant of RBJAC. Hence, there is no available monitoring statistics.

In 2017, RBJAC commissioned qualified parties to process all its hazardous wastes in accordance with regulatory requirements. For the year, 649.84 tons of hazardous wastes were treated (2016: 593.77 tons), including 98.26 tons of phosphate slag (2016: 91.02 tons), 146.2 tons of paint slag (2016: 96.18 tons), 276.92 tons of wastewater and sludge (2016: 257.26 tons), and 128.46 tons of other wastes (2016: 149.31 tons). In general, the increase of hazardous wastes coincides with production growth. RBJAC commissioned Shenyang Municipal Solid Waste Disposal Centre (瀋陽市固體廢棄物處置中心) to process wastewater and sludge, phosphate slag and paint slag, and the Engineering Technology Centre for Environmental Protection and Hazardous Wastes Disposal (Shenyang) (環境保護危險廢物處置工程技術(瀋陽)中心) to carry out incineration or comprehensive utilisation and treatment for other wastes such as waste thinners.

In 2017, RBJAC generated 1,078.15 tons of general non-hazardous wastes (2016: 951.31 tons), including 484.82 tons of used carton boxes (2016: 473.62 tons), 352.16 tons of waste plastic (2016: 344.03 tons), 221.55 tons of metals (2016: 126.12 tons) and 19.62 tons of other wastes (2016: 7.54 tons). In general, the increase of non-hazardous wastes coincides with production growth. Shenyang Jindong Development Co., Ltd. was commissioned to undertake comprehensive utilisation for the non-hazardous wastes generated by RBJAC. The Company strengthened its process control and management, trained its staff of all work sections, improved the utilisation rate of raw materials, and enhanced its waste management training, while ensuring categorised placement and disposal of wastes to reduce the generation of hazardous wastes.

To reduce emissions, RBJAC optimised its coating sewage treatment in 2017, by treating coating sewage and liquid waste separately and installing alarm devices to further improve wastewater treatment efficiency. All the departments have enhanced their maintenance, operation and management of environmental protection treatment facilities. Members of operational and management personnel are trained regularly to understand the requirements of relevant regulations and national emission standards, and grasp the technical process and emergency plans for environmental protection treatment facilities. Malfunctions of such facilities are eliminated in a timely manner, to ensure their operation in line with the designed emission standards. Each year, RBJAC commissions qualified institutions to monitor its wastewater, exhaust and boundary noise, with all the monitoring results in compliance with the requirements of relevant standards.

A2. Use of Resources

To improve the efficiency of use of resources (including energy, water and other raw materials), RBJAC has established energy management setups at different levels, built a two-level energy management network (comprising the level of the companies and of workshops) and formulated a series of management measures and methods. With reference to the process and characteristics of energy flows in the company, RBJAC manages different kinds of energy used in each production process and in the factory's main and auxiliary production systems based on four sections, namely purchase and storage (購入貯存), processing and conversion (加工轉換), transmission and distribution (輸送分配), and final usage of energy (最終使用).

The governing laws and regulations on resource usage include, but are not limited to: the Law of the People's Republic of China on Energy Conservation (《中華人民共和國節約能源法》), the Notice on the Implementation Plan of the Energy Conservation and Carbon Emission Reduction Actions by Ten-Thousand Enterprises (《關於印發萬家企業節能低碳行動實施方案的通知》), the General Principle of Energy Audit on Enterprise (《企業能源審計技術通則》), the General Principles for Monitoring and Testing of Energy Conservation (《節能監測技術通則》), the General Principles for Calculation of Thermal Efficiency of Equipment (《設備熱效率計算通則》), the General Principles for Calculation of Comprehensive Energy Consumption (《綜合能耗計算通則》), the Testing Guide for Energy Consumption of Equipment (《用能設備能量測試導則》), the Method of Calculating Energy Savings in Enterprises (《企業節能量計算方法》), the Guides for Energy Management in Industrial Enterprises (《工業企業能源管理導則》) and the General Principle for Provision and Management of the Measuring Instrument of Energy in Energy-consuming Organization (《用能單位能源計量器具配備和管理通則》).

RBJAC is one of the key energy-consuming enterprises in Shenyang. The types of energy mainly consumed by the company include, among others, electricity, water, natural gas, fuel and steam.

The following table sets out the consumption level of different types of energy by RBJAC in 2017 *(Note 1)*:

Type	**2017** Total consumption	**2017** Density*(Note 2)*	2016 Total consumption	2016 Density*(Note 2)*
Electricity:	**44,857,300 kWh**	**743.74 kWh/unit**	38,049,100 kWh	643.09 kWh/unit
Water*(Note 3)*:	**1,032,000 m³**	**17.11 m³/unit**	872,900 m³	14.75 m³/unit
Natural gas:	**6,954,200 m³**	**115.3 m³/unit**	3,616,600 m³	61.13 m³/unit
Fuel:	**803.06 tons**	**0.013 ton/unit**	786.14 tons	0.013 ton/unit
Steam:	**68,600 tons**	**1.14 tons/unit**	123,500 tons	2.09 tons/unit

Notes:

1. Energy consumption is calculated according to the standard units set out by relevant departments of the PRC government (e.g. electricity – kWh, water – m³, fuel – tons).

2. Density is calculated based on the production volume of 60,313 vehicles (2016: 59,166 vehicles) of RBJAC in 2017 (including Haise, Granse, H2 Series and Huasong 7).

3. The volumes of water consumption arising from production, recycled water consumption and wastewater discharge of RBJAC in 2017 were 1,032,000 m³ (2016: 872,900 m³), 732,800 m³ (2016: 732,800 m³) and 774,000 m³ (2016: 654,700 m³), respectively. The water consumed by RBJAC is mainly from municipal water supply, with no violation and in compliance with the "Energy Conservation Law of the People's Republic of China" (《中華人民共和國節約能源法》) so far.

By strengthening its energy management, RBJAC saves energy and reduces its energy costs and consumption, which now stands at a medium to advanced level among its domestic industry peers.

There is no packaging material for the finished goods produced by RBJAC.

In respect of its energy utilisation efficiency plan and the results achieved, in 2017, RBJAC continued to lower its energy consumption and costs according to the energy-saving work plan of municipal and district governments as well as the Group's economic indicators. Specifically, the Group adopted contracted energy management projects and replaced its metal halide lamps (金屬鹵化物燈) and fluorescent lamps with LED lamps in its coating workshops, in a bid to reduce energy consumption and production costs. Such energy-saving facilities save more than RMB150,000 for the company each year. To push forward the electricity system reform and fast-track the development of the electricity market, the government rolled out the application for direct electricity transaction among businesses in 2017. By reviewing and entering into direct electricity transactions with electricity generators, RBJAC lowered its unit electricity tariff and saved production costs. In 2017, RBJAC saved more than RMB3 million of electricity fee.

In April 2017, RBJAC became a "2016 Advanced Entity for Energy Conservation and Emissions Reduction" (「二零一六年度節能減排先進單位」), an honorary title conferred by Shenyang Municipal People's Government.

In respect of plans to improve water use efficiency and the results achieved, RBJAC saved 100,256 tons of water in 2017 in comparison with previous years (2016: 98,385 tons) by lowering its operating parameter of water supply, reducing water supply flow, reinforcing daily inspection on pipeline networks and timely addressing all types of water leakage and loss.

A3. The Environment and Natural Resources

As the Group's business activities can have certain impact on the environment and natural resources, the company has taken action to address such impact. In order to reduce its negative impact on the environment and natural resources, RBJAC controlled pollutant generation from the origin, prioritised the use of clean energy, and adopted environment-friendly techniques such as new process, technology, materials and equipment so as to eliminate or reduce pollutants and achieve clean production under the direction of various national and local laws, regulations, standards and relevant requirements.

The company discharged its wastewater to sewage treatment stations to undergo treatment. It also promptly lowered the parameters of steam supply pressure, minimised the number of operating boilers and reduced its steam consumption according to temperature fluctuations. In addition, measures were taken to manage various types of energy leakage and loss more robustly, so as to reduce the cost of production and operation. In 2017, such actions resulted in savings over RMB80,000 for the company.

SUBJECT AREA: (B) SOCIAL

Employment and Labour Practices

B1. Employment

Set out below is a brief description of the Group's employment-related policies:

1. Recruitment: RBJAC strictly complies with the "Labour Law of the People's Republic of China" (《中華人民共和國勞動法》) and the "Labour Contract Law of the People's Republic of China" (《中華人民共和國勞動合同法》) during recruitment in the principle of complying with the relevant requirements of national labour policies, laws and regulations as well as meeting the needs and strategic operational objectives of the company in different developmental stages. RBJAC has consistently adhered to the people-oriented concept (以人為本) in recruitment, and formulated and implemented the "Recruitment Management Approach" (《招聘管理辦法》), which specifies the company's recruitment process to improve recruitment quality and efficiency.

   In 2017, the Group had approximately 6,280 employees in aggregate (2016: 7,280), of which RBJAC accounted for 3,241 (2016: 4,185) employees, while other operating subsidiaries such as Xing Yuan Dong, Dongxing Automotive, Shenyang Jindong, Mianyang Ruian and Ningbo Yuming accounted for 571 (2016: 610), 756 (2016: 900), 411 (2016: 430), 590 (2016: 520) and 500 (2016: 490) employees, respectively.

2. Promotion: Employees are provided with equal promotion opportunities under a fair, open and impartial competition mechanism, which takes into consideration the actual job requirements as well as each individual's overall strengths and performance. Open recruitment takes place to pursue talents, regardless of their educational level or qualifications.

3. Remuneration and benefits: In order to create a working environment that attracts, motivates and retains talents, and to enhance the company's sustainability, RBJAC provides attractive and competitive remuneration policies to employees. Employee remuneration consists of fixed components (basic salary and various allowances) and variable components (performance salary, production bonus, rewards or fine and year-end bonus). In addition, it also formulates targeted incentive programmes, provides staff with a variety of career paths and encourages employees to develop into high-level technical personnel in their professional area. Remuneration is adjusted according to various factors such as company results, value of employee's position, individual ability and performance, and social condition.

   RBJAC contributes pension insurance, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance and housing provident fund (五險一金) for their employees. It also provides employees with commuter cars, meal allowances, accommodation (for non-local employees), work uniform, protective clothing and other benefits. RBJAC organises physical examination for all its employees annually and provides occupational health checks to frontline production employees. The labour union of the company provides healthcare service at the healthcare home of the chief labour union at Xingcheng City, Huludao in July every year for the outstanding staff and model workers selected for the year, the duration of which usually lasts for four days. The expenses are jointly borne by the administration department of the company and the labour union. RBJAC also organises various sports events on a regular basis, and has set up reading rooms to enrich the cultural life of the employees in their spare time.

4. Dismissal: RBJAC strictly complies with the relevant requirements of the "Labour Law" (《勞動法》) and "Labour Contract Law" (《勞動合同法》) of the People's Republic of China when terminating employment relationship with its employees. The company values the importance of talent accumulation and strives to reduce the turnover rate by various means. The turnover rate of RBJAC was 4.57% in 2017 (2016: 4.75%), representing a declining trend year by year.

5. Equal opportunities and anti-discrimination: RBJAC provides employees with equal opportunities for their development, promotion, benefits, evaluation and training etc. Employees are not be discriminated or lose opportunities due to factors such as gender, ethnicity, race, nationality and region, family background, religious beliefs, political ideologies and disability.

6. Diversity: Cultural diversity plays an important role in the growth and development of an enterprise. RBJAC has been hiring employees of different genders, ages, ethnic groups, races, nationalities and regions, religious beliefs, political ideologies and academic background.

7. Working hours and holidays: The working hours and holidays of RBJAC are in line with the relevant requirements of national labour policies, laws and regulations. It has formulated the "Leave Management System for Employees" (《員工請假管理制度》) and the "Regulations on Paid Annual Leave for Employees" (《員工帶薪年休假管理辦法》), and strictly abides by working hours and holidays stipulated by the law of the region where the company is located. Employees work eight hours a day, five days a week, and rest on Saturdays, Sundays and public holidays. RBJAC provides casual leave, sick leave, marriage leave, bereavement leave, maternity leave, family visit leave, work-related injury leave, annual leave etc. to its employees.

In 2017, the total number of employees of the Group by gender is set out below:

	2017			2016		
Gender	**Number of employees**	**Percentage of total number of employees**	**Turnover rate (by gender)**	Number of employees	Percentage of total number of employees	Turnover rate (by gender)
Male	5,297	84.3%	6.7%	6,197	85.1%	7.2%
Female	984	15.7%	1.2%	1,081	14.9%	0.9%
Total	6,281	100%	7.9%	7,278	100%	8.1%

In 2017, the total number of employees of the Group by age group is set out below:

	2017			2016		
Age	**Number of employees**	**Percentage of total number of employees**	**Turnover rate (by age)**	Number of employees	Percentage of total number of employees	Turnover rate (by age)
30 years old or below	**2,360**	**37.6%**	**4.6%**	3,147	43.2%	5.0%
31 to 40 years old	**1,891**	**30.1%**	**2.1%**	1,803	24.8%	2.1%
41 to 50 years old	**1,217**	**19.4%**	**0.6%**	1,305	17.9%	0.6%
51 years old or above	**813**	**12.9%**	**0.6%**	1,023	14.1%	0.4%
Total	**6,281**	**100%**	**7.9%**	7,278	100%	8.1%

In 2017, the total number of employees of the Group by employment type is set out below:

	2017			2016		
Employment type	**Number of employees**	**Percentage of total number of employees**	**Turnover rate (by employment type)**	Number of employees	Percentage of total number of employees	Turnover rate (by employment type)
Administrative personnel	**905**	**14.4%**	**0.9%**	817	11.2%	0.9%
Technical personnel	**657**	**10.5%**	**0.4%**	678	9.3%	0.7%
Production workers	**4,579**	**72.9%**	**6.4%**	5,475	75.3%	6.3%
Early retired and departed staff (內退和離崗人員)	**140**	**2.2%**	**0.2%**	308	4.2%	0.2%
Total	**6,281**	**100%**	**7.9%**	7,278	100%	8.1%

B2. Health and Safety

RBJAC places occupational health and safety as its first priority. Specifically, RBJAC has established its health and safety management agency based on the general manager responsibility system (總經理負責制), has adopted various measures and techniques to promote the standardization of safety production and has constantly improved rules and regulations, post responsibility systems (崗位責任制) and post safety operation procedures (崗位安全操作規程) under national laws and regulations such as the "Law of the People's Republic of China on Work Safety" (《中華人民共和國安全生產法》), the "Law of the People's Republic of China on the Prevention and Control of Occupational Diseases" (《中華人民共和國職業病防治法》) and standard requirements. RBJAC has developed and implemented occupational health and safety management system certification in accordance with GB/T28001-2011 "Occupational Health and Safety Management System" (《職業健康安全管理體系》).

In 2017, RBJAC incurred no work-related fatal accident (2016: nil). According to the "Classification Standard of Corporate Casualty of Staff and Workers" (《企業職工傷亡事故分類標準》), occupational injuries resulting in a loss of fewer than 105 working days for a single person are classified as minor injuries. In 2017, there were three (2016: three) work-related minor injuries in RBJAC, with 3 workers (2016: 3 workers) injured and a total loss of 270 (2016: 150) workings days.

RBJAC arranges annual training for safety management personnel, new employees, employees who changed functions, and special operational employees to enhance their safety awareness and skills and standardise their operational behaviours. RBJAC supervises and urges the employees to comply with relevant laws, regulations and operational procedures, instructs employees on how to use protective equipment and labour protection appliance correctly, and carries out supervision and inspection. RBJAC organises occupational health checks for the employees before they take up the post, during their employment and when they leave the post. In 2017, RBJAC completed the occupational health surveillance records for employees exposed to occupational hazards and archived such records for a total of 1,691 (2016: 1,815) employees. The company also organised pre-employment physical examination for 9 (2016: 34) employees exposed to occupational hazards and post-employment physical examination for 476 (2016: 52) employees exposed to occupational hazards.

Each year, RBJAC engages a qualified organisation to examine and evaluate occupational hazard factors of its workplaces. The examination results of 2017 were in line with national requirements.

Each year, RBJAC invests funds in its production environment improvement, labour protection appliance purchase, safety education, training and publicity, obsolete production equipment elimination or technical renovation. In 2017, RBJAC invested RMB13,964,000 (2016: RMB21,287,800) in enhancing workplace safety.

RBJAC conducted regular inspections to identify and rectify potential safety hazards timely and effectively. In 2017, RBJAC identified a total of 19 (2016: 22) potential hazards, and rectified all 19 (2016: 22) hazards, with a rectification rate of 100% (2016: 100%). RBJAC formulated 10 emergency rescue plans, including the "Emergency Response Plan for Severe Safety Production Accidents" (《重大安全生產事故應急處置預案》), the "Emergency Rescue Plan for Oil Depot Accidents" (《油庫事故應急救援預案》), the "Emergency Response Plan for Boiler and Pressure Vessel Accidents" (《鍋爐、壓力容器事故應急預案》) and the "Emergency Rescue Plan for Natural Gas Leakage Accidents" (《天然氣洩漏事故應急救援預案》), to direct and regulate emergency plans in response to unexpected safety production accidents of the company.

B3. Development and Training

The Group provides training to all its employees from time to time, to enhance their overall quality and professional expertise.

