Annual Report 2013


中國和諧汽車控股有限公司

# China Harmony Auto Holding Limited

HARMONY AUTO
和諧汽車

(Incorporated in the Cayman Islands with limited liability)

Stock code : 3836

# Contents



# Corporate Information

## Board of Directors

### Executive Directors

Mr. Feng Changge *(Chairman)*
Mr. Yu Feng
Mr. Fong Heung Sang, Addy (Dexter)
Mr. Yang Lei
Mr. Cui Ke
Ms. Liu Wei *(resigned with effect from January 29, 2014)*
Ms. Ma Lintao

### Non-executive Director

Mr. Wang Nengguang

### Independent Non-executive Directors

Mr. Xiao Changnian
Mr. Liu Zhangmin
Mr. Li Daomin
Mr. Xue Guoping

## Audit Committee

Mr. Xiao Changnian *(Chairman)*
Mr. Liu Zhangmin
Mr. Xue Guoping

## Remuneration Committee

Mr. Xue Guoping *(Chairman)*
Mr. Liu Zhangmin
Mr. Yang Lei

## Nomination Committee

Mr. Feng Changge *(Chairman)*
Mr. Li Daomin
Mr. Xue Guoping

## Company Secretary

Ms. Wong Wai Yee, Ella

## Authorized Representatives

Mr. Fong Heung Sang, Addy (Dexter)
Ms. Wong Wai Yee, Ella

## Auditors

Ernst & Young

## Principal Banks

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

## Registered Office

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

## Principal Place of Business and Headquarter in the PRC

15A, Building A, Shangwuneihuan Road
CBD Zhengdongxin District
Zhengzhou, Henan Province
PRC

## Principal Place of Business in Hong Kong

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

## Cayman Islands Share Registrar

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

## Hong Kong Share Registrar

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong
(with effect from March 31, 2014)
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong
(up to March 30, 2014)

## Compliance Adviser

REORIENT Financial Markets Limited
Suites 1102-03, Far East Finance Centre
16 Harcourt Road, Admiralty
Hong Kong

## Company's website

www.hexieauto.com

## Stock Code

3836

# Chairman's Statement

**Dear Shareholders,**

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

The Company made remarkable achievements in 2013. Our brand influence and sales network were further expanded; and our revenue, profit and other financial indicators experienced rapid growth. These were primarily attributable to our distinctive network expansion and development strategies which stress on the exclusive sales of luxury and ultra-luxury passenger vehicles, the sales of luxury passenger vehicles in the central-western regions to establish our dominant and leading position in certain such regions, the sales of ultra-luxury passenger vehicles in the first-tier cities and eastern economically developed coastal regions to establish our dominant and leading position in such regions, as well as the opening of outlets in the prime locations of the core cities. Upholding the principles of "Profit and Quality First" without being hooked on expansion, the Company strived to maximise the return to our shareholders.

## Rapid growth in our operating results

For the year ended December 31, 2013, China Harmony Auto realized revenue of RMB8,333 million, representing a year-on-year increase of 47.3%, of which our revenue from the sales of new passenger vehicles was approximately RMB7,610 million, up by 45.1%, and our revenue from after-sales services amounted to approximately RMB723 million, up by 75.3%. In 2013, the Company sold 15,948 new passenger vehicles, representing a year-on-year increase of 46.7%, which was much higher than the average growth rate of 13.9% in the industry.

## Continued expansion in our sales network

For the year ended December 31, 2013, the number of our luxury and ultra-luxury passenger vehicle outlets increased by 12 to 34, and the Company was authorized to open one Maserati outlet in Changzhou and one Ferrari/Maserati outlet in Shijiazhuang.

## Continued expansion in our brand portfolio

For the year ended December 31, 2013, the Company was authorized to open one Lincoln 4S outlet in Zhengzhou, and one Volvo 4S outlet in each of Shangqiu and Nanyang, bringing the number of brands of luxury and ultra-luxury passenger vehicles distributed by the Company from 10 previously to 12.

## Our future development

### Steady development strategy of 4S outlets for luxury and ultra-luxury passenger vehicles

The Company believes that with huge potential for growth, China's passenger vehicle market will maintain a substantial long-term steady growth in the future. In particular, with the steady progress in industrialization and urbanization and the growth in the per capita annual income of China's population, the demand for luxury goods, particularly luxury and ultra-luxury passenger vehicles will be further boosted. As one of the leading dealership group that deals exclusively in luxury and ultra-luxury passenger vehicles in China, the Company is committed to fully exert its leading role and maintain a steady expansion of its sales network. At the same time, the Company will also continue to develop its automobile after-sales service business.

## Aggressive development strategy of repair and maintenance services for luxury and ultra-luxury passenger vehicles

In the past decade, China's high-end automobile market maintained an annual average growth rate of 36%. In 2012, total sales of new high-end vehicles in China reached 1,250,000, making it the second largest high-end automobile market in the world, only behind the U.S. From a long-term perspective, with the continuous growth in the sales of new vehicles and the number of vehicles in use in China, the after-sales market will inevitably become the "golden niche" in the PRC automobile industry, which is highly lucrative and sustainable. To grasp this opportunity, the Company will open its comprehensive repair and maintenance after-sales service outlets for luxury passenger vehicles in the capital cities, economically developed regions and certain cities with high sales of luxury passenger vehicles which focuses on the repair and maintenance of luxury passenger vehicles and the repair of crashed vehicles. It will continue to uphold the operating principles of "low investment scale and short turnover", focus on function and strictly standardization, and adopt the operating mode in which the Company would deliver repair and maintenance services more efficiently with good quality and attractive price to expand our market share in after-sales services aggressively and offer services to more and more purchasers of luxury and ultra-luxury passenger vehicles. I believe that the project will become another profit growth driver of China Harmony Auto in the future, bringing lucrative return to the Company and its shareholders.

## Development of second-hand vehicle business

With the increase in the sales of new vehicles in China, the second-hand vehicle business will also inevitably become a new growth driver of the Company. The Company is currently making efforts to develop its second-hand vehicle business by establishing a second-hand vehicle trading center, and believes that the business will contribute higher profit margin to the Company.