RBJAC has developed and implemented such systems and standards as the "Methods for Training Management" (《培訓管理辦法》) and the "Process for Training Class Management" (《培訓班管理流程》), which emphasise three broad categories, namely "Basics Protection" (基礎保障類), "Quality and Ability Improvement" (素質能力提升類) and "Innovation and Development" (創新發展類). Training is conducted in three manners: training by internal instructors, training by external instructors, and external training, coupled with the application of interactive learning system via network video. The curriculum covers a broad spectrum of topics such as professional skills, quality and ability, work efficiency, team cooperation, ethics and professional conduct.

Information on the percentage of trained employees of the Group by gender and employment type in 2017 is set out below:

2017

Employment type	**Male**	**Trained male**	**Percentage of trained employees**	**Female**	**Trained female**	**Percentage of trained employees**
Administrative personnel	**540**	**524**	**97.0%**	**365**	**357**	**97.8%**
Technical personnel	**541**	**536**	**99.1%**	**116**	**115**	**99.1%**
Production workers	**4,102**	**4,072**	**99.3%**	**477**	**473**	**99.2%**
Early retired and departed staff (內退和離崗人員)	**114**	**1**	**0.9%**	**26**	**0**	**0%**
	5,297	**5,133**	**96.9%**	**984**	**945**	**96.0%**

2016

Employment type	Male	Trained male	Percentage of trained employees	Female	Trained female	Percentage of trained employees
Administrative personnel	474	451	95.1%	343	316	92.1%
Technical personnel	539	538	99.8%	139	138	99.3%
Production workers	4,926	4,917	99.8%	549	545	99.3%
Early retired and departed staff (內退和離崗人員)	258	0	0%	50	0	0%
	6,197	5,906	95.3%	1,081	999	92.4%

Information on the average training hours completed by the employees of the Group by gender and employment type in 2017 is set out below:

2017

Employment type	**Training hours per male employee**	**Training hours per female employee**
Administrative personnel	**38 hours**	**38 hours**
Technical personnel	**39 hours**	**50 hours**
Production workers	**41 hours**	**28 hours**
Early retired and departed staff (內退和離崗人員)	**0 hour**	**0 hour**

2016

Employment type	Training hours per male employee	Training hours per female employee
Administrative personnel	26 hours	31 hours
Technical personnel	34 hours	34 hours
Production workers	42 hours	30 hours
Early retired and departed staff (內退和離崗人員)	0 hour	0 hour

B4. Labour Standards

The Group strictly complies with the applicable provisions of national labour policies, laws and regulations, and prohibits recruiting child labour. During the recruitment process, candidates are required to show their identity proofs to prevent child labour. If the identity proofs provided by the candidate do not comply with national labour policies, the process of recruitment will be terminated. All employees work freely and equally in the Group without forced labour.

Operating Practices

B5. Supply Chain Management

RBJAC is aware of the influence of supply chain management on the environment and society. Generally, RBJAC requests all its suppliers to pass IATF16949 Quality Management System Certification of International Automotive Industry (《全球汽車產業質量管理系統認證》), and establish a robust system for the environment and occupational health and safety management. Enterprises which have a material effect on the environment and occupational health and safety must pass ISO14001 Standard of International Environment Management System (《國際環境管理系統標準》) and OHSAS18001 Occupational Safety and Health Management Certification (《職業安全衛生管理認證》).

In addition, RBJAC has rating guidance for its supplier review form, which considers the building conditions and environment of the suppliers (including lighting, space and pollution), assesses whether suppliers' production lines can satisfy the demand of production flexibility (i.e. whether the production system can quickly adapt to the changes of market demand while eliminating redundant and useless loss), and observes whether the suppliers have satisfied the 5S cleaning requirement on site. 5S represents sort (整理), set in order (整頓), shine (清掃), standardise (清潔) and sustain (素養).

As for the practice of engaging suppliers, RBJAC has established the Procurement Management Procedure (《採購管理程序》). In 2017, RBJAC has 355 (2016: 329) suppliers. By region, there were 149 (2016: 138) suppliers in Eastern China, 139 (2016: 137) in Northeastern China, 43 (2016: 37) in Northern China, 11 (2016: 10) in Central South China, and 10 (2016: 7) in Southwestern China.

The major principles of sourcing suppliers, based on the company's existing model platform, include strong technology development ability, fast response, stability and consistency in design and production quality, a high level of project management expertise, cost advantage, and intention to cooperate. Furthermore, with an aim to secure quality, reduce supply risk and optimise cost, RBJAC would source an alternative supplier if the principal supplier cannot adapt to the company's requests or scores low in assessment.

The formulation, placing, delivery and account management of purchase orders are executed in compliance with the Procurement Control Process (《訂購控制程式》). As for the daily quality control of suppliers, relevant functional departments which are responsible for outsourced parts and raw and supplementary materials monitor the quality control process and product quality of the suppliers on a daily basis, and use different monitoring methods according to the different product types of the suppliers.

A Supplier Rating Sheet (《供應商評分表》) is submitted by each functional department every month, and consolidated by the Supplier Management Department of Vehicle Business (整車事業部供應商管理處), which will issue review results to each functional department. The Supplier Management Department makes annual comprehensive assessment and ranking for qualified suppliers in accordance with the importance of parts and components and planning direction of the suppliers, and evaluates the ability and performance of the suppliers in respect of the following six aspects: quality, cost, supply availability, after-sale spare parts availability, service quality and development capacity. The suppliers are scored on a quarterly basis and graded into four levels based on their scores. Reward or punitive measures are implemented for respective grades. Grade A suppliers are the first choice while Grade D suppliers are not allowed to provide products/services to the company.

B6. Product Responsibility

RBJAC focuses on the quality and safety of its products and services which are accredited by China Compulsory Certification System (3C certification) (中國強制認證制度(3C認證)) and IATF16949 Quality Management System (《質量管理體系》). It also carries out remedies through Three-warranty Policy of Automobiles (汽車三包政策) (i.e. refund, replace and repair).

Care is taken to ensure that contents of advertisements are true, contain no false or misleading statements and do not violate any applicable rules, regulations and laws. Advertisements provide true and accurate product information and strictly comply with the Advertisement Law (《廣告法》) of the PRC.

There was no recall of products due to defects in 2017 (2016: nil).

In 2017, RBJAC received a total of 8,456 (2016: 13,327) customer complaints. With the complaint handling process in place and appropriate follow-up actions, the percentage of complaints solved reached 99% (2016: 95%).

Ever since its establishment, RBJAC has always attached great importance to the protection of its intellectual property rights. The company implements an incentive mechanism on intellectual property work, supports intellectual property programmes, in particular, high-tech patent programmes, and drives the company's technicians' consistent motivation for innovation. The company has continuously adhered to the strategies of "brand-building, enhancing awareness, greater application, enhancing protection, intensifying innovation and enhancing efficiency" (樹立品牌、增強意識、加強申請、促進保護、加大創新、提高效率) to speed up development of the company's technological innovation system. As of the end of 2017, RBJAC's valid trade marks included 102 domestic ones and 7 overseas ones, with a total of 7 existing and valid patents (including 4 patents on utility models and 3 patents on design).

In respect of quality inspection and product recall procedures, "Controlling Procedure of Vehicle Product Delivery" (《產品車交付控制程序》) regulates the quality inspection for product vehicles at the storage and retrieval stages. The "Guidance Manual for Dealership" (《經銷商指導手冊》) regulates the quality inspection when a dealer receives the vehicle product. As to product recall, the company adopts the "Recall Procedure for Defective Products" (《缺陷產品召回程序》) to regulate the recall and handling procedures of defective vehicles.

RBJAC values the privacy and security of consumers' information by adopting the following measures: (1) special personnel management (專人專管): by implementing "DMS Client File Management Regulations" (《DMS系統客戶檔案管理規定》), to regulate the protection of consumer information and privacy; (2) approval by multiple levels of authority (層層審批): approval of the application for review of customer information is necessary to secure the privacy and security of consumers' information; and (3) the customer service centre monitoring: consumers' information is monitored by the customer service centre.

B7. Anti-corruption

The Company and its employees strictly comply with the applicable laws relating to corruption, bribery and money laundering in the relevant jurisdictions in which the Group carries out its operations. To the best knowledge of the directors of the Company, the Group had no corruption, bribery, extortion, fraud or money laundering incidents, or any filed and concluded corruption legal case against the Company and its employees in 2017.

RBJAC practices and strictly implements "The State-owned Enterprise Implementing Three Importance and One Greatness Policy-making System" (《國有企業貫徹落實「三重一大」決策制度》) and the "Requirements of Incorruptible Employment for State-owned Enterprise Leadership" (《國有企業領導人員廉潔從業若干規定》), etc. The company's commission for disciplinary inspection has formulated and executed the "Accountability Document for Leaderships to Maintain Integrity" (《領導幹部廉潔從業責任書》), the "System of Accountability for Improving Party Conduct and Upholding Integrity of Shenyang Brilliance JinBei Automobile Co., Ltd." (《瀋陽華晨金杯汽車有限公司黨風廉政建設責任制度》) and the "Implementation Rules of Integrity and Risk Prevention of Shenyang Brilliance JinBei Automobile Co., Ltd." (《瀋陽華晨金杯汽車有限公司廉潔從業風險防範工作實施細則》).

By carrying out internal and external audit, RBJAC attempts to control and prevent any unethical or corrupt behaviours. The company's commission for disciplinary inspection raised the awareness among all levels of staff in respect of anti-corruption and the ability to reject corruption activities by holding 3 anti-corruption educational events. Employees may report any violation by an employee such as dereliction of duties, seeking personal gain through power, accepting bribes, misappropriation of company assets, etc. to the company's commission for disciplinary inspection via various channels such as formal document, letters, fax, e-mail, phone call, and interview. The company's commission for disciplinary inspection would then report to senior authorities, after which the reported violations will be investigated, verified and concluded.

B8. Community Investment

As far as the Group is concerned, fulfillment of corporate social responsibility means operating its business in a responsible way and taking into consideration the interests of both internal and external stakeholders and the impact on economy, society and the environment. With a high degree of political and social responsibility, an enterprise should create a harmonious atmosphere in the corporation and society, and build a corporate image with internal cohesiveness and external influences.

With an aim to encourage employees to improve their skills, RBJAC held "Competing for Becoming No.1 Worker, Competing for Becoming No.1 Team" (爭當金牌工人　爭創金牌班組) and "An Kang Cup" (安康杯) competitions; and also established "Advanced Model Innovative Workshop (勞模創新工作室).

Besides, RBJAC hosted staff skills contests, spring outings, football matches (for male staff) and creative sports activities (for female staff), to improve team cooperation and give back to the society.

In 2017, RBJAC visited underprivileged staff, offering them an aggregate of approximately RMB1,198,400 in the form of consolation money, birthday meals and charitable funds.

The company also organised its party-member staff to give free hair cut to over 20 residents of RBJAC communities on a volunteer service day (「在職黨員進小區義務服務日」).

In addition, under the Targeted Support Scheme (定點幫扶), the company dedicated its support to CaoJiaWoPu Village in Hujia Township (胡家鎮曹家窩鋪村), with road works carried out, daily necessities donated and free service stations built. Such support amounted to RMB200,000 in total.

Independent Auditor's Report

Grant Thornton
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TO THE MEMBERS OF
BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Brilliance China Automotive Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 71 to 152 which comprise the consolidated statement of financial position as at 31st December, 2017, 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 31st December, 2017, 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 judgment, 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.

Key audit matter	How the matter was addressed in our audit
Interest in a significant joint venture	
The Group's 50% interest in BMW Brilliance Automotive Limited ("**BMW Brilliance**") *(note 15)*, is accounted for under the equity method. The Group's share of the profit after tax expense from BMW Brilliance for the year ended 31st December, 2017 was approximately RMB5,237,669,000 and the Group's share of BMW Brilliance's net assets was approximately RMB21,593,786,000 as at 31st December, 2017. The amounts noted below are those in the BMW Brilliance financial statements (i.e. on a 100% basis). In the context of our audit of the consolidated financial statements, the key audit matters relating to the Group's share of the profit and net assets of BMW Brilliance are summarized below: Recoverability of accounts receivable – BMW Brilliance's accounts receivable are mainly related to automotive components business. As at 31st December, 2017, the accounts receivable balance of BMW Brilliance was RMB1,147,524,000.	BMW Brilliance is a significant joint venture of the Group and is audited by auditor other than Grant Thornton (the "**Component Auditor**"). We have met with the Component Auditor and discussed their identified audit risks and audit approach and have reviewed their work papers and discussed with them the results of their work. Together with their reporting package provided to us in accordance with our instructions we have determined that the audit work performed and evidence obtained were sufficient for our purpose. We have met with the Component Auditor and the Group management and have discussed with them and evaluated the impact on the consolidated financial statements of the key audit matters relating to BMW Brilliance. The audit procedures performed on the sales incentives included the following: • Testing the effectiveness of BMW Brilliance's control over the monitoring of receivables and over the collection periods; • Considering whether BMW Brillinace's provision methodology was appropriate given the changing economic conditions faced by the dealers; • Comparing post-period end cash collections to BMW Brilliance's expectations at 31st December, 2017; and • Assessing the aging of the accounts receivable and considering the financial and business performance of the dealers, and setting an expectation of the level of provision required and comparing the expectation to BMW Brilliance's provision, if any. We found that, in the context of our audit of the consolidated financial statements, BMW Brilliance's management judgements and estimates associated with the key audit matters noted in respect of the Group's share of the profit and net assets of BMW Brilliance were supported by the available evidence.

Key audit matter	How the matter was addressed in our audit
Impairment of intangible assets	
We identified the impairment of intangible assets as a key audit matter due to the use of judgement about future results of the business in assessing the recoverability of intangible assets. As at 31st December, 2017, intangible assets of approximately RMB696,200,000 mainly consist of capitalised development costs related to multiple cash generating units ("**CGUs**"). Management performed impairment assessment of the Group's intangible assets by allocating the intangible assets to CGUs. The recoverable amount of each CGU was determined based on value-in-use calculations using cash flow projections. Management has concluded that there is RMB700,000,000 impairment loss on the intangible assets of Huasong project based on the results of the impairment assessments which involved significant management judgement, including gross profit margins, sales growth rates and discount rates applied to the value-in-use calculations.	Our audit procedures to assess management's impairment assessment of the intangible assets included the following: • Assessing the valuation methodology adopted by management; • Comparing the current year actual cash flows with the prior year cash flow projections to consider if the projections included assumptions that were overly optimistic; • Assessing the reasonableness of key assumptions, including gross profit margins, sale growth rates and discount rates, based on or knowledge of the business and industry; and • Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets. We found that the management's judgements and assumptions used in the impairment assessment to be reasonable based on the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2017 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors assisted by the Audit Committee are responsible 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. We report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981 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.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism 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.

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

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 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.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong
28th March, 2018

Chiu Wing Ning
Practising certificate number: P04920

Consolidated Statement of Profit or Loss

For the year ended 31st December,

(Expressed in thousands of RMB except for earnings per share amounts)

	Note	**2017** **RMB'000**	2016 RMB'000
Revenue	5	**5,304,723**	5,125,118
Cost of sales		**(5,118,497)**	(4,953,555)
Gross profit		**186,226**	171,563
Other income		**110,466**	82,034
Interest income		**55,443**	53,176
Selling expenses		**(571,853)**	(611,858)
General and administrative expenses		**(1,192,936)**	(383,202)
Finance costs	6	**(137,871)**	(133,135)
Share of results of:			
Joint ventures		**5,233,312**	3,993,396
Associates		**216,979**	252,563
Profit before income tax expense	7	**3,899,766**	3,424,537
Income tax expense	8	**(33,953)**	(35,933)
Profit for the year		**3,865,813**	3,388,604
Attributable to:			
Equity holders of the Company		**4,376,120**	3,682,074
Non-controlling interests		**(510,307)**	(293,470)
		3,865,813	3,388,604
Earnings per share	9		
– Basic		**RMB0.86776**	RMB0.73103
– Diluted		**RMB0.86738**	RMB0.72987

Consolidated Statement of Comprehensive Income

For the year ended 31st December,

	2017	2016
	RMB'000	RMB'000
Profit for the year	**3,865,813**	3,388,604
Other comprehensive income that will be subsequently reclassified to consolidated statement of profit or loss, net of tax		
Change in fair value of available-for-sale financial assets	**(8,969)**	(23,881)
Share of other comprehensive income of a joint venture	**715,758**	639,991
	706,789	616,110
Total comprehensive income for the year	**4,572,602**	4,004,714
Attributable to:		
Equity holders of the Company	**5,082,909**	4,298,184
Non-controlling interests	**(510,307)**	(293,470)
	4,572,602	4,004,714

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2017

	Issued capital RMB'000	Hedging reserve RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Difference arising from acquisition of non-controlling interests RMB'000	Share options reserve RMB'000	Capital reserve RMB'000	Retained earnings RMB'000	Total equity attributable to the equity holders of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1st January, 2016	395,877	(971,986)	2,466,685	41,716	39,179	(537,584)	3,401	120,000	18,338,257	19,895,545	(831,864)	19,063,681
Transactions with equity holders of the Company												
Dividends *(note 10)*	–	–	–	–	–	–	–	–	(475,104)	(475,104)	–	(475,104)
Issue of shares by exercise of share options *(note 31(a))*	932	–	6,759	–	–	–	(2,459)	–	–	5,232	–	5,232
	932	–	6,759	–	–	–	(2,459)	–	(475,104)	(469,872)	–	(469,872)
Profit for the year	–	–	–	–	–	–	–	–	3,682,074	3,682,074	(293,470)	3,388,604
Other comprehensive income												
Share of other comprehensive income of a joint venture	–	639,991	–	–	–	–	–	–	–	639,991	–	639,991
Change in fair value of available-for-sale financial assets	–	–	–	(23,881)	–	–	–	–	–	(23,881)	–	(23,881)
Total other comprehensive income (expense)	–	639,991	–	(23,881)	–	–	–	–	–	616,110	–	616,110
Total comprehensive income (expense)	–	639,991	–	(23,881)	–	–	–	–	3,682,074	4,298,184	(293,470)	4,004,714
As at 31st December, 2016	396,809	(331,995)	2,473,444	17,835	39,179	(537,584)	942	120,000	21,545,227	23,723,857	(1,125,334)	22,598,523