## Diversified business development

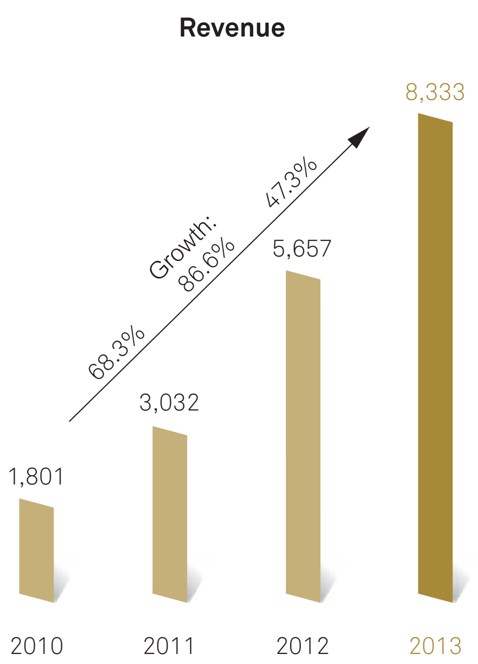
Further, as part of our stated strategy of seeking to diversify our revenue sources, and as a natural extension and progression of our financing and insurance consulting services, we intend to develop the provision of the automobile hire purchase financing services and engage in the dealing business of new energy vehicles.

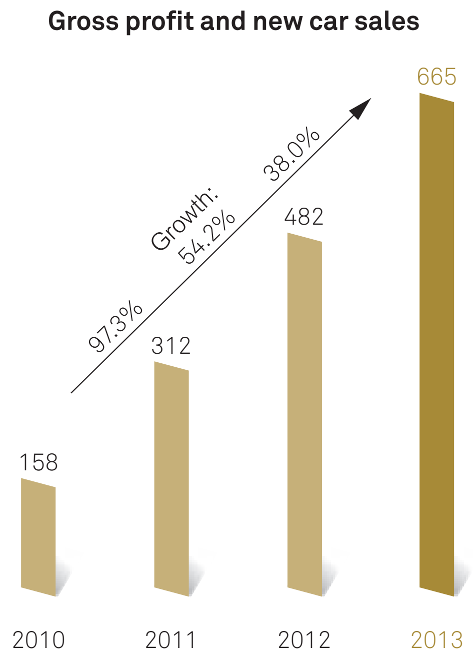
The Company delivered remarkable results in 2013, which was attributable to the continuing effort of all our staff, as well as the strong support of all our shareholders and business partners. On behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to all of them. With constant effort and desire for excellence, we will deliver fruitful results and remarkable return to our shareholders.

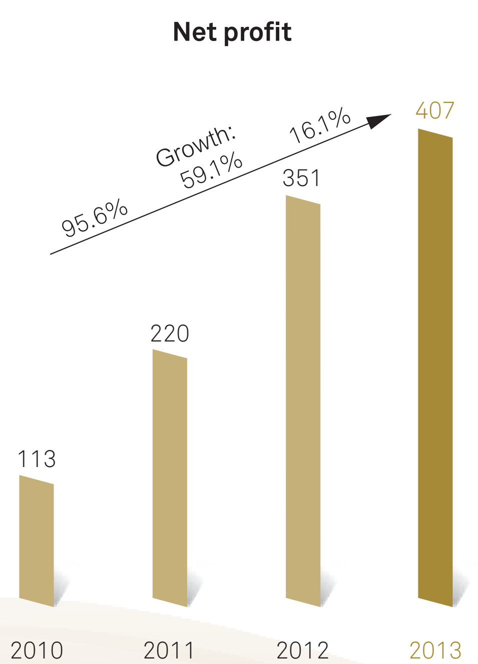
**Feng Changge**
*Chairman*

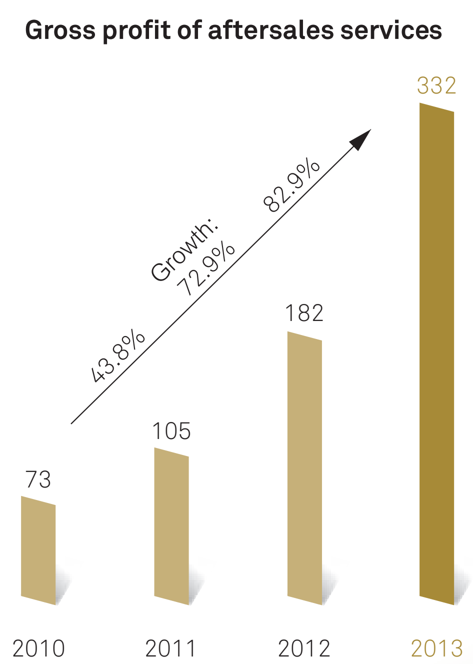
March 30, 2014

# Financial Highlights



## BUSINESS OVERVIEW

As a leading dealership group that deals exclusively in luxury and ultra-luxury passenger vehicles in China, the Company continued to focus on expanding our business and increasing our profit in 2013. We opened 12 outlets for operation in 2013, namely, Guangzhou Guangdebao 5S store, Xiamen Yuanda Lexus 4S store, Henan Yingzhiyi MINI 4S store, Zhenzhou Zhengdebao service center, Jiaozuo Yuanda Lexus 4S store, Luoyang MINI exhibition gallery, Jiaozuo BMW exhibition gallery, Beijing Haojunhang Maserati 3S store, Beijing Huajunhang Maserati exhibition gallery, Wuhan Handebao 4S store, Xinxiang Hedebao 4S store and Luohe Luodebao 4S store, bringing the total number of outlets we operated to 34 as of December 31, 2013. As of the date of this annual report, Xi'an Rolls-Royce Service Centre, a newly opened outlet of the Company, commenced its operation.

Despite recent uncertainties affecting the passenger vehicle market in China, including a general slow-down in the global economy, the Diaoyu Island dispute between Japan and China, deteriorating European debt crisis and the reported possible purchase tax on ultra-luxury passenger vehicles, the passenger vehicle market in China showed rapid growth, mainly driven by vigorous demand for luxuries as domestic income per capita continued to increase. In line with the growth of passenger vehicle market, we continued to experience increasing demand for luxury and ultra-luxury passenger vehicles in China in 2013. Our sales volume of new passenger vehicles in 2013 was 15,948, representing a 46.7% increase from 10,872 in 2012. In particular, our sales volume for BMW passenger vehicles increased by 44.7% from 9,678 in 2012 to 14,008 in 2013. Although we opened 2 new Lexus 4S stores in 2013, our sales volume for Lexus passenger vehicles only increased slightly by 15.2% from 1,120 in 2012 to 1,290 in 2013, primarily due to the continued negative impact of the Diaoyu Island dispute. The average selling price per passenger vehicle decreased from RMB482,000 in 2012 to RMB477,000 in 2013, as a result of the continued introduction of various mid to lower range models of luxury brands by certain automobile manufacturers.