For the year ended 31st December, 2017

	Issued capital RMB'000	Hedging reserve RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Difference arising from acquisition of non-controlling interests RMB'000	Share options reserve RMB'000	Capital reserve RMB'000	Retained earnings RMB'000	Total equity attributable to the equity holders of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1st January, 2017	396,809	(331,995)	2,473,444	17,835	39,179	(537,584)	942	120,000	21,545,227	23,723,857	(1,125,334)	22,598,523
Transactions with equity holders of the Company												
Dividends *(note 10)*	-	-	-	-	-	-	-	-	(472,981)	(472,981)	-	(472,981)
Acquisition of additional interests in a subsidiary in group restructure *(note 37)*	-	-	-	-	-	(1,997,617)	-	-	-	(1,997,617)	1,997,617	-
Disposal of interests in a subsidiary in group restructure *(note 37)*	-	-	-	-	-	184,720	-	-	-	184,720	(184,720)	-
Issue of shares by exercise of share options *(note 31(a))*	367	-	2,638	-	-	-	(942)	-	-	2,063	-	2,063
	367	-	2,638	-	-	(1,812,897)	(942)	-	(472,981)	(2,283,815)	1,812,897	(470,918)
Profit for the year	-	-	-	-	-	-	-	-	4,376,120	4,376,120	(510,307)	3,865,813
Other comprehensive income												
Share of other comprehensive income of a joint venture	-	715,758	-	-	-	-	-	-	-	715,758	-	715,758
Change in fair value of available-for-sale financial assets	-	-	-	(8,969)	-	-	-	-	-	(8,969)	-	(8,969)
Total other comprehensive income (expense)	-	715,758	-	(8,969)	-	-	-	-	-	706,789	-	706,789
Total comprehensive income (expense)	-	715,758	-	(8,969)	-	-	-	-	4,376,120	5,082,909	(510,307)	4,572,602
As at 31st December, 2017	397,176	383,763	2,476,082	8,866	39,179	(2,350,481)	-	120,000	25,448,366	26,522,951	177,256	26,700,207

Consolidated Statement of Financial Position

As at 31st December,

	Note	**2017 RMB'000**	2016 RMB'000
Non-current assets			
Intangible assets	12	**696,200**	1,338,612
Property, plant and equipment	13	**2,567,129**	2,249,789
Land lease prepayments	14	**86,513**	84,810
Interests in joint ventures	15	**21,593,786**	17,644,857
Interests in associates	16	**1,747,517**	1,703,065
Prepayments for long-term investments	17	**600,000**	600,000
Available-for-sale financial assets	18	**24,499**	33,468
Long-term loan receivables	19	**1,446,655**	361,487
Other non-current assets		**61,993**	17,584
Total non-current assets		**28,824,292**	24,033,672
Current assets			
Cash and cash equivalents		**1,732,076**	936,942
Cash at central bank		**62,038**	3,996
Short-term bank deposits		**43,402**	193,146
Pledged short-term bank deposits	20	**1,713,754**	1,338,956
Inventories	21	**1,043,793**	1,104,070
Accounts receivable	22	**1,023,365**	1,583,968
Notes receivable	23	**363,795**	296,308
Other current assets	24	**3,049,616**	1,551,954
Total current assets		**9,031,839**	7,009,340
Current liabilities			
Accounts payable	25	**3,278,870**	3,324,123
Notes payable	26	**2,780,586**	2,330,052
Other current liabilities	27	**2,055,279**	1,322,736
Short-term bank borrowings	28	**2,809,900**	1,325,000
Income tax payable		**40,340**	20,749
Total current liabilities		**10,964,975**	8,322,660
Net current liabilities		**(1,933,136)**	(1,313,320)
Total assets less current liabilities		**26,891,156**	22,720,352
Non-current liabilities			
Long-term bank borrowings	28	**80,000**	–
Deferred government grants		**110,949**	121,829
Total non-current liabilities		**190,949**	121,829
NET ASSETS		**26,700,207**	22,598,523

Consolidated Statement of Financial Position (Cont'd)

As at 31st December,

	Note	**2017 RMB'000**	2016 RMB'000
Capital and reserves			
Share capital	31(a)	**397,176**	396,809
Reserves	32	**26,125,775**	23,327,048
Total equity attributable to equity holders of the Company		**26,522,951**	23,723,857
Non-controlling interests		**177,256**	(1,125,334)
TOTAL EQUITY		**26,700,207**	22,598,523

Wu Xiao An
(Also known as Ng Siu On)
Director

Qi Yumin
Director

Consolidated Statement of Cash Flows

For the year ended 31st December,

	Note	**2017** RMB'000	2016 RMB'000
Operating activities			
Cash used in operations	34(a)	**(2,833,727)**	(916,913)
Interest received		**301,308**	85,128
Corporate income tax paid		**(14,362)**	(32,816)
Net cash used in operating activities		**(2,546,781)**	(864,601)
Investing activities			
Acquisition of property, plant and equipment and land lease prepayments and additions of intangible assets		**(623,927)**	(480,352)
(Increase) Decrease in short-term and pledged bank deposits		**(225,054)**	469,439
Dividend received from an associate		**168,000**	129,780
Dividend received from a joint venture		**2,000,000**	1,000,000
Proceeds from disposal of property, plant and equipment		**3,456**	25,460
Increase in other long-term assets		**(44,409)**	(4,414)
Net cash generated from investing activities		**1,278,066**	1,139,913
Financing activities			
Proceeds from issue of shares		**2,063**	5,232
Issue of notes payable	34(b)	**2,299,567**	1,386,464
Repayments of notes payable	34(b)	**(1,386,464)**	(956,656)
Government grants received	34(b)	**18,402**	32,644
Proceeds from bank borrowings	34(b)	**3,090,900**	1,426,000
Repayments of bank borrowings	34(b)	**(1,526,000)**	(1,686,000)
Dividends paid	34(b)	**(277,155)**	(475,104)
Interest paid		**(157,464)**	(141,826)
Net cash generated from (used in) financing activities		**2,063,849**	(409,246)
Increase (Decrease) in cash and cash equivalents		**795,134**	(133,934)
Cash and cash equivalents, as at 1st January,		**936,942**	1,070,876
Cash and cash equivalents, as at 31st December,		**1,732,076**	936,942

1. CORPORATE INFORMATION

Brilliance China Automotive Holdings Limited (the "**Company**") was incorporated in Bermuda on 9th June, 1992 with limited liability. The Company's shares are traded on the main board of The Stock Exchange of Hong Kong Limited (the "**SEHK**"). The address of the registered office of the Company is disclosed in the section headed "Corporate Information" of this annual report and the principal places of business of the subsidiaries are in the People's Republic of China (the "**PRC**").

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "**Group**") are the manufacture and sale of BMW vehicles in the PRC through its major joint venture BMW Brilliance Automotive Ltd. ("**BMW Brilliance**"), the manufacture and sale of automobiles and automotive components through its subsidiary Renault Brilliance Jinbei Automotive Co., Ltd. ("**RBJAC**", formerly known as Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Automotive**")), and the provision of auto financing service to customers and dealers through its subsidiary Brilliance-BEA Auto Finance Co., Ltd. ("**BBAFC**").

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), collective terms of which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), and the accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and including the applicable disclosure requirements of the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**").

These consolidated financial statements have been prepared on the basis consistent with the accounting policies adopted in the 2016 financial statements, except for the adoption for the first time the following amendments to HKFRSs (collectively "**Amended HKFRSs**") issued by the HKICPA, which are relevant to and effective for the consolidated financial statements for the annual financial year beginning on 1st January, 2017.

Amendments to HKAS 7	Disclosure Initiative – Statement of Cash Flows
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014-2016 Cycle	Disclosure of Interests in Other Entities

Amendments to HKAS 7 "Disclosure Initiative – Statement of Cash Flows" require an entity to provide disclosure 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. A reconciliation between the opening and closing balances of liabilities arising from financing activities is set out in note 34(b). Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 34(b), the application of these amendments has had no impact on the Group's consolidated financial statements.

The adoption of other amended HKFRSs did not result in substantial changes to the accounting policies of the Group and had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

(b) Basis of measurement

The measurement basis used in the preparation of the consolidated financial statements is historical cost, except for financial instruments classified as available-for-sale financial assets which are measured at fair value as explained in note 2(i)(i) below.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Preparation of consolidated financial statements

As at 31st December, 2017, the Group had net current liabilities of approximately RMB1,933 million. Notwithstanding the Group's current liabilities exceeding its current assets as at 31st December, 2017, in preparing these consolidated financial statements, the directors have given careful consideration to current and future liquidity of the Group and its ability to provide working capital for its operations.

As at 31st December, 2017, the Group had short-term bank borrowings of approximately RMB2,810 million which are renewable on a yearly basis. Management is confident that these borrowings can be renewed upon their expiry. The Group also enhanced the liquidity by inception of long-term borrowings of RMB80 million in 2017 which will not be repayable until 1st December, 2021.

In addition, Huachen Automotive Group Holdings Company Limited ("**Huachen**"), which is a PRC state-owned enterprise and the major shareholder of the Company, has also agreed to provide adequate funds to the Group, if necessary, to meet its liabilities as they fall due. With the support from Huachen together with the expected cash dividends from BMW Brilliance and the continuing support from bankers, the directors are of the view that the Group will have sufficient cash resources to satisfy its future working capital needs and other financing requirements. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

In consolidated financial statements, the results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries are adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Basis of consolidation (Cont'd)

(i) Subsidiaries (Cont'd)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gains or losses have been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

(ii) Non-controlling interests

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Basis of consolidation (Cont'd)

(iii) Associates and joint ventures

An associate is an entity, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and the Group or Company has significant influence, but not control or joint control over its management. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

A joint venture is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the joint venture's net assets and any impairment losses related to the investment. The consolidated statement of profit or loss includes the Group's share of the post-acquisition, post-tax results of the associates and joint ventures for the year, including any impairment loss on goodwill relating to the investment in associates and joint ventures recognised for the year.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture. Where unrealised losses on asset sales between the Group and its associates or joint ventures are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate or joint venture uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's or joint venture's accounting policies to those of the Group when the associate or joint venture's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. For this purpose, the Group's interest in the associate or joint venture is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or joint venture.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Basis of consolidation (Cont'd)

(iii) Associates and joint ventures (Cont'd)

After the application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investments in its associates or joint ventures. At each reporting date, the Group determines whether there is any objective evidence that the investment in an associate or a joint venture is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs of disposal) of the associate or joint venture and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including cash flows arising from the operations of the associate or joint venture and the proceeds on ultimate disposal of the investment.

The Group discontinues the use of equity method from the date when it ceases to have significant influence over an associate or joint control over a joint venture. If the retained interest in that former asssociate or joint venture is a financial asset, the retained interest is measured at fair value, which is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between (i) the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and (ii) the carrying amount of the investment at the date the equity method was discontinued, is recognised in the profit or loss. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would have been required if the associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

(iv) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities, including the Company, subsidiaries, associates and joint ventures, are all measured using Renminbi ("**RMB**") which is the currency of the primary economic environment in which the entities operate (the "**functional currency**").

Transactions in currencies other than the functional currency are translated into the functional currency at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in other currencies at the reporting date are re-translated into the functional currency at rates of exchange prevailing at the reporting date. Exchange differences arising in these cases are dealt with in the profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Cumulative translation adjustments under shareholders' equity represent exchange differences arising from the Company's change in functional currency in previous years.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Intangibles

(i) Goodwill

Capitalised goodwill arising on acquisition of an associate or a joint venture is included in the cost of the investment of the relevant associate or joint venture.

On disposal of a cash generating unit of an associate or a joint venture, any attributable amount of purchased goodwill is included in the calculation of gain or loss on disposal.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment *(note 2(j))*.

(ii) Research and development costs

Research costs are charged to profit or loss as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are capitalised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so; costs are identifiable and can be reliably measured and there is an intention and ability to sell or use the asset for generating future economic benefits. Such development costs include the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable, and are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over 5 to 10 years. Development costs that do not meet the above criteria are charged to profit or loss as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

(iii) Acquired intangible assets

Acquired intangible assets with finite useful lives are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over the estimated useful lives of 5 to 10 years.

(f) Property, plant and equipment

Property, plant and equipment, including land and buildings (if any) but other than construction-in-progress, are stated at cost less accumulated depreciation and accumulated 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. Repairs and maintenance are charged to profit or loss during the year in which they are incurred.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as income or expense in the profit or loss.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction-in-progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values of 10%, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Buildings	20–30 years
Machinery and equipment	10–20 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years
Tools and moulds	20,000–420,000 times of usage

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Construction-in-progress

Construction-in-progress represents factories and office buildings for which construction work has not been completed and machinery pending installation and which, upon completion, management intends to hold for production or own use. Construction-in-progress is carried at cost which includes development and construction expenditure incurred and interest and other direct costs attributable to the development less accumulated impairment losses. On completion, the construction-in-progress is transferred to corresponding classes of property, plant and equipment or intangible assets at cost less accumulated impairment losses. Construction-in-progress is not depreciated or amortised until such time as the assets are completed and ready for their intended use.

(h) Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all of the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land lease prepayments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

(i) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

The Group's financial assets other than investments in subsidiaries, associates and joint ventures are classified into available-for-sale financial assets and loans and receivables.

(i) Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the investment revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

(i) Available-for-sale financial assets (Cont'd)

For available-for-sale financial assets that do not have quoted market prices in an active market and whose fair values cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are initially recognised at fair value. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(iii) Impairment of financial assets

At each reporting date, the Group assesses for indicators of impairment on financial assets. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the issuer or counterparty;

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

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation;

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

– the disappearance of an active market for that financial asset because of financial difficulties; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

The impairment loss of a financial asset carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

(iii) Impairment of financial assets (Cont'd)

Loans and receivables

The amount of impairment loss 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 been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Impairment loss is recognised in profit or loss for the period in which the impairment occurs.

For financial assets other than accounts receivable, other receivables and receivables from related parties that are stated at amortised costs, impairment losses are written off against the corresponding assets directly. For accounts receivable, other receivables and receivables from related parties, when the recovery of these financial assets is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group considers that recovery of these receivables is remote, the amount considered irrecoverable is written off against these receivables directly and any amounts held in the allowance account in respect of these receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss in the period in which the reversal occurs.

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is reclassified from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investments in equity instruments classified as available-for-sale financial assets and stated at fair values are not recognised in profit or loss. The subsequent increase in fair value is recognised in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses on such circumstances is recognised in profit and loss.

2. **PRINCIPAL ACCOUNTING POLICIES** (Cont'd)

(i) **Financial instruments** (Cont'd)

(iii) Impairment of financial assets (Cont'd)

Available-for-sale financial assets (Cont'd)

Impairment losses recognised in an interim period in respect of available-for-sale financial assets in equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. Consequently, if the fair value of these available-for-sale financial assets increases in the remainder of an annual period, or in a subsequent period, the increase is recognised in other comprehensive income.

(iv) Other financial liabilities

The Group's other financial liabilities include accounts and notes payables and other payables, bank borrowings. These financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest-related charges are recognised in accordance with the Group's accounting policy for borrowing costs *(note 2(t))*.

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

Where 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 the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

(v) Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legal enforceable right must not be contingent on the future events and must be legally enforceable in the normal course of business and in the event of default, insolvency or bankrupt of the Group and all of the counterparties.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within "Other current liabilities". Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income. The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount, i.e., the amount initially recognised less accumulated amortisation, where appropriate.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(j) Impairment of non-financial assets

At each reporting date, the Group reviews internal and external sources of information to determine whether its tangible and intangible assets (other than goodwill), investments in subsidiaries, associates and joint ventures, property, plant and equipment, land lease prepayments and prepayments have suffered impairment losses, or whether an impairment loss previously recognised no longer exists or may be reduced. If any such indication is found, the recoverable amount of the asset is estimated based on the higher of its fair value less cost of disposal, and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit). The Group determines whether an asset is impaired at least on annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

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 assessment of time value of money and the risk specific to the assets.

For intangible assets and property, plant and equipment, details of the basis and assumption used in estimating the respective recoverable amounts are set out in note 12 and note 13. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(k) Inventories

Inventories comprise raw materials, work-in-progress and finished goods and are stated at the lower of cost and net realisable value. Costs comprise all costs of purchase, direct labour, and an appropriate proportion of all production overheads and other costs incurred in bringing the inventories to their present location and condition. Costs are calculated on the moving weighted-average basis, except for costs of work-in-progress and finished goods of minibuses which are calculated on a specific identification basis. Net realisable value is determined on the basis of anticipated sales proceeds in the ordinary course of business less the estimated costs of completion and the estimated selling expenses.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Deposits with banks or other financial institutions with a maturity of more than three months and within one year at acquisition are classified as short-term deposits.

Pledged short-term deposits are the same as short-term deposits except that these deposits are pledged to bankers for banking facilities granted.

Cash at central bank is not available for use by the Group for mandatory deposits at central banks.

(m) Provisions

Provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to settle the obligation.

Provision for product warranties granted by the Group for certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present value as appropriate.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) Government grants

Grants from government are recognised at their fair values. Conditional government grants are recognised in the consolidated statement of financial position initially as deferred government grants when there is reasonable assurance that the grants will be received and that the Group will comply with the conditions attached. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the costs of construction-in-progress, development of new or improved products, property, plant and equipment and land lease prepayments are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

Any unconditional grant is recognised in profit or loss as revenue when the grant becomes receivable.

The deferred government grant recognised in the consolidated statement of financial position mainly represents the government grant received for the compensation of land lease prepayments without conditional clause.

(o) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating leases charges as the lessee

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to profit or loss on a straight-line basis over the lease periods. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

(iii) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are included in property, plant and equipment in the consolidated statement of financial position. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the reporting date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plans

Bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Pension obligations

The Group's contributions to defined contribution retirement plans administered by the government of the PRC are recognised as an expense in profit or loss. The assets of the schemes are held separately from those of the Group in independently administered funds. Further information is set out in note 30.

Contributions made to the Mandatory Provident Fund Scheme for the Group's employees in Hong Kong are charged to profit or loss when incurred. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

(iv) Share-based payments

The Group's employees, including directors, receive remuneration in the form of share-based payment transactions, whereby the employees render services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value of equity instrument at grant date. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share options reserve within equity. The fair value is determined using the Black-Scholes option pricing model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the shares of the Company.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated during vesting.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Income tax

Income tax in profit or loss comprises current and deferred taxes. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. All changes to current tax assets or liabilities are recognised as a component of tax expenses in profit or loss.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Tax rates enacted or substantively enacted by the reporting date are used to determine deferred taxation.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor accounting profit.

Deferred taxation is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

(r) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required, or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(s) Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably and on the following bases:

(i) Sale of goods

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and titles are passed.

(ii) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(t) Borrowing costs

Borrowing costs, net of any investment income earned on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of an asset that requires a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset.

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

All other borrowing costs are charged to profit or loss in the period in which they are incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(u) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the directors and the chief operating decision makers for their decisions about resource allocation to the Group's business segments, which are determined by the Group's different brands of vehicles, and their respective performances.

The Group has identified the following reportable segments:

(1) the manufacture and sale of minibuses and automotive components;

(2) the manufacture and sale of BMW vehicles; and

(3) the provision of auto financing service.

The measurement policies the Group adopts for reporting segment results under HKFRS 8 are the same as those used in its consolidated financial statements prepared under HKFRSs, except that the following items are not included in arriving at the segment results of the operating segments:

– expenses related to share-based payments;

– share of results of associates and joint ventures;

– interest income;

– finance costs;

– corporate income and expenses which are not directly attributable to the business activities of any operating segment; and

– income tax expense.

In addition, the operating results of the operating segments include completed segment results of the manufacture and sale of BMW vehicles, which are currently reported on the basis of the Group's share of equity interests in BMW Brilliance and included in the consolidated financial statements prepared under HKFRSs.

Segment assets include all assets other than interests in joint ventures *(note 15)*, interests in associates *(note 16)*, prepayments for long-term investments *(note 17)*, available-for-sale financial assets *(note 18)* and advance to Shenyang Automobile Industry Asset Management Company Limited ("**SAIAM**") *(note 24(a))*. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

Segment liabilities include all liabilities other than corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

In addition, segment assets and segment liabilities include assets and liabilities of the "manufacture and sale of BMW vehicles" segment, which are currently reported on the basis of the Group's share of equity interests in BMW Brilliance included in the consolidated financial statements prepared under HKFRSs.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(v) Related parties

For the purpose of these consolidated financial statements, a party is considered to be related to the Group if:

The party is

(a) a person or a close member of that person's family and if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

The party is

(b) an entity and if 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 an associate or joint venture or a member of a group of which the other entity is a member).

(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).

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(w) Future changes in HKFRSs

As at the date of authorisation of these consolidated financial statements, the HKICPA has issued certain new standards and amendments and interpretations which are relevant to the Group and not yet effective.

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
HKFRS 9	Financial Instruments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures[3]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1st January, 2018
2 Effective for annual periods beginning on or after 1st January, 2019
3 Effective date postponed but early adoption is permitted.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

HKFRS 9 "Financial instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit loss" model for the impairment of financial assets.

HKFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(w) Future changes in HKFRSs (Cont'd)

HKFRS 9 "Financial instruments" (Cont'd)

The directors have identified the following areas that are expected to be most impacted by the application of HKFRS 9:

- the classification and measurement of the Group's financial assets. The Group holds most financial assets to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly. The directors expect available-for-sale investments and other financial assets are likely to be measured at fair value through profit or loss as the cash flows are not solely payments of principal and interest.

- the impairment of financial assets applying the expected credit loss model. This will apply to the Group's trade receivables and investments in debt-type assets currently classified as available-for-sale financial assets (unless classified as at fair value through profit or loss). For contract assets arising from HKFRS 15 and trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses as these items do not have significant financing components.

- the measurement of equity investments at cost less impairment. All such investments will instead be measured at fair value with changes in fair value presented either in profit or loss or in other comprehensive income. To present changes in other comprehensive income requires making an irrevocable designation on initial recognition or at the date of transition to HKFRS 9. This will affect the Group's investment in unlisted equity securities *(note 18)* which the Group intends to hold beyond 1st January, 2018.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 and the related clarification to HKFRS 15 (hereinafter referred to as "**HKFRS 15**") presents new requirements for the recognition of revenue, replacing HKAS 18 "Revenue", HKAS 11 "Construction Contracts", and several revenue-related Interpretations. HKFRS 15 establishes a single comprehensive model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or overtime. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

HKFRS 15 is effective for annual periods beginning on or after 1st January, 2018. Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(w) Future changes in HKFRSs (Cont'd)

HKFRS 15 "Revenue from Contracts with Customers" (Cont'd)

Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2(s). Currently, revenue arising from sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised goods or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that goods or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue.

The Group plans to elect to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1st January, 2018. As allowed by HKFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1st January, 2018. Since the number of "open" contracts for sales of electronic products and properties at 31st December, 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of HKFRS 15 will not be material.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(w) Future changes in HKFRSs (Cont'd)

HKFRS 16 "Leases"

HKFRS 16 "Leases" will replace HKAS 17 and three related Interpretations.

As disclosed in note 2(o), currently the Group classifies leases into operating leases. The Group enters into some leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases of land and buildings and other assets which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease. As disclosed in note 35(b), as at 31st December, 2017, the Group's future minimum lease payments under non-cancellable operating leases amount to RMB58,379,000 for leasehold land and buildings, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1st January, 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt HKFRS 16 retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the accounting policies set out in note 2, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

(a) Depreciation and amortisation

The net book values of the Group's property, plant and equipment (other than construction-in-progress), land lease prepayments and intangible assets as at 31st December, 2017 were approximately RMB2,386 million (2016: RMB1,826 million), RMB87 million (2016: RMB85 million) and RMB696 million (2016: RMB1,339 million), respectively. The Group depreciates its property, plant and equipment, other than construction-in-progress, on a straight-line basis after taking into account their estimated residual value, over 5 to 30 years for property, plant and equipment other than special tools and moulds, and over 20,000 times to 420,000 times of usage for special tools and moulds. The land lease prepayments are amortised on over the lease term on a straight-line basis. The intangible assets are amortised on a straight-line basis over their estimated useful lives of 5 to 10 years.

The depreciation and amortisation rates are determined based on the estimated useful lives and reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and intangible assets with reference to the current condition and the level of technological advancement of these assets compared with the market. When there is a change in technological advancement in the market which reduces the expected useful lives of these assets, the depreciation and amortisation rates are adjusted which would have a negative impact on the Group's results.

(b) Impairment test of interests in associates

The Group determines whether interests in associates is required to be impaired based on an estimation of the value of the cash-generating units. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2017, carrying values of interests in associates was approximately RMB1,747,517,000 (2016: approximately RMB1,703,065,000) in which goodwill of investment in listed and unlisted associates were approximately RMB72,799,000 and RMB26,654,000, respectively (2016: approximately RMB72,799,000 and RMB26,654,000, respectively). Based on the assessment, no further impairment loss is considered necessary by the directors. If the actual future cash flows of these associates are less than expected, the maximum potential impact to the consolidated financial statements would be the carrying amounts of interests in associates.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Cont'd)

(c) Provision for inventories

The Group's management reviews inventory aging analysis at each reporting date and makes allowance for obsolete and slow-moving items of inventories that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in-progress based principally on the selling prices of the respective finished goods and current market conditions. The management carries out an inventory review on a product-by-product basis at each reporting date and makes allowance for obsolete items.

Situation in the PRC automobile market could change from time to time and this can put pressure on the selling prices and the turnover of the Group's inventories. As at 31st December, 2017, the Group had inventories of RMB1,043,793,000 (2016: RMB1,104,070,000) (net of provision of RMB72,450,000 (2016: RMB57,038,000)). Should there be an unexpected change in market condition, the provision may not be adequate and further impairment may be required, and a material loss may arise.

(d) Impairment on receivables

The policy for impairment on the Group's receivables is based on an estimation of present value of the future cash flows from receivables with reference to aging analysis of accounts. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. As at 31st December, 2017, the Group had accounts receivable (both from third parties and affiliated companies) totalling RMB1,023,365,000 (2016: RMB1,583,968,000) (net of provision for impairment losses of RMB28,937,000 (2016: RMB39,080,000)), loan receivables of RMB3,363,420,000 (2016: RMB908,283,000) (net of provision for impairment losses of RMB36,561,000 (2016: RMB9,527,000)), other receivables of RMB471,721,000 (2016: RMB406,870,000) (net of provision for impairment losses of RMB106,154,000 (2016: RMB88,652,000)), and amounts due from affiliated companies of RMB475,716,000 (2016: RMB538,118,000) (net of provision for impairment losses of RMB90,173,000 (2016: RMB92,148,000)). Where the actual cash flows are less than expected, a material loss may arise.

(e) Warranty provisions

The Group makes provisions for product warranties *(note 27)* granted by the Group in respect of certain products. These provisions are recognised based on sales volume and past experience of the level of repair and returns, discounted to their present values as appropriate.

(f) Impairment test of assets

The Group determines whether an asset is impaired at least on annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Details of the basis and assumption used in estimating the recoverable amounts of the Group's intangible assets are set out in note 12.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group's major financial instruments include accounts and notes receivables, other receivables, prepayment for long-term investments, accounts and notes payables, other payables and interest-bearing borrowings. Details of the policies on mitigating the risks from these financial instruments are set out below. The Group's management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

(a) Credit risk

The Group's credit risk primarily consists of accounts receivable, notes receivable, loan receivables and other receivables from a variety of customers and debtors including state and local agencies, municipalities and private industries and their affiliated companies, bank balances and deposits, and guarantee for loans drawn by its affiliated companies.

In order to minimise credit risk, credit history and background of new customers and debtors are checked and security deposits or letters of credit are usually obtained from major customers. Credit limits with credit terms of 30 to 90 days are set for PRC customers, and customers considered to be high risk are traded on cash basis or upon receipt of bank guaranteed notes or letters of credit. For overseas customers, since settlements must be made by letters of credit, credit periods up to one year are granted. Designated staff monitors accounts receivable and follow-up collection with customers.

The Group reviews regularly the recoverable amount of each individual receivable and adequate provision is made for any balance determined to be unrecoverable.

The Group has no significant concentration of credit risk as at 31st December, 2017 except that about 17% (2016: 19%) of accounts receivable were due from Huachen and 18% (2016: 13%) were due from Shanghai Shenhua. As at 31st December, 2017, the total receivable due from Huachen and Shanghai Shenhua Holdings Co., Ltd. ("**Shanghai Shenhua**") amounted to RMB308 million (2016: RMB378 million) and RMB202 million (2016: RMB244 million). The Group also had total payable of RMB590 million (2016: RMB498 million) as at 31st December, 2017 due to Huachen. Accordingly, the Group had no net credit risk exposure from Huachen as at 31st December, 2017 (2016: Same). For Shanghai Shenhua, the directors consider that the net amount due had arisen from normal course of business with Shanghai Shenhua and therefore the credit risk is at acceptable level but the Group will continue to monitor the exposure.

4. **FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS** (Cont'd)

(a) **Credit risk** (Cont'd)

The credit risk on liquid funds with banks is limited because these banks are authorised banks in the PRC with high credit ratings.

The Group's maximum exposure of credit risk is in the carrying amounts of the Group's balances in loan receivables, accounts receivable, notes receivable and other receivables from both third parties and affiliated companies totalling RMB5,698 million as at 31st December, 2017 (2016: RMB3,734 million).

(b) **Liquidity risk**

In managing liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations, expected expansion and product developments. The Group relies on bank borrowings as a significant source of liquidity. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants. In view of the excess of current liabilities over current assets of the Group, the management has taken necessary measures to maintain the Group's liquidity as set out in note 2(c).

As at 31st December, 2016 and 31st December, 2017, the remaining contractual maturities of the Group's financial liabilities, based on undiscounted cash flows, are summarised below:

As at 31st December, 2017

	Within 1 year RMB'000	Over 1 year but within 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Financial liabilities				
Accounts payable	3,278,870	–	3,278,870	3,278,870
Notes payable	2,780,586	–	2,780,586	2,780,586
Other payables	999,518	–	999,518	999,518
Accrued expenses	116,280	–	116,280	116,280
Deferred income	147,518	–	147,518	147,518
Dividends payable	198,755	–	198,755	198,755
Short-term bank borrowings	2,875,906	–	2,875,906	2,809,900
Amounts due to affiliated companies	447,398	–	447,398	447,398
Long-term bank borrowings	–	84,180	84,180	80,000
	10,844,831	84,180	10,929,011	10,858,825

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(b) Liquidity risk (Cont'd)

At 31st December, 2016

	Within 1 year RMB'000	Over 1 year but within 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Financial liabilities				
Accounts payable	3,324,123	–	3,324,123	3,324,123
Notes payable	2,330,052	–	2,330,052	2,330,052
Other payables	750,519	–	750,519	750,519
Accrued expenses	120,638	–	120,638	120,638
Deferred income	19,248	–	19,248	19,248
Dividends payable	2,929	–	2,929	2,929
Short-term bank borrowings	1,348,116	–	1,348,116	1,325,000
Amounts due to affiliated companies	286,151	–	286,151	286,151
	8,181,776	–	8,181,776	8,158,660

	2017 RMB'000	2016 RMB'000
Financial guarantee contracts *(Note)*		
– Shanghai Shenhua *(note 33(b))*	**–**	60,000
– Shenyang JinBei Automotive Co., Ltd. ("**JinBei**") *(note 33(a))*	**356,000**	470,000
	356,000	530,000

Note: The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. In the opinion of the directors, the fair values of the financial guarantee contracts are insignificant at initial recognition. Based on expectations at the end of the reporting period, the directors considered that it was not probable that the borrower of the loan would default the repayment of the loan and therefore no provision for the Group's obligation under the guarantee has been made.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(c) Currency risk

The Group's business mainly operates in the PRC with most of its transactions denominated and settled in RMB, except for certain receivables and payables, and cash and cash equivalents which are denominated in U.S. Dollars and therefore exposed to foreign currency translation risk. The Group had not used any financial instrument to hedge against foreign exchange risk.

At 31st December, 2017, if the RMB had strengthened/weakened by 3% against the U.S. Dollar with all other variables held constant, the post-tax profit for the year would have been approximately RMB5 million lower/higher (2016: RMB9 million lower/higher), mainly as a result of foreign exchange losses/gains on translation of the U.S. Dollar denominated accounts receivable, cash and cash equivalents and short-term bank deposits.

(d) Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing bank loans, discounted bank guaranteed notes and bank deposits.

Funds not required by the Group in the short-term are kept as temporary demand or time deposits in commercial banks and the Group does not hold any market risk-sensitive instruments for speculative purposes.