Due to the general increase in market demand and the expansion of our sales network, our revenue for sales of new passenger vehicles increased by 45.1% from RMB5,244.4 million in 2012 to RMB7,609.8 million in 2013. Our gross profit margin for sales of new passenger vehicles was 8.7% in 2013, slightly decreased from 9.2% in 2012 primarily due to the introduction of various mid to lower range models of luxury brands by certain automobile manufacturers.

After-sales services have become one of the most important drivers of our operation and our profit growth. We also benefited from our exclusive focus on luxury and ultra-luxury passenger vehicles, the owners of which usually prefer high service quality to competitive pricing. Due to the higher gross profit margin and less competition of after-sales services as compared to sales of passenger vehicles, and in consideration of factors such as the large investment amount and long return period of 4S stores, the Company shifted its strategic focus in 2013 from rapid expansion in new 4S stores to the promotion and enhancement of after-sales services.

As the sales of luxury and ultra-luxury passenger vehicles in China continued to increase, the demand for after-sales services also ramped up accordingly. The Company will focus on the development of comprehensive after-sales services for luxury vehicles, and provide repair services for all luxury passenger vehicles at the 4S/5S stores out-of-warranty through the establishment of comprehensive after-sales service centers. As of December 31, 2013, we have finished construction of 10 comprehensive after-sales service centers, namely Xinxiang Dashouhou, Zhengzhou Dashouhou, Xi'an Dashouhou, Shanghai Dashouhou, Luoyang Dashouhou, Anyang Dashouhou, Beijing Dashouhou, Luohe Dashouhou, Shangqiu Dashouhou and Guangzhou Dashouhou. Among them, five comprehensive after-sales service centers had duly commenced operation as of December 31, 2013, namely Xinxiang Dashouhou, Zhengzhou Dashouhou, Xi'an Dashouhou, Shanghai Dashouhou and Luoyang Dashouhou. The other five comprehensive after-sales service centers were in the trial operation phase. As of the date of this annual report, we started trial operation for five more comprehensive after-sales service centers, namely Zhengzhou Dashouhou No. 2, Puyang Dashouhou, Jiaozuo Dashouhou, Changyuan Dashouhou and Hebi Dashouhou. The number of comprehensive after-sales service centers is expected to reach 40 to 50 as of December 31, 2014.

Due to our strategic focus on after-sales services, as well as the development of our outlet network, we achieved an 82.9% increase in gross profit generated from after-sales services in 2013 as compared to 2012. Gross profit margin for after-sales services also increased from 44.0% in 2012 to 45.9% in 2013.

As part of our stated strategy of seeking to diversify our revenue sources, and as a natural extension and progression of our financing and insurance consulting services, we intended to develop the provision of hire purchase financing of luxury and ultra-luxury passenger vehicles in China. We intend to start the services on a trial basis in our outlets in Henan Province.

## FINANCIAL OVERVIEW

### Revenue

Revenue in 2013 was RMB8,332.7 million, a 47.3% increase from RMB5,656.7 million in 2012. This increase was primarily attributable to an increase in revenues from both sales of new passenger vehicles and after-sales services.

Revenue from sales of new passenger vehicles increased by 45.1% from RMB5,244.4 million in 2012 to RMB7,609.8 million in 2013, which was primarily attributable to an increase in sales volumes, as a result of the continuing increase in demand for luxury and ultra-luxury passenger vehicles in China and the establishment of new outlets by the Company.

Revenue from after-sales services increased by 75.3% from RMB412.3 million in 2012 to RMB722.9 million in 2013, primarily attributable to the increased after-sale services generated from our growing customer base. Revenue from after-sales services accounted for 8.7% of the total revenue in 2013, as compared to 7.3% in 2012, primarily as a result of our efforts to promote after-sales services which have a higher profit margin than sales of new passenger vehicles, and our focus on developing after-sales operations.

### Cost of sales and services provided

Our cost of sales and services provided increased by 46.9% from RMB4,993.3 million in 2012 to RMB7,335.6 million in 2013, largely in line with the increase of our revenue. Cost of sales attributable to sales of new passenger vehicles increased by 45.8% from RMB4,762.6 million in 2012 to RMB6,944.8 million in 2013. Cost of sales attributable to after-sales services increased by 69.4% from RMB230.7 million in 2012 to RMB390.8 million in 2013.

### Gross profit and gross profit margin

As a result of foregoing, our gross profit increased by 50.3% from RMB663.4 million in 2012 to RMB997.1 million in 2013. Our gross profit margin was 12.0% in 2013 as compared to 11.7% in 2012.

Gross profit from sales of new passenger vehicles increased by 38.0% from RMB481.9 million in 2012 to RMB665.0 million in 2013. Our gross profit margin was 8.7% in 2013, a 0.5% decrease from 9.2% in 2012, primarily attributable to the sales promotion in outlets through an appropriate price reduction to occupy more market share. Since gross profit margins for sales of luxury and ultra-luxury passenger vehicles are typically higher than those of mid- to high-end passenger vehicles, and our dominant market position in Henan Province provided us enhanced pricing power in new passenger vehicle sales, our gross profit margins for sales of new passenger vehicles are generally higher and less affected by brand mix compared with dealerships that have a mixed portfolio.

Gross profit from after-sales services increased by 82.9% from RMB181.6 million in 2012 to RMB332.1 million in 2013, primarily attributable to our continued strategic focus on improving our after-sales services. Our gross profit margin was 45.9% in 2013, as compared to 44.0% in 2012, and the increase was primarily attributable to the increase in after-sales rates we charged.