Assuming the cash and cash equivalents, short-term deposits, pledged short-term bank deposits, short-term bank borrowings, long-term bank borrowings, notes payable and cash at central bank for financing outstanding as at 31st December, 2017 were outstanding for the whole year, a 50 basis point increase or decrease would decrease or increase the profit after tax and equity of the Group by approximately RMB6.14 million (2016: decrease or increase the profit after tax and equity of the Group by approximately RMB0.84 million). The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis was performed on the same basis for 2016.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(e) Summary of financial instruments by category

The carrying amounts of the Group's financial assets and financial liabilities at 31st December, 2016 and 31st December, 2017 are categorised as follows:

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets at 31st December, 2017:			
Prepayments for long-term investments	**–**	**600,000**	**600,000**
Available-for-sale financial assets	**–**	**24,499**	**24,499**
Cash and cash equivalents	**1,732,076**	**–**	**1,732,076**
Cash at central bank	**62,038**	**–**	**62,038**
Short-term bank deposits	**43,402**	**–**	**43,402**
Pledged short-term bank deposits	**1,713,754**	**–**	**1,713,754**
Accounts receivable	**1,023,365**	**–**	**1,023,365**
Notes receivable	**363,795**	**–**	**363,795**
Loan receivables	**3,363,420**	**–**	**3,363,420**
Other receivables	**471,721**	**–**	**471,721**
Amounts due from affiliated companies	**475,716**	**–**	**475,716**
	9,249,287	**624,499**	**9,873,786**
Financial assets at 31st December, 2016:			
Prepayments for long-term investments	–	600,000	600,000
Available-for-sale financial assets	–	33,468	33,468
Cash and cash equivalents	936,942	–	936,942
Cash at central bank	3,996		3,996
Short-term bank deposits	193,146	–	193,146
Pledged short-term bank deposits	1,338,956	–	1,338,956
Accounts receivable	1,583,968	–	1,583,968
Notes receivable	296,308	–	296,308
Loan receivables	908,283	–	908,283
Other receivables	406,870	–	406,870
Amounts due from affiliated companies	538,118	–	538,118
	6,206,587	633,468	6,840,055

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(e) Summary of financial instruments by category (Cont'd)

	Financial liabilities measured at amortised costs	
	2017	2016
	RMB'000	RMB'000
Financial liabilities at 31st December,		
Accounts payable	**3,278,870**	3,324,123
Notes payable	**2,780,586**	2,330,052
Other payables	**999,518**	750,519
Accrued expenses	**116,280**	120,638
Deferred income	**147,518**	19,248
Dividends payable	**198,755**	2,929
Short-term bank borrowings	**2,809,900**	1,325,000
Amounts due to affiliated companies	**447,398**	286,151
Long-term bank borrowings	**80,000**	–
	10,858,825	8,158,660

(f) Fair value measurements recognised in the consolidated statement of financial position

The Group measures available-for-sale financial assets with market quoted prices at fair value at the end of each reporting period. Fair value is the price that will be received from selling 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.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(f) Fair value measurements recognised in the consolidated statement of financial position (Cont'd)

The following table presents financial assets and liabilities measured at fair value in the consolidated statement of financial position in accordance with the three-level fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

– Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

– Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The Group's financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

	2017				2016			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Assets								
Available-for-sale financial assets								
– Listed	**20,361**	**–**	**–**	**20,361**	29,330	–	–	29,330

There have been no transfers between levels 1, 2 and 3 or issue or settlement of financial instruments of levels 1, 2 and 3 during the reporting years.

The listed equity securities are denominated in Hong Kong dollars. Fair value has been determined by reference to the quoted bid price at the reporting date and has been translated using the spot foreign currency rate at the end of the reporting year where appropriate.

5. REVENUE AND SEGMENT INFORMATION

Revenue earned during the year represents:

	2017 RMB'000	2016 RMB'000
Sale of minibuses and automotive components, net of consumption tax, discounts and return	**5,164,050**	5,081,201
Interest and service charge income from provision of auto financing service, net of other tax	**140,673**	43,917
	5,304,723	5,125,118

During the year, the Group had three (2016: one) major customers with aggregate revenue derived from them amounting to more than 10% of the Group's revenue, and the revenue derived from these customers amounted to RMB1,093,068,000, RMB925,602,000 and RMB787,281,000, respectively (2016: RMB2,651,060,000).

Although the minibuses and automotive components of the Group are primarily sold in the PRC, the Group is exploring opportunities in the overseas markets and the sales by location of customers are as follows:

	2017 RMB'000	2016 RMB'000
PRC	**4,991,447**	4,992,743
Other Asian countries	**23,164**	22,658
Latin America	**78,388**	52,420
Middle East	**57,769**	1,738
Africa	**13,150**	11,387
Others	**132**	255
	5,164,050	5,081,201

All interest and service charge income from provision of auto financing service is derived in the PRC.

The directors identify the Group's operating segments as detailed in note 2(u). All segment assets are located in the PRC.

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Operating segments – 2017

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Provision of auto financing service RMB'000	Reconciliation to the Group's consolidated statement of profit or loss and intersegment elimination RMB'000	Total RMB'000
Segment sales to external customers	**5,164,050**	**111,599,149**	**151,365**	**(111,609,841)**	**5,304,723**
Segment results	**(1,370,433)**	**14,037,301**	**4,853**	**(14,042,982)**	**(1,371,261)**
Unallocated costs net of unallocated income	–	–	–	–	**(96,836)**
Interest income	–	–	–	–	**55,443**
Finance costs	–	–	–	–	**(137,871)**
Share of results of:					
Joint ventures	**(4,357)**	**5,237,669**	–	–	**5,233,312**
Associates	**216,979**	–	–	–	**216,979**
Profit before income tax expense					**3,899,766**

Operating segments – 2016

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Provision of auto financing service RMB'000	Reconciliation to the Group's consolidated statement of profit or loss and intersegment elimination RMB'000	Total RMB'000
Segment sales to external customers	5,081,201	95,504,278	53,482	(95,513,843)	5,125,118
Segment results	(721,811)	10,729,874	1,191	(10,739,439)	(730,185)
Unallocated costs net of unallocated income	–	–	–	–	(11,278)
Interest income	–	–	–	–	53,176
Finance costs	–	–	–	–	(133,135)
Share of results of:					
Joint ventures	(5,023)	3,998,419	–	–	3,993,396
Associates	252,563	–	–	–	252,563
Profit before income tax expense					3,424,537

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Operating Segments – 2017

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Provision for auto financing service RMB'000	Reconciliation to the Group's consolidated statement of financial position and intersegment elimination RMB'000	Total RMB'000
Segment assets	10,752,274	88,011,134	3,675,633	(88,901,841)	13,537,200
Interests in joint ventures	–	21,593,786	–	–	21,593,786
Interests in associates	1,747,517	–	–	–	1,747,517
Available-for-sale financial assets					24,499
Prepayments for long-term investments					600,000
Advance to SAIAM					300,000
Unallocated assets					53,129
Total assets					37,856,131
Segment liabilities	8,961,014	44,823,561	2,871,245	(45,714,268)	10,941,552
Unallocated liabilities					214,372
Total liabilities					11,155,924
Other disclosures:					
Capital expenditures	661,866	5,239,820	8,632	(5,239,820)	670,498
Depreciation of property, plant and equipment	145,767	4,478,890	3,059	(4,478,890)	148,826
Amortisation of land lease prepayments	2,058	39,415	–	(39,415)	2,058
Amortisation of intangible assets	123,705	94,975	3,346	(94,975)	127,051
Provision of inventories	58,941	277,559	–	(277,559)	58,941
Write-back of provision for inventories sold	42,012	163,275	–	(163,275)	42,012
Net impairment losses on assets	722,687	198,877	28,495	(198,877)	751,182
Income tax expense	32,625	3,561,411	1,328	(3,561,411)	33,953

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Operating segments – 2016

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Provision of auto financing service RMB'000	Reconciliation to the Group's consolidated statement of financial position and intersegment elimination RMB'000	Total RMB'000
Segment assets	9,633,035	75,672,722	1,067,202	(75,677,669)	10,695,290
Interests in joint ventures	4,774	17,640,083	–	–	17,644,857
Interests in associates	1,703,065	–	–	–	1,703,065
Available-for-sale financial assets					33,468
Prepayments for long-term investments					600,000
Advance to SAIAM					300,000
Unallocated assets					66,332
Total assets					31,043,012
Segment liabilities	8,167,934	40,392,556	266,339	(40,392,556)	8,434,273
Unallocated liabilities					10,216
Total liabilities					8,444,489
Other disclosures:					
Capital expenditures	392,238	7,937,855	5,760	(7,937,855)	397,998
Depreciation of property, plant and equipment	128,613	3,048,038	2,954	(3,048,038)	131,567
Amortisation of land lease prepayments	2,037	39,415	–	(39,415)	2,037
Amortisation of intangible assets	133,275	154,551	2,745	(154,551)	136,020
Provision of inventories	13,484	113,996	–	(113,996)	13,484
Write-back of provision for inventories sold	30,935	73,877	–	(73,877)	30,935
Net impairment losses on assets	(3,870)	131,994	7,058	(131,994)	3,188
Income tax expense	35,495	2,733,257	438	(2,733,257)	35,933

6. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest expense on:		
– bank loans	**55,883**	72,000
– discounted bank guaranteed notes	**89,342**	71,837
	145,225	143,837
Less: interest expense capitalised in intangible assets and construction-in-progress at a rate of 4.5% (2016: 4.4%)	**(7,354)**	(10,702)
	137,871	133,135

7. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is stated after charging and crediting the following:

	Note	2017 RMB'000	2016 RMB'000
Charging:			
Impairment losses on:			
– Accounts receivable (b)	22(a)	**893**	–
– Loans receivable (b)	19	**28,495**	7,058
– Other receivables (b)	24(a)	**19,379**	4,587
– Property, plant and equipment (b)	13	**9,823**	–
– Intangible assets (b)	12	**700,000**	–
Staff costs	11(a)	**735,994**	750,171
Amortisation of intangible assets (a)	12	**127,051**	136,020
Amortisation of land lease prepayments	14	**2,058**	2,037
Loss on disposal of property, plant and equipment		**2,653**	–
Depreciation of property, plant and equipment	13	**148,826**	131,567
Cost of inventories (c)		**5,101,568**	4,971,006
Exchange loss, net		**63,412**	–
Provision for inventories	21	**58,941**	13,484
Auditors' remuneration		**3,285**	2,822
Research and development costs (b)		**13,781**	8,111
Warranty provision (b)		**40,380**	29,583
Operating lease charges in respect of land and buildings		**33,087**	25,261
Crediting:			
Exchange gain, net		–	47,788
Write-back of provision for inventories sold	21	**42,012**	30,935
Gain on disposal of property, plant and equipment		–	5,549
Write-back of impairment losses on:			
– Accounts receivable	22(a)	**64**	3,957
– Accounts receivable from affiliated companies	33(c)	**6,752**	–
– Other receivables	24(a)	**592**	4,500

(a) Amortisation of intangible assets in relation to production was included in cost of sales; amortisation of intangible assets for other purposes was included in general and administrative expenses.

(b) Included in general and administrative expenses.

(c) Government subsidies in the amount of RMB17,780,000 (2016: RMB24,147,000) were included in cost of inventories. The Group was entitled to receive such subsidies from a provincial government in the PRC for improving production process in the Group's manufacturing activities and there was no unfulfilled condition.

8. INCOME TAX EXPENSE

The income tax charged to the consolidated statement of profit or loss represents:

	2017 **RMB'000**	2016 RMB'000
Current tax		
PRC corporate income tax		
– Current year	**9,415**	9,646
– (Over) Under provision in prior years	**(2,973)**	760
PRC withholding tax on dividend	**27,511**	25,527
Total income tax expense	**33,953**	35,933

(a) Bermuda tax

The Company was incorporated under the laws of Bermuda and has received an undertaking from the Ministry of Finance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act, 1966, which exempts the Company and its shareholders, other than shareholders ordinarily residing in Bermuda, from any Bermuda taxes computed on profit, income or any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, at least until year 2035.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2016: Nil).

(c) PRC corporate income tax

The Group's subsidiaries incorporated in the PRC are subject to Corporate Income Tax. Under the PRC Corporate Income Tax Law and the respective regulations, the corporate income tax for the subsidiaries, except Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("**Mianyang Ruian**"), is calculated at 25% on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

Mianyang Ruian received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities and was also designated as an entity under "the encouraged industries under Catalogue for the Guidance of Foreign Investment Industries" and with its location in the Western area of the PRC, the applicable income tax rate for Mianyang Ruian is 15%.

With effect from 1st January, 2008, all profits of the PRC subsidiaries arising since that date that are distributed and remitted as dividend to the overseas parents are subject to 5% or 10% withholding tax on the amount remitted. The dividends received by the Company related solely to the dividends distributed by BMW Brilliance during the same year and therefore dividend withholding tax is paid in the same year. For the profits generated by the manufacture of minibuses and spare parts by the Group's subsidiaries, it is the intention of the management that the Group would reinvest these profits in the respective subsidiaries and therefore withholding tax would not be applicable for those profits. Accordingly, no deferred tax is recognised in respect of this withholding tax on profits of the Group's PRC subsidiaries. Unremitted earnings (determined under PRC GAAP) subject to this withholding tax totaled approximately RMB3,882,634,000 at 31st December, 2017 (2016: RMB3,136,160,000).

8. INCOME TAX EXPENSE (Cont'd)

(c) PRC corporate income tax (Cont'd)

Reconciliation between tax expense and accounting profit using the weighted average taxation rate of the companies within the Group is as follows:

	2017 RMB'000	2016 RMB'000
Profit before income tax expense	**3,899,766**	3,424,537
Calculated at weighted average statutory taxation rate in the PRC of 29.88% (2016: 26.12%)	**1,165,387**	894,597
Effect of tax holiday	**(761)**	(578)
Non-taxable income net of expenses not deductible for taxation purpose	**(1,329,478)**	(1,084,399)
Unrecognised temporary differences	**(7,939)**	3,497
Unrecognised tax losses net of utilisation of previously unrecognised tax losses	**209,717**	222,056
(Over) Under provision in prior years	**(2,973)**	760
Tax expense for the year	**33,953**	35,933

9. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company of approximately RMB4,376 million (2016: approximately RMB3,682 million) by the weighted average number of ordinary shares as follows:

	Number of shares 2017 '000	2016 '000
Weighted average number of ordinary shares for calculating basic earnings per share	**5,043,035**	5,036,821
Weighted average number of ordinary shares deemed issued under the Company's share option scheme	**2,175**	8,005
Weighted average number of ordinary shares for calculating diluted earnings per share	**5,045,210**	5,044,826

10. DIVIDENDS

On 25th August, 2017, a dividend of HK$0.11 per ordinary share (2016: HK$0.11 per ordinary share) totalling approximately HK$554,980,000 (2016: HK$554,122,000) was declared by the directors and paid during the year.

The directors did not recommend any dividend payment at the board meeting held on 28th March, 2018 in respect of the Group's 2017 annual results (2016: nil).

11. STAFF COSTS AND DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Staff costs

	2017 **RMB'000**	2016 RMB'000
Wages, salaries and performance related bonus	**533,004**	558,690
Pension costs – defined contribution plans	**71,094**	67,295
Staff welfare costs	**131,896**	124,186
	735,994	750,171

(b) Directors' and chief executive's emoluments

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

		Other emoluments			
	Fee **RMB'000**	**Bonus** **RMB'000**	**Salaries and other benefits** **RMB'000**	**Retirement benefits scheme contributions** **RMB'000**	**Total** **RMB'000**
2017					
Executive directors					
Mr. Wu Xiao An	–	4,331	3,950	16	8,297
Mr. Qi Yumin *(Note)*	–	–	–	–	–
Mr. Qian Zuming *(Note)* (appointed on 12th September, 2016)	–	220	1,754	–	1,974
Mr. Zhang Wei (appointed on 12th September, 2016)	–	–	–	–	–
	–	4,551	5,704	16	10,271
Independent non-executive directors					
Mr. Xu Bingjin	130	87	–	–	217
Mr. Song Jian	130	87	–	–	217
Mr. Jiang Bo	130	87	–	–	217
	390	261	–	–	651
	390	4,812	5,704	16	10,922

11. STAFF COSTS AND DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(b) Directors' and chief executive's emoluments (Cont'd)

The aggregate amounts of emoluments paid and payable to the directors of the Company during 2016 are as follows:

		Other emoluments			
	Fee RMB'000	Bonus RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
2016					
Executive directors					
Mr. Wu Xiao An	–	4,259	3,883	15	8,157
Mr. Qi Yumin *(Note)*	–	–	1,022	–	1,022
Mr. Wang Shiping (resigned on 12th September, 2016)	–	–	–	–	–
Mr. Qian Zuming *(Note)* (appointed on 12th September, 2016)	–	220	1,740	–	1,960
Mr. Zhang Wei (appointed on 12th September, 2016)	–	–	–	–	–
	–	4,479	6,645	15	11,139
Non-executive director					
Mr. Lei Xiaoyang (resigned on 12th September, 2016)	–	–	–	–	–
Independent non-executive directors					
Mr. Xu Bingjin	128	85	–	–	213
Mr. Song Jian	128	85	–	–	213
Mr. Jiang Bo	128	85	–	–	213
	384	255	–	–	639
	384	4,734	6,645	15	11,778

Note: Mr. Qi Yumin and Mr. Qian Zuming are also the chief executives of the Company.

In both 2016 and 2017,

- no share option was granted to any of the directors;
- no emoluments were paid to the directors as inducement to join or upon joining the Group or as compensation for loss of office; and
- no directors waived their emoluments.

11. STAFF COSTS AND DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(b) Directors' and chief executive's emoluments (Cont'd)

The ultimate objective of the Group's emolument policy is to ensure that the pay levels of its employees are in line with industry practices and prevailing market conditions so as to enable the Group to attract and retain persons of high quality and experience which is essential to the success of the Group.

In determining the level of fees and other emoluments paid to directors of the Company, market rates and factors such as each director's workload and required commitment are taken into account:

– Remuneration of executive directors comprises basic remuneration determined with reference to their qualifications, industry experience and responsibilities within the Group, and a performance-based remuneration. In determining the performance-based remuneration of executive directors, regard is given to the Company's corporate goals and objectives set by the board from time to time and the performance and contribution of the individual to the Group's overall performance.

– Non-executive director is compensated with reference to his qualifications, expertise and experience and the amount of time allocated to the affairs of the Group.