### Other income and net gain (excluding interest income from the controlling shareholder)

Other income and net gain (excluding interest income from the controlling shareholder, Mr. Changge Feng (the "**Controlling Shareholder**")) increased by 167% from RMB88.9 million in 2012 to RMB237.1 million in 2013, and the increase was primarily due to:

- a 164% increase in commission income from RMB61.1 million in 2012 to RMB161.6 million in 2013, primarily attributable to (i) the increase in sales volume of new passenger vehicles; (ii) the increasing number of purchases of new passenger vehicles through financing services provided by manufacturers as compared to with cash; and (iii) the increasing number of customers who used the insurance we referred in connection with purchases of new passenger vehicles; and

- a 357% increase in bank interest income from RMB8.4 million in 2012 to RMB38.4 million in 2013, primarily attributable to the increase of our bank deposit, including the proceeds from the global offering.

### Interest income from the Controlling Shareholder

Interest income from the Controlling Shareholder decreased by 55.3% from RMB147.7 million in 2012 to RMB66.1 million in 2013, primarily because the loan we granted to the Controlling Shareholder which bore an annual interest rate of 15% was repaid in full as of June 30, 2013.

### Profit for the year

As a result of the foregoing, our profit in 2013 was RMB407.1 million, a 16.1% increase from RMB350.7 million in 2012. Our adjusted profit excluding interest income from the Controlling Shareholder and the related tax impact in 2013 would be RMB357.6 million, representing a 49.1% increase from RMB239.9 million in 2012. Included in the net profit was a pre-tax non-cash charge of RMB23.8 million in respect of equity-settled share award.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash flow

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

Our net cash generated from operating activities was RMB260.6 million and RMB91.0 million in 2013 and 2012, respectively. Net cash used in investing activities was RMB1,450.6 million and RMB1,202.1 million in 2013 and 2012, respectively. Net cash generated from financing activities was RMB1,629.9 million and RMB1,274.4 million in 2013 and 2012, respectively.

Taking into account our existing cash and cash equivalents, anticipated cash flow from our operating activities, available bank loans and other borrowings and the net proceeds from the initial public offering, the board believes that our liquidity needs will be satisfied.

### Net current assets

As of December 31, 2013, we had net current assets of RMB429.7 million, as compared to net current liabilities of RMB315.8 million as of December 31, 2012.

### Capital expenditure

Our capital expenditure, which was primarily in respect of the purchase of items of property, plant and equipment in connection of establishment of new outlets, was RMB693.4 million during the year ended December 31, 2013.

### Inventory

Our inventories primarily consisted of new passenger vehicles, spare parts and automobile accessories. Each of our outlets individually manages its orders for new passenger vehicles and after-sales products, but a monthly report is submitted by each outlet to our headquarters for review.

Our inventories increased by 114.9% from RMB710.6 million as of December 31, 2012 to RMB1,526.8 million as of December 31, 2013, primarily due to an increase in our inventory of new passenger vehicles by 119.7% from RMB655.8 million as of December 31, 2012 to RMB1,441.1 million as of December 31, 2013. The increase in our inventories as of December 31, 2013 was due to the increase in demand and the addition of 12 dealership outlets and five after-sales outlets which commenced operation in 2013.

Our average inventory turnover days in 2013 were 55 days, which increased from 38 days in 2012, as we build up our inventories for the newly-opened outlets.

## Bank loans and other borrowings

As of December 31, 2013, we had bank loans and other borrowings in the aggregate amount of RMB2,720.3 million, as compared to RMB2,067.8 million as of December 31, 2012. The table below sets forth breakdowns of our bank loans and other borrowings as of the indicated dates:

| | **December 31, 2013 RMB'000** | December 31, 2012 RMB'000 |
|---|---|---|
| **Bank loans repayable:** | | |
| Within one year or on demand | **1,951,447** | 1,283,000 |
| In the second year | **15,360** | 60,000 |
| In the third to fifth years | **32,880** | – |
| | **1,999,687** | 1,343,000 |
| **Other borrowings repayable:** | | |
| Within one year or on demand | **720,598** | 494,774 |
| In the second year | **–** | 230,000 |
| | **720,598** | 724,774 |
| Total | **2,720,285** | 2,067,774 |

Our gearing ratio, which is calculated by net debt (total debt minus cash and cash equivalents) divided by the total equity attributable to owners of the parent plus net debt, was 57.9% as of December 31, 2013.

As of December 31, 2013, certain of our bank loans and other borrowings were secured by mortgages or pledges over our assets. Our assets subject to these mortgages or pledges as of December 31, 2013 consisted of (i) inventories in the amount of RMB432.0 million; (ii) property, plant and equipment in the amount of RMB35.1 million; and (iii) land use rights in the amount of RMB13.1 million. In addition, certain of our bank loans and other borrowings were guaranteed by the Controlling Shareholder or affiliates of the Controlling Shareholder.

## Contingent liabilities

As of December 31, 2013, we did not have any material contingent liabilities or guarantees.

### Interest rate risk and foreign exchange risk

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

Substantially all of our revenue, cost of revenue and expenses are denominated in Renminbi. We also use Renminbi as our reporting currency. We do not believe our operations are currently subject to any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk.

### Employees and remuneration policies

As of December 31, 2013, the Group had a total of 2,584 employees (December 31, 2012: 1,428 employees). Relevant staff cost in 2013 was approximately RMB172.6 million (including employee share incentive of RMB23.8 million), while our staff cost was approximately RMB82.5 million in 2012. Pursuant to the restricted share unit scheme ("**RSU Scheme**") adopted by the Company in May 2013 and amended by the Board with the consent from each RSU Scheme participant in August 2013, there were a total of 19,110,898 share underlying the RSU Scheme outstanding and granted to several directors, senior management members and employees of the Group as at December 31, 2013, five of which are Directors. No RSU awards have been vested to any RSU Scheme participant for the year ended December 31, 2013. Please refer to the paragraph entitled "Restricted Share Unit Scheme" under the section headed "Directors' Report" in this annual report, for further details of the RSU Scheme. The Group will regularly review its remuneration policy and the benefits to its employees with reference to market practice and the performance of individual employees.


MASERATI

# HUGE POTENTIAL GROWTH

We will continue to enhance our strength in operations of premium branded automobile business, consolidate our leading position in outstanding brand automobile dealershop market in China.

# Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended December 31, 2013.

## CORPORATE GOVERNANCE PRACTICES

The Board has committed to achieving high corporate governance standards.

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

For the period commencing from the Listing Date through to December 31, 2013, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

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

## MODEL CODE FOR SECURITIES TRANSACTIONS

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

All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the period commencing from the Listing Date to December 31, 2013.

## BOARD OF DIRECTORS

The Board of the Company comprises the following directors:

### Executive Directors:

Mr. FENG Changge *(Chairman)*
Mr. YU Feng *(Chief Executive Officer)*
Mr. FONG Heung Sang, Addy (Dexter) *(Chief Financial Officer)*
Mr. YANG Lei *(Chief Operating Officer and Vice-president)*
Mr. CUI Ke *(Vice-president)*
Ms. LIU Wei *(Vice-president) (resigned with effect from January 29, 2014)*
Ms. MA Lintao

### Non-executive Director:

Mr. WANG Nengguang

### Independent Non-executive Directors:

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

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 26 to 30 of this annual report. The relationships between the members of the Board are also disclosed under that section.

### Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. FENG Changge and Mr. YU Feng respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

### Independent Non-executive Directors

During the period from the Listing Date to December 31, 2013, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

### Directors' Re-election

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

The executive Directors, Mr. FENG Chengge, Mr. YU Feng, Mr. YANG Lei and Mr. CUI Ke has each entered into a service agreement with the Company for a term of three years commencing from September 24, 2012 while Mr. FONG Heung Sang, Addy (Dexter) and Ms. MA Lintao have entered into a service agreement with the Company for a term of three years commencing from November 6, 2012 and January 31, 2013 respectively.

The non-executive Director, Mr. WANG Nengguang, has signed an appointment letter with the Company for a term of three years commencing from September 24, 2012.

Each of the independent non-executive Directors, Mr. XIAO Changnian, Mr. LIU Zhangmin, Mr. LI Daomin and Mr. XUE Guoping, has signed an appointment letter with the Company for a term of three years commencing from March 18, 2013.

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

## Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

## Continuous Professional Development of Directors

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

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

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

Prior to the listing of the Company, the Company organized one training session, conducted by lawyers, for all Directors. Topics of the training included the following:

– Training on the Listing Rules

– Training on the compliance issue of companies listed in Hong Kong

– Training on the continuing obligations and statutory obligations for directors of listed companies

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

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

– Corporate strategic management/Corporate operational management

– Financial strategic management

– Investment strategies

– Research on audit development strategies

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

## BOARD COMMITTEES

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

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

### Audit Committee

The Company established the Audit Committee on May 20, 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and code provision C.3 of the CG Code.

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

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

The Company was only listed on the Stock Exchange in June 2013. The Audit Committee had held one meeting at which during the financial year ended December 31, 2013 the Audit Committee reviewed interim financial results and report in respect of the period ended June 30, 2013.

### Remuneration Committee

The Company established the Remuneration Committee on May 20, 2013 with written terms of reference in compliance with code provision B.1 of the CG Code.

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

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

The Remuneration Committee held a meeting during the year ended December 31, 2013. During the meeting, the Remuneration Committee reviewed and made recommendations in relation to the remuneration packages of the executive Directors and senior management.

## Nomination Committee

The Company established the Nomination Committee on May 20, 2013 with written terms of reference in compliance with code provision A.5 of the CG Code.

The Nomination Committee consists of three members, namely executive Director Mr. FENG Changge (chairman) and independent non-executive Directors Mr. LI Daomin and Mr. XUE Guoping.

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

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

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

The Company was only listed on the Stock Exchange in June 2013. The nomination committee did not hold any meeting during the year under review.

## Corporate Governance Functions

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

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

## Attendance Record of Directors and Board Committee Members

The attendance record of each Director at the Board meetings and Board committee meetings of the Company held during the year ended December 31, 2013, is set out in the table below:

| | Attendance/Number of Meetings | | |
|---|---|---|---|
| **Name of Director** | **Board** | **Audit Committee** | **Remuneration Committee** |
| Mr. FENG Changge | 4/5 | N/A | N/A |
| Mr. YU Feng | 2/5 | N/A | N/A |
| Mr. FONG Heung Sang, Addy (Dexter) | 4/5 | N/A | N/A |
| Mr. YANG Lei | 3/5 | N/A | 1/1 |
| Mr. CUI Ke | 2/5 | N/A | N/A |
| Ms. LIU Wei *(resigned with effect from January 29, 2014)* | 2/5 | N/A | N/A |
| Ms. MA Lintao | 3/5 | N/A | N/A |
| Mr. WANG Nengguang | 1/5 | N/A | N/A |
| Mr. XIAO Changnian | 3/5 | 1/1 | N/A |
| Mr. LIU Zhangmin | 2/5 | 1/1 | 1/1 |
| Mr. LI Daomin | 3/5 | N/A | N/A |
| Mr. XUE Guoping | 3/5 | 1/1 | 1/1 |

The Board convened five meetings during the financial year ended December 31, 2013 but only two meetings had the presence of the majority of Directors (CG Code A1.1 provides that at least four regular meetings should be held every year at approximately quarterly intervals and a majority of directors entitled is expected to be present). The Company was listed on the Stock Exchange in June 2013. The Company has made its best endeavours to comply with CG Code A1.1 during the remaining months of the first year of its new listing.

Pursuant to Article 56 of the Articles of Association of the Company, an annual general meeting of the Company shall be held in each year other than the year of the Company's adoption of the Articles of Association. As the Company's Articles of Association was adopted pursuant to written resolutions of sole shareholder passed on May 20, 2013 with effect from the Listing Date, no annual general meeting was held during the period from the Listing Date to December 31, 2013.

Apart from regular Board meetings, the Chairman also held meeting(s) with the non-executive Directors (including the independent non-executive Directors) without the presence of executive Directors during the period from the Listing Date to December 31, 2013.

## DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2013.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 39 to 40.

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

## AUDITORS' REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended December 31, 2013 is set out below:

| **Service Category** | **Fees Paid/Payable RMB'000** |
|---|---|
| Audit Services | 3,500 |
| Non-audit Services | – |
| | 3,500 |

## INTERNAL CONTROLS

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

## COMPANY SECRETARY

Ms. WONG Wai Yee, Ella of Tricor Services Limited, external service provider, has been engaged by the Company as its company secretary. She has satisfied the training requirement during the period from the Listing Date to December 31, 2013, under Rule 3.29 of the Listing Rules.