– Independent non-executive directors are compensated with reference to the level of compensation awarded to independent non-executive directors by other companies listed on the SEHK; the responsibilities assumed by such independent non-executive directors; complexity of the automobile industry and the business of the Group; goodwill and reputational value brought to the Group by the relevant independent non-executive director.

During the process of consideration, no individual director is involved in decisions relating to his own remuneration.

(c) Remuneration of senior management

Pursuant to Appendix 14 to the Listing Rules, the remuneration of senior management, excluding directors, is within the following bands:

	2017 **Number**	2016 Number
Under HK$500,000	**–**	1
HK$500,001 to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**–**	–
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	–

11. STAFF COSTS AND DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(d) Five highest paid individuals

The five highest paid individuals in the Group during the year included two directors (2016: two directors), details of whose emoluments have been disclosed in note (b) above. The emoluments paid to the remaining three individuals (2016: three individuals) for the year are as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries and other benefits	**3,209**	3,923
Discretionary bonus	**2,003**	1,122
Contributions to retirement benefits schemes	**31**	15
	5,243	5,060

The number of the highest paid individuals, other than the directors, whose emoluments fell within the following bands is as follows:

	2017 **Number**	2016 Number
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**1**	2
HK$2,000,001 to HK$2,500,000	**–**	–
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	–

The emoluments represent the amounts paid to or receivable by the individuals in the respective financial year, which include the benefits derived from the share options granted, if any *(note 31(c))*.

During the year, no emoluments were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office (2016: same).

12. INTANGIBLE ASSETS

	Development costs RMB'000	Specialised software RMB'000	Total RMB'000
Cost			
As at 1st January, 2016	1,637,508	43,834	1,681,342
Additions	42,975	5,958	48,933
Transfer from construction-in-progress	2,456	50	2,506
As at 31st December, 2016	1,682,939	49,842	1,732,781
As at 1st January, 2017	**1,682,939**	**49,842**	**1,732,781**
Additions	**170,453**	**11,657**	**182,110**
Transfer from construction-in-progress	**2,214**	**315**	**2,529**
Disposals/Write-off	**(22,152)**	**(1,437)**	**(23,589)**
As at 31st December, 2017	**1,833,454**	**60,377**	**1,893,831**
Accumulated amortisation and impairment losses			
As at 1st January, 2016	242,835	15,314	258,149
Amortisation	131,507	4,513	136,020
As at 31st December, 2016	374,342	19,827	394,169
As at 1st January, 2017	**374,342**	**19,827**	**394,169**
Amortisation	**122,762**	**4,289**	**127,051**
Impairment for the year	**700,000**	**–**	**700,000**
Eliminated on disposals/write-off	**(22,152)**	**(1,437)**	**(23,589)**
As at 31st December, 2017	**1,174,952**	**22,679**	**1,197,631**
Net book value			
As at 31st December, 2017	**658,502**	**37,698**	**696,200**
As at 31st December, 2016	1,308,597	30,015	1,338,612

Based on the sales performance of Huasong vehicles, the management reassessed the recoverable amount of the Huasong project as at 31st December, 2017. The Huasong project is regarded as having 8 years useful life since 2015. The recoverable amount is determined on a value in use basis. Value in use calculation uses cash flow projections based on financial budgets covering the remaining useful life of 6-year period. The management determines the key assumptions which include budgeted revenue and cost based on past performance of Huasong project, the general price inflation in China, and the management's expectation on market development. The discount rate of 11% is pre-tax and derived by reference to the capital asset pricing model plus a risk premium reflecting specific risks related to the industry.

As at 31st December, 2017, the carrying amounts of the Huasong project and its recoverable amounts which represented its value in use was approximately RMB600 million. The aggregate impairment loss charged in respect of development costs which its carrying amount exceeded its recoverable amounts was approximately RMB700 million for year ended 31st December, 2017.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Tools and moulds, machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost						
As at 1st January, 2016	655,363	2,219,602	279,003	84,865	302,108	3,540,941
Additions	8,873	103,449	16,031	3,275	217,436	349,064
Transfer to intangible assets	–	–	–	–	(2,506)	(2,506)
Inter-transfer	18,852	68,231	2,642	158	(89,883)	–
Disposals/Write-off	(7,126)	(37,773)	(7,415)	(5,322)	(104)	(57,740)
As at 31st December, 2016	675,962	2,353,509	290,261	82,976	427,051	3,829,759
As at 1st January, 2017	**675,962**	**2,353,509**	**290,261**	**82,976**	**427,051**	**3,829,759**
Additions	**18,789**	**305,870**	**29,186**	**4,609**	**126,173**	**484,627**
Transfer to intangible assets	**–**	**–**	**–**	**–**	**(2,529)**	**(2,529)**
Inter-transfer	**117,348**	**204,213**	**42,283**	**1,204**	**(365,048)**	**–**
Disposals/Write-off	**(15,758)**	**(10,155)**	**(11,244)**	**(12,163)**	**(2,031)**	**(51,351)**
As at 31st December, 2017	**796,341**	**2,853,437**	**350,486**	**76,626**	**183,616**	**4,260,506**
Accumulated depreciation and impairment losses						
As at 1st January, 2016	293,618	963,101	180,023	59,034	3,051	1,498,827
Charge for the year	21,979	77,316	25,981	6,291	–	131,567
Eliminated on disposals/write-off	(7,065)	(31,801)	(6,676)	(4,778)	(104)	(50,424)
As at 31st December, 2016	308,532	1,008,616	199,328	60,547	2,947	1,579,970
As at 1st January, 2017	**308,532**	**1,008,616**	**199,328**	**60,547**	**2,947**	**1,579,970**
Charge for the year	**24,635**	**90,077**	**29,919**	**4,195**	**–**	**148,826**
Impairment losses	**6,660**	**175**	**983**	**–**	**2,005**	**9,823**
Eliminated on disposals/write-off	**(14,891)**	**(9,358)**	**(8,906)**	**(10,056)**	**(2,031)**	**(45,242)**
As at 31st December, 2017	**324,936**	**1,089,510**	**221,324**	**54,686**	**2,921**	**1,693,377**
Net book value						
As at 31st December, 2017	**471,405**	**1,763,927**	**129,162**	**21,940**	**180,695**	**2,567,129**
As at 31st December, 2016	367,430	1,344,893	90,933	22,429	424,104	2,249,789

As at 31st December, 2017, the short-term and long-term borrowings in aggregate are secured by the Group's buildings and tools and moulds, machinery and equipment with net book values of RMB242.4 million (2016: RMB193.2 million).

14. LAND LEASE PREPAYMENTS

The carrying value of land lease prepayments represents cost less accumulated amortisation paid for land use rights in the PRC under medium term leases of not more than 50 years. The value to be amortised within the next twelve months after 31st December, 2017 amounts to RMB2,115,000 (2016: RMB2,037,000).

	2017	2016
	RMB'000	RMB'000
Cost		
As at 1st January	**118,725**	118,725
Additions	**3,761**	–
At 31st December	**122,486**	118,725
Accumulated amortisation		
As at 1st January	**33,915**	31,878
Charge for the year	**2,058**	2,037
As at 31st December	**35,973**	33,915
Net book value		
As at 31st December	**86,513**	84,810

At 31st December, 2017, the long-term borrowings are secured by the Group's land lease prepayments with a net book value of RMB31.3 million (2016: Nil).

15. INTERESTS IN JOINT VENTURES

	2017 **RMB'000**	2016 RMB'000
Share of net assets by equity method		
– Unlisted joint ventures	**21,593,786**	17,644,857

Details of the Group's joint ventures as at 31st December, 2017 and 2016 were as follows:

Name of company	**Place of incorporation/ establishment**	**Registered capital/issued and paid up capital**	**Legal structure**	**Percentage of effective equity interest/voting right held indirectly**	**Principal activities**
Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. ("**Xinguang Brilliance**")	Shenyang, the PRC	US$7,220,000	Equity joint venture	50%	Manufacture and sale of automotive engines for minibuses and light duty trucks
BMW Brilliance	Shenyang, the PRC	US$174,000,000	Equity joint venture	50%	Manufacture and sale of BMW vehicles

15. INTERESTS IN JOINT VENTURES (Cont'd)

BMW Brilliance's assets and liabilities and the respective net assets shared by the Group are as follows:

	2017 RMB'000	2016 RMB'000
Non-current assets	**47,366,377**	43,361,949
Current assets	**40,644,757**	32,310,773
Current liabilities	**(37,319,172)**	(35,475,969)
Non-current liabilities	**(7,504,389)**	(4,916,587)
Net assets	**43,187,573**	35,280,166
Included in the above assets and liabilities:		
Cash and cash equivalents	**20,417,430**	15,451,007
Current financial liabilities (excluding accounts and other payables and provisions)	**(6,316,125)**	(6,673,577)
Non-current financial liabilities (excluding accounts and other payables and provisions)	**(7,504,389)**	(4,916,587)
Proportion of the Group's ownership interest in BMW Brilliance	**50%**	50%
Carrying amount of the Group's interest in BMW Brilliance	**21,593,786**	17,640,083

BMW Brilliance's income, expenses and dividends are as follows:

	2017 RMB'000	2016 RMB'000
Revenue	**111,599,149**	95,504,278
Interest income	**363,538**	232,084
Interest expense	**–**	(18,286)
Income tax	**(3,561,441)**	(2,733,357)
Net profit	**10,475,890**	7,996,617
Other comprehensive income	**1,431,516**	1,279,982
Total comprehensive income	**11,907,406**	9,276,599
Dividends received from the joint venture	**2,000,000**	1,000,000

The Group has not incurred any contingent liabilities or other commitments relating to its investments in the joint ventures (2016: nil).

15. INTERESTS IN JOINT VENTURES (Cont'd)

The net (liabilities) assets of Xinguang Brilliance and the Group's share are as follows:

	2017 RMB'000	2016 RMB'000
Net (liabilities) assets	**(5,678)**	9,548
Proportion of the Group's ownership interest in Xinguang Brilliance	**50%**	50%
Carrying amount of the Group's interest in Xinguang Brilliance	**–**	4,774
Net loss and total comprehensive expense	**(15,226)**	(9,860)
Unrecognised share of loss for the year	**(3,256)**	–
Unrecognised share of loss accumulative	**(3,256)**	–

16. INTERESTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets by equity method and goodwill		
– Associates listed in Hong Kong	**975,806**	935,728
– Unlisted associates	**771,711**	767,337
	1,747,517	1,703,065
Fair value of investment in associates listed in Hong Kong	**366,480**	412,155

16. INTERESTS IN ASSOCIATES (Cont'd)

Details of the Group's associates as at 31st December, 2017 and 2016 were as follows:

Name of company	Place of principal operations and establishment	Registered capital/issued and paid up capital	Legal structure	Percentage of effective equity interest/ voting right held directly	Percentage of effective equity interest/voting right held indirectly	Principal activities
Xinchen China Power Holdings Limited ("**Power Xinchen**")	Cayman Islands	HK$12,822,118	Company with limited liability	–	31.20%	Investment holding
Southern State Investment Limited	British Virgin Islands	US$1	Company with limited liability	–	31.20%	Investment holding
Mianyang Xinchen Engine Co., Ltd. ("**Mianyang Xinchen**")	Mianyang, the PRC	US$100,000,000	Wholly foreign owned enterprise	–	31.20%	Development, manufacture and sale of automotive engines
Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. ("**Shenyang Aerospace**") *(Note)*	Shenyang, the PRC	RMB738,250,000	Equity joint venture	–	2017: 21.00% (2016: 14.43%)	Manufacture and sale of automotive engines
Shenyang JinBei Vehicle Dies Manufacturing Co., Ltd.	Shenyang, the PRC	RMB29,900,000	Equity joint venture	–	48%	Manufacture and sale of automotive components
Shenyang ChenFa Automobile Component Co., Ltd.	Shenyang, the PRC	US$19,000,000	Equity joint venture	25%	–	Development, manufacture and sale of engines and engine components
Shenyang Brilliance Power Train Machinery Co., Ltd.	Shenyang, the PRC	US$29,900,000	Equity joint venture	49%	–	Manufacture and sale of power trains

Note: Equity interest of 21% of Shenyang Aerospace is held by Shenyang Jianhua Motors Engine Co., Ltd. ("**Shenyang Jianhua**"), a subsidiary of the Company, whose 80% and 20% equity interests were once held by Shenyang XingYuanDong Automobile Component Co., Ltd. ("**Xing Yuan Dong**") and RBJAC (formerly known as Shenyang Automotive) respectively. Following the restructure of the Group in relation to the acquisition of 39.1% and disposal of 49% equity interest in RBJAC as detailed in note 37, Shenyang Jianhua became a wholly owned subsidiary of Xing Yuan Dong, and the Group effectively holds 21% equity interest in Shenyang Aerospace as at the date of these consolidated financial statements.

16. INTERESTS IN ASSOCIATES (Cont'd)

There is no associate that is individually material to the Group. The Group's share of aggregate financial information of the associates for the year ended 31st December, 2017 is summarised as follows:

	2017 **RMB'000**	2016 RMB'000
Net profit and other comprehensive income attributable to the Group	**216,979**	252,563
Dividends received from associates	**168,000**	129,780

17. PREPAYMENTS FOR LONG-TERM INVESTMENTS

The Group entered into two agreements in 2003 to acquire effectively in aggregate, for a consideration of RMB600 million, the indirect equity interest of 33.35% in JinBei, a company listed on the Shanghai Stock Exchange.

Although the acquisitions have been approved by State-owned Assets Supervision and Administration Commission of Liaoning Provincial Government and the State-Owned Assets Supervision and Administration Commission of the State Council, the acquisitions are yet subject to the granting of a waiver by the China Securities Regulatory Commission.

As at 31st December, 2017 and 2016, the consideration of RMB600 million paid was recorded as prepayments for long-term investment. The directors have assessed the fair value of the underlying shares of JinBei and are satisfied that the recoverability of the prepayments is supported by the underlying shares of JinBei.

The directors are currently evaluating market situation and considering potential options for this investment in light of the Group's latest strategy and future plans.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 **RMB'000**	2016 RMB'000
Equity investments		
– Unlisted, at cost	**4,138**	4,138
– Listed in Hong Kong, at fair value	**20,361**	29,330
At 31st December	**24,499**	33,468

The unlisted equity investments are stated at cost less provision for impairment as they do not have a quoted market price in an active market. The directors are of the opinion that the carrying amounts of the unlisted equity investments approximate their fair value. The Group does not intend to dispose of available-for-sale financial assets and will hold it for a long-term purpose.

19. LOAN RECEIVABLES

	2017 RMB'000	2016 RMB'000
Loan receivables from customers	**3,399,981**	917,810
Less: provision for impairment losses	**(36,561)**	(9,527)
	3,363,420	908,283
Less: current portion *(note 24)*	**(1,916,765)**	(546,796)
Long-term loan receivables	**1,446,655**	361,487
Gross loan receivables recoverable:		
– No later than 1 year	**1,937,837**	552,490
– Later than 1 year and no later than 5 years	**1,462,144**	365,320
	3,399,981	917,810

All loan receivables were derived from the business of provision of auto financing service by BBAFC during the year. The balances are denominated in Renminbi and secured by the motor vehicles of the borrowers.

The Group reviews regularly the recoverable amount of each individual receivable and adequate provision is made for any balance determined to be unrecoverable.

The movements in provision for impairment losses on loan receivables during the year are as follows:

	2017 RMB'000	2016 RMB'000
At 1st January	**9,527**	2,739
Impairment loss recognised	**28,495**	7,058
Uncollectible amounts written off	**(1,461)**	(270)
At 31st December	**36,561**	9,527

20. PLEDGED SHORT-TERM BANK DEPOSITS

Pledged short-term bank deposits as at 31st December, 2017 were pledged for the following purposes:

	2017 RMB'000	2016 RMB'000
Issue of bank guaranteed notes to trade creditors *(Note)*	**1,503,224**	1,128,426
Bank loans granted to JinBei *(note 33(a))*	**210,530**	210,530
	1,713,754	1,338,956

Note: In addition to short-term bank deposits, as at 31st December, 2017, the Group had also pledged bank guaranteed notes receivable from third parties and affiliated companies in the amount of RMB64.2 million (As at 31st December, 2016: RMB116.5 million) and RMB250 million (As at 31st December, 2016: nil) to secure the issue of bank guaranteed notes and the bank borrowings, respectively.

21. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	**372,375**	432,131
Work-in-progress	**272,413**	264,681
Finished goods	**471,455**	464,296
	1,116,243	1,161,108
Less: provision for inventories	**(72,450)**	(57,038)
	1,043,793	1,104,070

As at 31st December, 2017, the carrying amount of inventories that were stated at net realisable value amounted to approximately RMB441 million (2016: RMB465 million).

The reconciliation of provision for inventories in the year is as follows:

	2017 RMB'000	2016 RMB'000
At 1st January	**57,038**	74,489
Provision for the year	**58,941**	13,484
Reversal for the year	**(42,012)**	(30,935)
Obsolete inventories written off	**(1,517)**	–
At 31st December	**72,450**	57,038

The reversal of provision for inventories represents the reversal for provision previously recognised for inventories that were sold during the year (2016: same).