The primary contact person at the Company is Mr. FONG Heung Sang, Addy (Dexter), Chief Financial Officer of the Company.

## SHAREHOLDERS' RIGHTS

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

### Convening and putting forward proposals at Extraordinary General Meeting by Shareholders

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

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

### Putting Forward Enquiries to the Board

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

### Contact Details

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

| | |
|---|---|
| Name: | FONG Heung Sang, Addy (Dexter) |
| Address: | Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong |
| Fax: | (852) 2956 2192 |
| Email: | ir@hnhxjt.com |

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

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

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

The 2014 Annual General Meeting of the Company ("**AGM**") will be held on June 25, 2014. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

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

During the period from the Listing Date to December 31, 2013, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

# Directors and Senior Management

## Executive Directors

**FENG Changge (馮長革)**, aged 43, is an Executive Director and the Chairman of our Board of Directors. Mr. FENG was appointed as an executive Director of our Company on September 24, 2012 and is responsible for the overall strategic and business direction of our Group. He is the founder of our Group, and has been in the automobile industry since 2005 when he founded Zhongdebao, our wholly-owned subsidiary and the first BMW dealership outlet in Henan Province. Mr. FENG graduated with a bachelor's degree in economic law from Central South Institute of Law (中南政法學院) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) in 1992 and received a master's degree in law from the same institution in 2001. After graduation in 1992, Mr. FENG entered the judiciary in Henan Province, serving as assistant judge and judge of the Higher People's Court of Henan Province (河南省高級人民法院). In 2002, Mr. FENG left the judicial system and established a law firm, while at the same time starting various business enterprises. He became involved in real estate investment through his vehicle, Yuanda Investment, and was also involved in the auction and valuation businesses. He is also the controlling shareholder of Hexie Industrial Group, a privately owned group headquartered in Zhengzhou, Henan Province, China, with business interests focusing on branded and luxury lifestyle goods and services, including property development, golf courses and automobile sales. Over the past three years, Mr. FENG has not been a director of any other listed companies. Mr. FENG is the husband of Ms. MA Lintao and the uncle of Ms. FENG Guo.

**YU Feng (喻峰)**, aged 45, is the Chief Executive Officer of our Group and was appointed an executive Director of our Company on September 24, 2012. He oversees the day-to-day business and management of our Group. Mr. YU graduated from Central South Institute of Law (中南政法學院) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) with a bachelor's degree in law in 1992 and completed a postgraduate course in criminal law from China University of Political Science and Law (中國政法大學) in 2000. From 1992 to 2001, Mr. YU worked in the courtsin Luoshan county of Henan province (河南羅山縣法院). He then joined Yuanda Investment from June 2003 to July 2005. In July 2005, Mr. YU joined Henan Zhongdebao Automobile Sales & Service Co., Ltd (河南中德寶汽車銷售服務有限公司), our wholly owned subsidiary, where he was involved in obtaining the dealership rights to automobile brands such as, Land Rover, Lexus, Rolls-Royce and Aston Martin. Mr. YU was appointed as a director of Henan Jinshahu Golf Club Co., Ltd (河南金沙湖高爾夫俱樂部有限公司), a company which operates golf courses in Henan in September 2009. Over the past three years, Mr. YU has not been a director of any other listed companies.

**FONG Heung Sang, Addy (Dexter) (方香生)**, aged 54, is the Chief Financial Officer of our Group and was appointed an executive Director of our Company on November 6, 2012. Mr. FONG joined our Group in October 2012 and is responsible for the Group's audit, financial reporting and over all financial planning and budgeting. He obtained a Master of Business Administration from the University of Nevada, Reno in December 1989 and a master of accounting from the University of Illinois, Champaign in June 1993. He is a member of the American Institute of Certified Public Accountants and the State Board of Accountancy of Washington State. Mr. FONG has more than 20 years of audit/financial/capital market experience. Prior to joining our Group, he held various positions in a wide variety of companies in Hong Kong, US and China, including top accounting firms. Mr. FONG previously served as the following positions in the respective listed companies:

- the chief financial officer and a director of Apollo Solar Energy Inc. (OTCBB: ASOE), from February 2009 to March 2010, where he was in charge of the company's overall financial strategy;

- the chief financial officer and a director of China Electric Motor, Inc., a company listed on OTC (OTC: CELM), from June 2010 to May 2011 and January 2010 to May 2011 respectively, where he was closely involved in the company's initial public offering. He was also responsible for preparing the US regulatory filings (including the relevant management discussion and analysis sections of the company reports), handling investors' relation and dealing with external advisers;

- the independent director and chairman of the audit committee of Diguang International Development Co., Ltd. (OTC: DGNG), from August 2007;

- the independent director and chairman of the audit committee of Kandi Technologies Corp, a company listed on Nasdaq (stock code: KNDI), from July 2006 to June 2011; and

- the independent non-executive director and member of the audit committee, nomination committee and remuneration committee of Universal Technologies Holdings Ltd., a company listed on the Hong Kong Stock Exchange (stock code: 1026.HK) from July 2006 to June 2013.

Besides serving as the chief financial officer of a start-up private pharmaceutical company, Mr. FONG is also the independent director of the following company:

- China Housing and Land Development Inc., a company listed on Nasdaq (stock code: CHLN).

**YANG Lei (楊磊)**, aged 37, is the Chief Operating Officer and a Vice-president of our Group and was appointed an executive Director of our Company on September 24, 2012. Mr. YANG is responsible for overseeing and managing the Group's automobile business. Mr. YANG graduated in 2002 from Henan University, College of Foreign Languages (河南大學外語學院) majoring in English. Mr. YANG joined our Group in April 2005 in the sales department of our BMW business, during which he gained extensive sales and marketing experience in the automobile industry. Over the past three years, Mr. YANG has not been a director of any other listed companies.

**CUI Ke (崔軻)**, aged 34, is a Vice-president of our Group and general manager of our wholly owned subsidiary, Huadebao. He was appointed as an executive Director of our Company on September 24, 2012. Mr. CUI is responsible for overseeing the network development and operation supervision of BMW and Land Rover brands. Mr. CUI graduated in economics and business management from the Henan Institute of Finance and Economics (河南財經學院) (now known as Henan University of Economics and Law (河南財經政法大學)) in 2008. Mr. CUI joined our Group in July 2009 as the general manager of Yudebao. He was promoted to vice president of our Company in February 2011. He was appointed as the general manager of Huadebao in February 2011. Over the past three years, Mr. CUI has not been a director of any other listed companies.

**Ma Lintao (馬林濤)**, aged 45, is our executive Director where she is responsible for the Group's overall administrative matters and public relationships. Ms. MA graduated from Henan Institute of Finance and Economics (河南財經學院) (now known as Henan University of Economics and Law (河南財經政法大學) with a bachelor's degree in national economic planning and statistics in June 1992. From July 1992 to December 2003, Ms. MA worked in China Construction Bank Henan branch (中國建設銀行河南分行) in various positions such as director of the credit approval committee of the Zhengzhou branch office and vice-president of the Zhengzhou futures branch office, where she was responsible for matters such as credit assessment and approval and public and retail sales. Ms. MA joined our Group in September 2006 as the chairman of Yuanda Lexus, our wholly owned subsidiary. Over the past three years, Ms. MA has not been a director of any other listed companies. Ms. MA is the wife of Mr. FENG Changge.

## Non-Executive Director

**WANG Nengguang (王能光)**, aged 55, was appointed as our non-executive Director on September 24, 2012. Mr. WANG graduated from Beijing Agricultural and Industrial Cooperative Company Workers University (北京市農工商聯合總公司職工大學) in 1987 and obtained a master's degree in Economic Management from Party School of the Central Committee of C.P.C. (中共中央黨校) in 2001. He is also qualified as a certified public accountant in June 2004. Mr. WANG has more than 30 years of experience in management and corporate finance. In 1992, Mr. WANG joined the Lenovo Group Limited (聯想集團) (stock code:00992.HK), a company listed on the Hong Kong Stock Exchange. From 1994 to 2001, Mr. WANG served as the general manager of the finance department. Mr. WANG was involved in the 1997 merger of Lenovo Group Limited and Lenovo China. In 2001, Mr. WANG was also involved in a restructuring exercise in Lenovo Group Limited. In 2001, Mr. WANG left Lenovo Group Limited and co-founded Legend Capital Co., Ltd (君聯資本, previously known as 聯想投資有限公司), an investment company, where he is responsible for financing, exit strategies and the long term investments. Mr. WANG has been the director of Anhui USTC iFlytek Co., Ltd (安徽科大訊飛資訊科技股份有限公司) (stock code: 002230.SZ), a company listed on the Shenzhen Stock Exchange, since April 2007. He had also been the director of Sino Com Software Group Limited (中訊軟件集團股份有限公司) (stock code: 0299.HK), a company listed on the Hong Kong Stock Exchange, from April 2004 to May 2012 and Shanghai Luxin Evotech Packing Materials Science & Technology Co., Ltd (上海綠新包裝材料科技股份有限公司) (stock code: 002565.SZ), a company listed on the Shenzhen Stock Exchange, from August 2009 to August 2012.

## Independent Non-Executive Directors

**XIAO Changnian (肖長年)**, aged 64, was appointed as our independent non-executive Director on March 18, 2013. Mr. XIAO graduated with a bachelor's degree in industrial accounting from Hubei Institute of Finance and Economics (湖北財經學院) (now known as Zhongnan University of Economic sand Law (中南財經政法大學)) in 1982. Mr. XIAO has more than 30 years of experience in the accounting and auditing profession. After graduation, Mr. XIAO worked for the National Audit Office of the PRC in the department of public transport (審計署工交局) from August 1982 to July 1994 and served as the deputy bureau chief of the Audit Office of the National Sports Commission of the PRC (國家體委審計局) from July 1994 to September 1998. He went on to serve as the deputy bureau chief in various departments of the National Audit Office of the PRC, such as the Customs Audit Office (海關審計局), the Transportation Audit Office (交通運輸審計局) and the Second Economics Audit Office(經濟審計二局) from September 1998 to December 2003. Thereafter, Mr XIAO was appointed as auditing official (deputy bureau chief grade) of the Economics and Trade Office of National Audit Office of the PRC (審計署經貿司), where he served till December 2008. Mr. XIAO is the chairman of the board of supervisors of the Quantum Hi-Tech (China) Biological Co., Ltd (量子高科(中國)生物股份有限公司) (stock code: 300149.SZ), a company listed on the Shenzhen Stock Exchange since 4 August 2011, and the independent director of Zhejiang Qianjiang Motorcycle Co., Ltd (浙江錢江摩托股份有限公司), (stock code: 000913.SZ), a company also listed on the Shenzhen Stock Exchange, since April 2012.

**LIU Zhangmin (劉章民)**, aged 63, was appointed as our independent non-executive Director on March 18, 2013. Mr. LIU graduated with a college degree in industrial accounting from the Beijing Institute of Machinery Management (北京機械工業管理學院) (now known as the Beijing Information Science and Technology University (北京信息科技大學)) in 1986. He also qualified as a senior auditor in 1996, and as a senior accountant in 2006. Mr. LIU has over 40 years of experience in the automobile industry since he joined the Dongfeng Motor Corporation (東風汽車公司) in 1970. Mr. LIU started as a deputy head of factory in Dongfeng Motor Corporation in July 1982, and worked in procurement, finance and other departments in different positions of responsibility. Mr. LIU was appointed as vice president of Dongfeng Motor Corporation in July 1995 and chief accounting officer in April 2005. He was appointed as chairman of the board of directors of Dongfeng Motor Finance Co., Ltd. (東風汽車財務有限公司) in November 1997, Dongfeng Checheng Logistics Co., Ltd (東風車城物流股份有限公司) in February 2004 and Dongfeng Nissan Auto Finance Co., Ltd (東風日產汽車金融有限公司) in July 2007.

Mr. LIU served as the president and executive director of Dongfeng Motor Group Company Limited (stock code: 0489.HK), a company listed on the Hong Kong Stock Exchange, from December 2004 to June 2010.