22. ACCOUNTS RECEIVABLE

	Note	2017 RMB'000	2016 RMB'000
Accounts receivable	22(a)	**318,969**	346,807
Accounts receivable from affiliated companies	33(c)	**704,396**	1,237,161
		1,023,365	1,583,968

(a) An aging analysis of accounts receivable based on invoice date is set out below:

	2017 RMB'000	2016 RMB'000
Less than six months	**197,352**	155,729
Six months to one year	**11,714**	5,274
Above one year but less than two years	**1,001**	12,118
Two years or above	**127,423**	191,378
	337,490	364,499
Less: provision for impairment losses	**(18,521)**	(17,692)
	318,969	346,807

At 31st December, 2017, accounts receivable from third parties of approximately RMB104 million (2016: approximately RMB201 million) are substantially denominated in U.S. Dollar or Euro and the rest are denominated in Renminbi. The Group's credit policy is set out in note 4(a).

The movements in provision for impairment losses on accounts receivable during the year, including both specific and collective loss components, are as follows:

	2017 RMB'000	2016 RMB'000
At 1st January	**17,692**	21,649
Impairment loss recognised	**893**	–
Write-back of previously recognised impairment losses	**(64)**	(3,957)
At 31st December	**18,521**	17,692

The provision for impairment losses is in respect of accounts receivable that were individually determined to be impaired. These impaired accounts receivable relate to customers that were in financial difficulties and management assessed that the impaired amounts will not be recoverable. Consequently, specific provision for impairment losses for the full amount of each of the impaired receivables was recognised.

22. ACCOUNTS RECEIVABLE (Cont'd)

(a) (Cont'd)

The aging analysis of the Group's accounts receivable that are past due but neither individually nor collectively considered to be impaired are as follows:

	2017 **RMB'000**	2016 RMB'000
Six months to one year	**11,714**	5,274
Above one year but less than two years	**1,001**	12,118
Two years or above	**108,902**	173,686
	121,617	191,078

Accounts receivable that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. These balances were either settled subsequent to 31st December, 2017 and up to the date of these consolidated financial statements or based on past experience, management believes that no impairment allowance is necessary in respect of the remaining unsettled balances as there has not been a significant change in credit quality and these balances are still considered fully recoverable.

Receivables that were neither past due nor impaired amounting to approximately RMB197.4 million (2016: RMB155.7 million) relate to a large number of diversified customers for whom there was no recent history of default.

The Group does not hold any collateral over the accounts receivable.

23. NOTES RECEIVABLE

	Note	**2017** **RMB'000**	2016 RMB'000
Notes receivable	23(a)	**108,122**	48,914
Notes receivable from affiliated companies	33(d)	**255,673**	247,394
		363,795	296,308

(a) All notes receivable are denominated in Renminbi and are primarily notes received from customers for settlement of accounts receivable balances. As at 31st December, 2017, all notes receivable were guaranteed by established banks in the PRC with maturities of less than six months from 31st December, 2017 (2016: same).

24. OTHER CURRENT ASSETS

	Note	2017 RMB'000	2016 RMB'000
Other receivables	24(a)	**471,721**	406,870
Prepayments and other current assets		**91,303**	52,420
Other taxes recoverable		**94,111**	7,750
Amounts due from affiliated companies	33(e)	**475,716**	538,118
Short-term loan receivables	19	**1,916,765**	546,796
		3,049,616	1,551,954

(a)

	2017 RMB'000	2016 RMB'000
Advance to SAIAM	**300,000**	300,000
Others	**277,875**	195,522
	577,875	495,522
Less: provision for impairment losses	**(106,154)**	(88,652)
At 31st December	**471,721**	406,870

All other receivables are denominated in Renminbi. SAIAM is one of the companies the Group will acquire for the purpose of acquiring equity interests of JinBei as set out in note 17. SAIAM holds 24.38% of JinBei. The amount advanced to SAIAM will be settled upon the completion of the acquisition. In view of the substantial assets in JinBei possessed by SAIAM, the management considers the credit risk in recovering this amount to be minimal.

The other items in other receivables mainly represent prepayments and deposits paid and advanced to other parties. The management considers the credit risks for the balances after the provision for impairment losses detailed below to be minimal as these items are considered insignificant in amounts individually, and are recovered very shortly after they are incurred.

24. OTHER CURRENT ASSETS (Cont'd)

(a) (Cont'd)

The movements in provision for impairment losses on other receivables during the year, including both specific and collective loss components, are as follows:

	2017 RMB'000	2016 RMB'000
At 1st January	**88,652**	88,565
Reclassified from provision for impairment losses on amounts due from affiliated companies *(note 33(e))*	**1,975**	–
Impairment loss recognised	**19,379**	4,587
Uncollectible amounts written-off	**(3,260)**	–
Write-back of previously recognised impairment losses	**(592)**	(4,500)
At 31st December	**106,154**	88,652

As at 31st December, 2017, the Group's other receivables of RMB106,154,000 (2016: RMB88,652,000) was individually determined to be impaired. The individual impaired receivables related to debtors that were in financial difficulties and management assessed that the impaired amounts will not be recoverable. Consequently, specific provision for impairment losses for the full amounts of the impaired receivables was recognised. The Group does not hold any collateral over the other receivables.

25. ACCOUNTS PAYABLE

	Note	2017 RMB'000	2016 RMB'000
Accounts payable	25(a)	**2,249,436**	1,977,242
Accounts payable to affiliated companies	33(f)	**1,029,434**	1,346,881
		3,278,870	3,324,123

(a) An aging analysis of accounts payable based on the invoice date is set out below:

	2017 RMB'000	2016 RMB'000
Less than six months	**1,743,531**	1,557,749
Six months to one year	**312,627**	224,606
Above one year but less than two years	**56,077**	69,264
Two years or above	**137,201**	125,623
	2,249,436	1,977,242

Accounts payable with balances denominated in currencies other than Renminbi are considered not significant. All these amounts are payable within one year.

26. NOTES PAYABLE

	Note	2017 RMB'000	2016 RMB'000
Notes payable		**2,763,936**	2,219,952
Notes payable to affiliated companies	33(g)	**16,650**	110,100
		2,780,586	2,330,052

27. OTHER CURRENT LIABILITIES

	Note	2017 RMB'000	2016 RMB'000
Customer advances		**76,537**	54,460
Other payables		**999,518**	750,519
Accrued expenses		**116,280**	120,638
Other taxes payable		**38,766**	69,272
Dividends payable		**198,755**	2,929
Provision for warranty		**25,627**	14,640
Deferred government grants		**4,880**	4,879
Deferred income		**147,518**	19,248
Amounts due to affiliated companies	33(h)	**447,398**	286,151
		2,055,279	1,322,736

28. BANK BORROWINGS

	2017 RMB'000	2016 RMB'000
Short-term bank borrowings:		
Secured bank borrowings	**575,000**	130,000
Unsecured bank borrowings	**2,234,900**	1,195,000
	2,809,900	1,325,000
Long-term bank borrowings:		
Secured bank borrowings	**80,000**	–
	2,889,900	1,325,000

All short-term bank borrowings at 31st December, 2017 are interest-bearing at rates ranging from 3.92% to 6.45% per annum (2016: 4.35% to 5.22% per annum) and repayable from 8th January, 2018 to 29th November, 2018 (2016: 10th January, 2017 to 12th December, 2017).

As at 31st December, 2017, these bank borrowings are secured by the Group's buildings and tools and moulds, machinery and equipment with net book values of approximately RMB197.1 million (2016: RMB193.2 million) and guaranteed bank notes of RMB250 million (2016: nil).

28. BANK BORROWINGS (Cont'd)

All long-term bank borrowings as at 31st December, 2017 were interest-bearing at 5.23% per annum, repayable on 1st December, 2021 and secured by the Group's land lease prepayments with a net book value of RMB31.2 million (2016: nil) and buildings, plant and equipment with total net book value of RMB45.3 million (2016: nil).

29. DEFERRED TAX ASSET

As at 31st December, 2017, the Group had unrecognised deferred tax asset in respect of tax losses of RMB3,141 million (2016: RMB2,302 million) which will expire at various dates up to and including 2022 (2016: 2021).

In addition, as at 31st December, 2017, the Group also had not recognised deferred tax asset in respect of temporary differences of RMB754 million (2016: RMB786 million), which had mainly arisen from provision for impairment losses, deferred income and depreciation allowances, for the reason that it is uncertain as to their recoverability.

30. RETIREMENT PLAN AND EMPLOYEES' BENEFITS

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 13% to 20% (2016: 14% to 20%) of salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

The Group's Hong Kong employees are covered by the mandatory provident fund which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly mandatory contributions to the scheme at 5% (2016: 5%) of the employee's salary with the maximum amount of HK$1,500 by each of the Group and the employee per month. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the fund.

The Group's contributions for staff in Hong Kong and the PRC for the year ended 31st December, 2017 were approximately RMB71.1 million (2016: RMB67.3 million).

31. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	2017		2016	
	Number of shares '000	**Amount US$'000**	Number of shares '000	Amount US$'000
Authorised:				
Ordinary shares at par value of US$0.01 each				
As at 1st January and 31st December	**8,000,000**	**80,000**	8,000,000	80,000

	2017		2016	
	Number of shares '000	**Amount RMB'000**	Number of shares '000	Amount RMB'000
Issued and fully paid:				
Ordinary shares at par value of US$0.01 each				
As at 1st January	**5,039,869**	**396,809**	5,025,769	395,877
Issue of new shares by exercising share options	**5,400**	**367**	14,100	932
As at 31st December	**5,045,269**	**397,176**	5,039,869	396,809

During the year, a total of 5,400,000 ordinary shares (2016: 14,100,000 ordinary shares) with par value of US$0.01 each were issued as a result of exercise of share options at an aggregate consideration of approximately HK$2,365,000 or RMB2,063,000 (2016: HK$6,176,000 or RMB5,232,000) of which RMB2,638,000 (2016: RMB6,759,000) was credited to share premium account and RMB942,000 (2016: RMB2,459,000) was debited to the share option reserve.

At 31st December, 2017, the Company did not have any outstanding share option.

(b) Capital management

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

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages securely afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions, including adjustments to the amount of dividends paid to shareholders, issue of new shares and return of capital to shareholders, etc.

Management monitors the Group's capital structure on the basis of the debt-to-equity ratio. For this purpose, the Group defines debt as the sum of all short-term debts and long-term debts, including bank borrowings of RMB2,889.9 million (2016: RMB1,325.0 million) and notes payable for financing purpose of approximately RMB2,299.6 million (2016: RMB1,386.5 million). As at 31st December, 2017, the Group's debt-to-equity ratio was 19.4% (2016: 12.0%).

31. SHARE CAPITAL AND SHARE OPTIONS (Cont'd)

(c) Share options

On 11th November, 2008, the Company adopted a share option scheme (the "**Share Option Scheme**").

The terms of the Share Option Scheme allow for the Company's board of directors to grant options to the participants (including the Group's employees, non-executive directors, suppliers and customers, etc.) to subscribe for the Company's shares at a price which should not be lower than the higher of:

(i) the closing price of the shares on the SEHK as stated in SEHK's quotation sheet on the date of grant, which must be a trading date;

(ii) the average closing price of the shares on the SEHK as stated in SEHK's quotation sheets for the five trading days immediately preceding the date of grant; and

(iii) the nominal value of the shares.

In addition, the Share Option Scheme refines the scope of participants such that directors are provided with flexibility in granting options to persons who have contributed or may contribute to the development and growth of the Group and any entity in which the Group holds any equity interest (the "**Invested Entity**"). In addition, the Share Option Scheme clarifies the circumstances under which options granted to non-employees of the Group or Invested Entities will lapse.

Details of movements of share options granted under the Share Option Scheme during the year are as follows:

Exercise price	Exercise period	As at 1st January, 2017	Exercised during the year	**As at 31st December, 2017**
HK$0.438	22nd December, 2008 to 21st December, 2018	5,400,000	(5,400,000)	–

The weighted average remaining contractual life of the share options granted under the Share Option Scheme outstanding as at 31st December, 2016 was approximately 1.58 years.

As at 31st December, 2017, the Company had no outstanding share option under the Share Option Scheme.

32. RESERVES

(a) Retained earnings

The Group's retained earnings included an amount of approximately RMB1,622,529,000 (2016: RMB1,542,098,000) reserved by the subsidiaries in the PRC in accordance with the relevant PRC regulations. The PRC laws and regulations require companies registered in the PRC to allocate 10% of their profits after tax (determined under PRC GAAP) to their respective statutory reserves. No allocation to the statutory reserves is required after the balance of such reserve reaches 50% of the registered capital of the respective companies. The statutory surplus reserves shall only be used to make up losses of the company, to expand the company's production operations, or to increase the capital of the company.

(b) Capital reserve

In 2003, as approved by the board of directors of Xing Yuan Dong in accordance with the relevant laws and regulations, dedicated capital of Xing Yuan Dong amounting to RMB120 million was released for capitalisation of paid-up registered capital. Such release of dedicated capital is credited to the capital reserve.

32. RESERVES (Cont'd)

(c) Hedging reserve

It represents the Group's share of the hedging reserve in the equity of a joint venture. Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve.

33. CONNECTED AND RELATED PARTY TRANSACTIONS

Related parties include those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC Government.

In accordance with HKAS24 *Related Party Disclosures*, other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government ("**government-related entities**") are regarded as related parties of the Group.

For the related party transactions disclosure purpose, an affiliated company is a company in which one or more of the directors or substantial shareholders of the Company have direct or indirect beneficial interests in the company or are in a position to exercise significant influence over the company, including joint ventures and associates of the Group. Parties are also considered to be affiliated if they are subject to common control or common significant influence.

In addition to the related party information shown elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary and usual course of business and balances between the Group and its related parties, including other government-related entities.

During the year, the Group had significant transactions and balances with the following related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules.

Name and relationship

Name	Relationship
Huachen	Major shareholder of the Company
JinBei	A shareholder of RBJAC *(Note)*
Shanghai Shenhua	Common directorship of certain directors of the Company
Brilliance Holdings Limited ("**BHL**")	Common directorship of a director of the Company

Huachen is a PRC government-related entity, and is a connected person of the Company under the Listing Rules, with which the Group has material transactions.

Note: After the restructure as set out in Note 37, JinBei and its affiliated companies are no longer considered related parties of the Group as at 1st November, 2017, the date on which JinBei disposed of its entire equity interests in RBJAC.

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(a) The related party transactions in respect of items listed below also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. Particulars of the connected transactions and continuing connected transactions are detailed in the Report of the Directors.

	2017 **RMB'000**	2016 RMB'000
Sales of goods:		
– Huachen and its affiliated companies	**1,374,445**	1,079,895
Purchases of goods and/or services:		
– Affiliated companies of JinBei	**361,529**	378,449
– Huachen and its affiliated company	**828,452**	644,555
Sub-contracting charges to:		
– Huachen and its affiliated company	**34,408**	42,263

On 4th November, 2016, a subsidiary of the Group and JinBei entered into an agreement for the provision of cross guarantees in respect of each other's banking facilities in the maximum amount of RMB600 million (2016: RMB600 million) for the period from 1st January, 2017 to 31st December, 2017. At the time of entering into of the agreement, JinBei was a connected person/related party of the Company. As at 31st December, 2017, under this agreement, JinBei and its subsidiaries had outstanding bank loans and other banking facilities totalling RMB356 million (As at 31st December, 2016: RMB470 million) of which RMB206 million (As at 31st December, 2016: RMB200 million) and RMB150 million (As at 31st December, 2016: RMB270 million) were supported by the Group's bank deposits pledged to and corporate guarantee provided to the banks, respectively.

In addition to the above, during the year, the Group incurred operating lease rental on land and buildings of approximately RMB3,167,000 (2016: RMB3,342,000) to Huachen and sold goods to affiliated companies of JinBei of approximately RMB3,561,000 (2016: RMB677,000). At the time of entering into of the relevant agreements, these transactions constituted continuing connected transactions but were exempt from the requirements of reporting, annual review, announcement and independent shareholders' approval under Chapter 14A of the Listing Rules.

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(b) In addition to the above, the Group also had the following material related party transactions:

	2017	2016
	RMB'000	RMB'000
Sales of goods:		
– Shanghai Shenhua and its affiliated companies	**2,018,961**	3,014,463
– Joint ventures	**13,791**	5,771
– Affiliated companies of a shareholder of a joint venture	**837**	683
– Associates	**118,358**	135,466
Purchases of goods:		
– Joint ventures	**158,839**	195,453
– Associates	**375,537**	410,594
– An affiliated company of Shanghai Shenhua	**7,293**	6,805
Other transactions:		
Interest from Xinhua Investment Holdings Limited ("**Xinhua Investment**")	**8,924**	8,808
Operating lease rental on land and buildings charged by Shanghai Shenhua	**592**	593

The above sale and purchase transactions were carried out after negotiations between the Group and the affiliated companies in the ordinary course of business and on the basis of estimated market value as determined by the directors.

The Group no longer provided any corporate guarantee at 31st December, 2017 for revolving bank loans and bank guaranteed notes to Shanghai Shenhua (As at 31st December, 2016: RMB60 million).

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(c) As at 31st December, 2017, the Group's accounts receivable from affiliated companies consisted of the following:

	2017 **RMB'000**	2016 RMB'000
Accounts receivable from related parties:		
– Shanghai Shenhua and its affiliated companies	**355,929**	396,569
– Affiliated companies of JinBei	**–**	22,396
– Huachen and its affiliated companies	**315,583**	809,734
– Associates	**36,771**	24,856
– Joint ventures	**6,525**	4,442
– An affiliated company of a shareholder of a joint venture	**4**	552
	714,812	1,258,549
Less: provision for impairment losses	**(10,416)**	(21,388)
	704,396	1,237,161

The Group's credit policy is to offer credit to affiliated companies following financial assessment and established payment track record. These affiliated companies are generally required to settle 25% to 33% of the previous month's ending balances. The aging analysis of accounts receivable due from affiliated companies based on invoice date is as follows:

	2017 **RMB'000**	2016 RMB'000
Less than six months	**252,400**	694,984
Six months to one year	**71,258**	305,765
Above one year but less than two years	**370,462**	155,716
Two years or above	**20,692**	102,084
	714,812	1,258,549

The movements in provision for impairment losses on accounts receivable during the year, including both specific and collective loss components, are as follows:

	2017 **RMB'000**	2016 RMB'000
At 1st January	**21,388**	21,388
Write-back of previously recognised impairment losses	**(6,752)**	–
Uncollectible debts written off	**(4,220)**	–
At 31st December	**10,416**	21,388

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(c) (Cont'd)

The aging analysis of the Group's accounts receivable from affiliated companies that are past due but are neither individually nor collectively considered to be impaired are as follows:

	2017 **RMB'000**	2016 RMB'000
Six months to one year	**71,258**	305,765
Above one year but less than two years	**370,462**	155,716
Two years or above	**10,276**	80,696
	451,996	542,177

As at 31st December, 2017, the Group's accounts receivable from affiliated companies of RMB10,416,000 (2016: RMB21,388,000) was individually determined to be impaired. The individually impaired accounts receivable from affiliated companies related to affiliated companies which failed to settle the outstanding balances in full, and management assessed that the impaired amounts will not be recoverable. Consequently, specific provision for impairment losses of full amounts of the impaired receivables was recognised.

The remaining past due accounts receivable from affiliated companies which are not impaired relate to a number of other affiliated companies which have been repaying the Group but at a slow pace. As they are still settling the outstanding balances, management believes that no impairment allowance is necessary in respect of these balances.

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.

The Group does not hold any collateral over the accounts receivable from affiliated companies.

(d) As at 31st December, 2017, the Group's notes receivable from affiliated companies arising from trading activities consisted of the following:

	2017 **RMB'000**	2016 RMB'000
Notes receivable from related parties:		
– Shanghai Shenhua and its affiliated companies	**31,054**	169,613
– Associates	**103,003**	9,977
– Huachen and its affiliated company	**121,616**	67,804
	255,673	247,394

All notes receivable from affiliated companies are guaranteed by established banks in the PRC and have maturities of six months or less from 31st December, 2017 (2016: Same).

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(e) As at 31st December, 2017, the amounts due from affiliated companies consisted of:

	2017	2016
	RMB'000	RMB'000
Amounts due from related parties:		
– Joint ventures	**82,085**	90,743
– Associates	**87,433**	85,489
– Shanghai Shenhua and its affiliated companies	**14,050**	14,050
– Huachen and its affiliated companies	**40,761**	29,326
– Xinhua Investment	**341,560**	355,120
– JinBei and its affiliated companies	**–**	55,538
	565,889	630,266
Less: provision for impairment losses	**(90,173)**	(92,148)
	475,716	538,118

Amounts due from affiliated companies are interest-free, unsecured and repayable on demand except for the amount due from Xinhua Investment, a shareholder of Power Xinchen, which is secured by all assets of Xinhua Investment, and is interest-bearing at 3% per annum and repayable in August 2018.

The movement in provision for impairment losses on other receivables during the year, including both specific and collective loss components, is as follows:

	2017	2016
	RMB'000	RMB'000
At 1st January	**92,148**	92,148
Reclassified to impairment losses on other receivables *(note 24(a))*	**(1,975)**	–
At 31st December	**90,173**	92,148

As set out above, JinBei and its affiliated companies are no longer considered related parties of the Group as at 31st December, 2017. Accordingly, the amounts due from JinBei and its affiliated companies and the respective provision for impairment losses are reclassified to other receivables and the respective provision for impairment losses.

After the provision for amounts long overdue from affiliated companies, the unprovided balances are either from affiliated companies which had made repayments during the year or up to the date of these consolidated financial statements, or those that management has assessed to be financially sound and are capable of repaying. Accordingly, the management believes that no impairment allowance is necessary in respect of these balances. The Group does not hold any collateral over the advances to affiliated companies.

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(e) (Cont'd)

The aging analysis of the Group's amounts due from affiliated companies that are past due but are neither individually nor collectively considered to be impaired are as follows:

	2017	2016
	RMB'000	RMB'000
Six months to one year	**4,550**	4,606
Above one year but less than two years	**4,682**	4,457
Two years or above	**416,037**	436,252
	425,269	445,315

(f) As at 31st December, 2017, the Group's accounts payable to affiliated companies arising from trading activities consisted of the following:

	2017	2016
	RMB'000	RMB'000
Due to related parties:		
– Associates	**556,064**	500,948
– Joint ventures	**97,215**	141,026
– Huachen and its affiliated companies	**327,342**	371,244
– An affiliated company of BHL	**33,823**	33,825
– Shanghai Shenhua and its affiliated companies	**14,987**	9,189
– Affiliated companies of JinBei	**–**	290,646
– An affiliated company of a shareholder of a joint venture	**3**	3
	1,029,434	1,346,881

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(f) (Cont'd)

The accounts payable to affiliated companies are unsecured and non-interest bearing. Accounts payable to affiliated companies are generally settled on a monthly basis at 25% to 33% of the previous month's ending balance. The aging analysis of accounts payable to affiliated companies based on invoice date is as follows:

	2017 **RMB'000**	2016 RMB'000
Less than six months	**653,668**	912,867
Six months to one year	**279,516**	309,546
Above one year but less than two years	**29,707**	40,882
Two years or above	**66,543**	83,586
	1,029,434	1,346,881

(g) As at 31st December, 2017, the Group's notes payable to affiliated companies arising from trading activities consisted of the following:

	2017 **RMB'000**	2016 RMB'000
Notes payable to related parties:		
– Affiliated companies of JinBei	**–**	7,100
– A joint venture	**10,000**	69,000
– Associates	**6,650**	34,000
	16,650	110,100

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(h) As at 31st December, 2017, the amounts due to affiliated companies by the Group consisted of:

	2017 **RMB'000**	2016 RMB'000
Amounts due to related parties:		
– Associates	**10,269**	5,149
– A joint venture	**5,000**	–
– Huachen and its affiliated companies	**399,774**	236,724
– Affiliated companies of BHL	**28,066**	28,544
– Affiliated companies of Shanghai Shenhua	**4,289**	4,440
– JinBei and its affiliates	**–**	11,274
– Other affiliated company	**–**	20
	447,398	286,151

Amounts due to affiliated companies by the Group are unsecured, non-interest bearing and repayable on demand.

(i) Pursuant to a trademark license agreement, JinBei granted RBJAC the right to use the JinBei trademark on its products and marketing materials at nil consideration.

(j) Compensation benefits to key management personnel are as follows:

	2017 **RMB'000**	2016 RMB'000
Short-term employee benefits and post-employment benefits	**14,899**	15,641

Other than the related party transactions disclosed above, no other transaction, arrangement or contract of significance to which the Company was a party and in which a director of the Company or a connected entity of the director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(k) Transactions and balances with other state-owned enterprises in the PRC

The Group operates in an economic environment predominated by government-related entities. During the year, the Group had entered into various transactions with government-related entities including, but not limited to, sales of minibuses and automotive components, purchases of raw materials and automotive components, and utilities services.

The directors consider that transactions with other government-related entities are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and other government-related entities are ultimately controlled or owned by the PRC Government. The Group has established pricing policies for its products and services, and such pricing policies do not depend on whether or not the customers are government related entities. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure except for the transactions with government-related entities as disclosed above and majority parts of bank balances, short-term and pledged short-term deposits with and bank borrowings from state-owned financial institutions. The directors are of the opinion that such transactions were conducted in the ordinary course of business and in accordance with normal commercial terms.

34. CASH USED IN OPERATIONS AND RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

(a) Cash used in operations:

	2017	2016
	RMB'000	RMB'000
Profit before income tax expense	**3,899,766**	3,424,537
Share of results of:		
– Joint ventures	**(5,233,312)**	(3,993,396)
– Associates	**(216,979)**	(252,563)
Interest income	**(196,116)**	(97,093)
Interest expense	**137,871**	133,135
Write-back of provision for inventories sold	**(42,012)**	(30,935)
Depreciation of property, plant and equipment	**148,826**	131,567
Amortisation of intangible assets	**127,051**	136,020
Amortisation of land lease prepayments	**2,058**	2,037
Impairment loss on property, plant and equipment	**9,823**	–
Impairment loss on intangible assets	**700,000**	–
Loss on disposal of property, plant and equipment	**2,653**	5,549
Deferred income from government grants	**(29,281)**	(47,523)
Write-back of provision for impairment losses	**(7,408)**	(8,457)
Provision for inventories	**58,941**	13,484
Impairment losses on:		
– Accounts receivable	**893**	–
– Loans receivable	**28,495**	7,058
– Other receivables	**19,379**	4,587
Operating loss before working capital change	**(589,352)**	(571,993)
Increase in cash at central bank	**(58,042)**	(3,996)
Decrease in inventories	**48,016**	121,833
Decrease (Increase) in accounts receivable	**570,746**	(135,303)
Increase in loans receivable	**(2,483,632)**	(735,660)
(Increase) Decrease in notes receivable	**(67,487)**	16,178
(Increase) Decrease in other current assets	**(102,781)**	46,183
(Decrease) Increase in accounts payable	**(45,253)**	285,540
Decrease in notes payable	**(462,569)**	(256,766)
Increase in other current liabilities	**356,627**	317,071
Cash used in operations	**(2,833,727)**	(916,913)

34. CASH USED IN OPERATIONS AND RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Cont'd)

(b) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities for the year.

	Notes payable for financing purpose RMB'000	Dividend payable RMB'000	Deferred government grant RMB'000	Bank borrowings RMB'000	Total RMB'000
At 1st January, 2017	1,386,464	2,929	126,708	1,325,000	2,841,101
Changes from financing cash flows:					
Cash received from financing from bank	2,299,567	–	–	3,090,900	5,390,467
Repayments to banks	(1,386,464)	–	–	(1,526,000)	(2,912,464)
Payment	–	(277,155)	–	–	(277,155)
Government grant received	–	–	18,402	–	18,402
Changes from non-cash movements					
Dividend declared	–	472,981	–	–	472,981
Deferred income recognised	–	–	(29,281)	–	(29,281)
At 31st December, 2017	2,299,567	198,755	115,829	2,889,900	5,504,051

35. COMMITMENTS

(a) Capital commitments

	2017 RMB'000	2016 RMB'000
Contracted but not provided for:		
– Construction projects	20,264	69,037
– Acquisition of plant and machinery	279,351	289,511
– Others	10,798	8,638
	310,413	367,186
Authorised but not contracted for:		
– Construction projects and acquisition of plant and machinery	101,892	107,544

(b) Operating lease commitments

As at 31st December, 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leased properties as follows:

	2017 RMB'000	2016 RMB'000
Within one year	22,805	22,459
In the second to fifth years inclusive	35,439	30,123
Over five years	135	8,879
	58,379	61,461

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 RMB'000	2016 RMB'000
Non-current assets		
Property, plant and equipment	**593**	714
Interests in subsidiaries	**3,340,818**	4,481,865
Interests in associates	**141,183**	141,183
Available-for-sale financial assets	**20,361**	29,330
Total non-current assets	**3,502,955**	4,653,092
Current assets		
Cash and cash equivalents	**49,066**	61,939
Other current assets	**430,530**	444,288
Total current assets	**479,596**	506,227
Current liabilities		
Dividend payable	**198,755**	2,929
Other current liabilities	**15,617**	7,288
Total current liabilities	**214,372**	10,217
Net current assets	**265,224**	496,010
NET ASSETS	**3,768,179**	5,149,102
Capital and reserves		
Share capital	**397,176**	396,809
Reserves *(Note)*	**3,371,003**	4,752,293
TOTAL EQUITY	**3,768,179**	5,149,102

Wu Xiao An
(Also known as Ng Siu On)
Director

Qi Yumin
Director

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Cont'd)

Note: The movements of the Company's reserves are as follows:

	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Share option reserve RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1st January, 2016	2,466,685	41,716	39,179	3,401	2,165,746	4,716,727
Issue of shares by exercise of share options	6,759	–	–	(2,459)	–	4,300
Dividends	–	–	–	–	(475,104)	(475,104)
Profit and total comprehensive (expense) income for the year	–	(23,881)	–	–	530,251	506,370
As at 31st December, 2016	2,473,444	17,835	39,179	942	2,220,893	4,752,293

	Share premium RMB'000	**Investment revaluation reserve RMB'000**	**Cumulative translation adjustments reserve RMB'000**	**Share option reserve RMB'000**	**Retained earnings RMB'000**	**Total RMB'000**
As at 1st January, 2017	**2,473,444**	**17,835**	**39,179**	**942**	**2,220,893**	**4,752,293**
Issue of shares by exercise of share options	**2,638**	**–**	**–**	**(942)**	**–**	**1,696**
Dividends	**–**	**–**	**–**	**–**	**(472,981)**	**(472,981)**
Loss and total comprehensive expense for the year	**–**	**(8,969)**	**–**	**–**	**(901,036)**	**(910,005)**
As at 31st December, 2017	**2,476,082**	**8,866**	**39,179**	**–**	**846,876**	**3,371,003**

The directors consider that the Company had approximately RMB886.1 million (2016: RMB2,260.1 million) available for distribution to shareholders.

37. INTERESTS IN SUBSIDIARIES

Details of the Company's subsidiaries as at 31st December, 2017 and 2016 were as follows:

Name of company	Place of establishment/ incorporation	Registered capital/issued and fully paid capital	Legal structure	Percentage of effective equity interest/voting right attributable to the Company at 31st December, 2016 and 2017		Principal activities *(Note a)*
				Directly	*Indirectly*	
RBJAC (formerly Shenyang Automotive) *(Note b)*	Shenyang, the PRC	US$1,186,492,000	Equity joint venture	2017: – (2016: 51%)	2017: 51% (2016: 9.9%)	Manufacture, assembly and sale of automobiles and automotive components
Ningbo Yuming Machinery Industrial Co., Ltd.	Ningbo, the PRC	US$22,500,000	Wholly foreign owned enterprise	–	100%	Manufacture and sale of automotive components
Xing Yuan Dong	Shenyang, the PRC	US$150,000,000	Wholly foreign owned enterprise	100%	–	Manufacture and trading of automotive components
Ningbo Brilliance Ruixing Auto Components Co., Ltd.	Ningbo, the PRC	US$5,000,000	Wholly foreign owned enterprise	100%	–	Manufacture and trading of automotive components
Mianyang Ruian	Mianyang, the PRC	US$22,910,000	Wholly foreign owned enterprise	100%	–	Manufacture and trading of automotive components
Shenyang Brilliance Dongxing Automotive Component Co., Ltd.	Shenyang, the PRC	RMB222,000,000	Wholly foreign owned enterprise	–	100%	Manufacture and trading of automotive components and remodeling minibuses and sedans
Shenyang Jindong Development Co., Ltd.	Shenyang, the PRC	RMB10,000,000	Equity joint venture	–	2017: 100% (2016: 80.45%)	Trading of automotive components
Shenyang Jianhua	Shenyang, the PRC	RMB155,032,500	Equity joint venture	–	2017: 100% (2016: 68.72%)	Investment holding
China Brilliance Automotive Components Group Limited	Bermuda	US$12,000	Company with limited liabilities	100%	–	Investment holding
Brilliance Investment Holdings Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	–	Investment holding
Beston Asia Investment Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	–	Investment holding

37. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of company	Place of establishment/ incorporation	Registered capital/issued and fully paid capital	Legal structure	Percentage of effective equity interest/voting right attributable to the Company at 31st December, 2016 and 2017		Principal activities *(Note a)*
				Directly	*Indirectly*	
Pure Shine Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	–	Investment holding
Key Choices Group Limited	British Virgin Islands	US$50,000	Company with limited liabilities	100%	–	Investment holding
Brilliance China Finance Limited	British Virgin Islands	US$50,000	Company with limited liabilities	100%	–	Investment holding
Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("**SJAI**")	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	–	100%	Investment holding
Shanghai Hidea Auto Design Co., Ltd.	Shanghai, the PRC	US$2,000,000	Equity joint venture	25%	2017: 75% (2016: 45.68%)	Design of automobiles
BBAFC	Shanghai, the PRC	RMB800,000,000	Equity joint venture	55%	–	Provision of auto financing service

Note a: Except for the subsidiaries incorporated in Bermuda and the British Virgin Islands, all other subsidiaries principally operate in the PRC.

Note b: During the year, SJAI acquired 39.1% equity interest in Shenyang Automotive (now known as RBJAC) for cash consideration of RMB1 from JinBei and its carrying amount of non-controlling interest acquired of was approximately RMB1,997,617,000. The difference between the carry amount of non-controlling interest and consideration was recognised as reserve in equity. Immediately after the acquisition and capital increase, the Group held 100% effective interest of RBJAC.

In December 2017, the Group disposed of its 49% interest in RBJAC to Renault SAS at cash consideration of RMB1 and its carrying amount of non-controlling interest disposed of was approximately RMB184,720,000. The difference between the carry amount of non-controlling interest and consideration was recognised as reserve in equity.

38. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 71 to 152 were approved and authorised for issue by the board of directors on 28th March, 2018.