Besides serving as a director of the China Shipping (Group) Company (中國海運(集團)總公司), Mr. LIU also holds the following positions in the respective listed companies:

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

- the independent director of China Communications Construction Co., Ltd (中國交通建設股份有限公司) (stock code: 1800.HK, 601800.SS), a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange; and

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

**LI Daomin (李道民)**, aged 71, was appointed as our independent non-executive Director on March 18, 2013. Mr. LI graduated from Hubei University (湖北大學) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) with an undergraduate degree in law majoring Politics & Law. He has more than 25 years of experience in civil and administrative law. From August 1987 to August 1993, Mr. LI served as a standing committee member and the deputy head of the Higher People's Court of Henan Province (河南省高級人民法院), and from August 1993 to February 1996, he served as deputy party secretary of the standing committee and executive deputy head of the Higher People's Court of Henan Province. He was then promoted to party secretary of the standing committee and head of the Higher People's Court of Henan Province where he served till January 2008. From December 2009 to date, Mr. LI has served as the chairman of the Henan Private Economy Research Association (河南省民營經濟研究會) and member of Advisory Committee of the Supreme People's Court (最高人民法院諮詢委員會). Mr. LI is currently an independent non-executive director and member of audit committee, remuneration committee and nomination committee of Rosan Resources Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 578.HK).

**XUE Guoping (薛國平)**, aged 63, was appointed as our independent non-executive Director on March 18, 2013. Mr. XUE graduated from Beijing University of Foreign Trade (北京對外貿易學院) (now known as University of International Business and Economics (對外經濟貿易大學)) in 1976. Mr. XUE began his career in the COFCO Group (中糧集團) and was appointed as deputy chief executive officer in 1994. He also served as the deputy general manager and general manager of COFCO Hong Kong (previously known as Top Glory International Holdings Limited (鵬利國際集團有限公司)) between 1994 and 2004. Mr. XUE continued to serve as the deputy chief executive officer of the COFCO Group until he retired in 2010. Mr. XUE was an executive director and later the chairman of the board of directors of China Foods Limited (中國食品有限公司) (stock code: 0506.HK), a company listed on the Hong Kong Stock Exchange and a division of the COFCO Group, from 1995 to 2007, and chairman of the board of directors of CPMC Holdings Limited (中糧包裝控股有限公司) (stock code: 0906.HK), a company listed on the Hong Kong Stock Exchange and a division of the COFCO Group, from 2008 to 2011.

## Senior Management

**FENG Guo (馮果)**, aged 31, is the financial controller of our Group and is responsible for the audit, and financial related matters at our subsidiary level. Ms. FENG graduated with a bachelor's degree in law from Zhengzhou University (鄭州大學) in 2007 and obtained a master degree in business management from Zhongnan University of Economics and Law (中南財經政法大學) in 2009. She joined our Group in March 2005 as a deputy general manager responsible for finance matters. She was involved in establishing our partnership with BMW China in Henan Province and setting up Zhongdebao. Ms. FENG was also tasked with the development of automobile brands such as BMW, Land Rover and Rolls-Royce. Over the past three years, Ms. FENG has not been a director of any listed companies. Ms. FENG is the niece of Mr. FENG Changge.

**YANG Shengjun (楊勝軍)**, aged 49, is the chief officer of human resources of our Group. Mr. YANG joined our Group in October 2012. Mr. YANG graduated from the Beijing Institute of Technology (北京理工大學) in July 1986 with a bachelor's degree in machinery manufacturing, and in March 1989 with a master's degree in machinery manufacturing. He also graduated as a research student from the Institute of Psychology, Chinese Academy of Sciences (中國科學院心理研究所) with a master's degree in applied psychology in July 2002. Mr. YANG has more than 10 years of experience in human resource planning and management. He joined Legends Holding (聯想控股集團) in March 1999 and served in various positions in his ten years with Legend Holdings and its affiliates, including as deputy general manager and subsidiary director of human resources. He then worked at Tianya Shequ Network Technology Co. Ltd. (天涯社區網絡科技股份有限公司) from June 2010 to October 2012 as director of human resource and deputy general manager of the Beijing branch office. Over the past three years, Mr. YANG has not been a director of any listed companies.

## Company Secretary

**WONG Wai Yee, Ella (黃慧兒)**, aged 38, was appointed as our company secretary on April 19, 2013. She is currently a senior manager of the corporate services division of Tricor Services Limited ("Tricor"). Prior to joining Tricor in 2004, Ms. WONG worked for Ernst & Young and Tengis Limited in Hong Kong as the supervisor of corporate secretarial services to many private companies and a number of public companies (including H share companies) listed on the Hong Kong Stock Exchange. Ms. WONG is currently the company secretary of Vedan International (Holdings) Limited (stock code: 2317.HK), a company listed on the Hong Kong Stock Exchange. Ms. WONG is a chartered secretary and an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. WONG received a Bachelor of Economics from the University of Hong Kong in 1997 and has also completed a Postgraduate Diploma in Corporate Administration at the City University of Hong Kong in 2000.

The Directors are pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended December 31, 2013.

## PRINCIPAL PLACE OF BUSINESS

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

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of the subsidiaries of the Company are set out in note 41 to the financial statements.

## SUBSIDIARIES

Please refer to note 41 to the financial statements.

## RESULTS AND DIVIDEND

The results of the Group for the year ended December 31, 2013 are set out in the consolidated financial statements.

The Board recommended the payment of a final dividend of HK8 cents per ordinary share for the year ended December 31, 2013, subject to the approval of such final dividend by the shareholders at the forthcoming AGM.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange in June 2013, after deduction of related issuance expenses, amounted to approximately RMB1,180.6 million. These proceeds were applied during the year ended December 31, 2013 in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

- approximately RMB350 million was used for capital expenditures purpose; and

- the remaining unutilised proceeds were deposited with licensed bank in Hong Kong and in the PRC.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 110 of this annual report. This summary does not form part of the audited financial statements.

## PLANT, PROPERTY AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 30 to the financial statements.

## DISTRIBUTABLE RESERVES

At December 31, 2013, the Company's reserves available for distribution, subject to the Cayman Companies Law and the articles of association of the Company, amounted to RMB1,194.2 million, of which RMB67.3 million has been proposed as a final dividend for the year.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32(iv) to the financial statements and in the consolidated statement of changes in equity, respectively.

## MAJOR SUPPLIERS AND CUSTOMERS

For the year ended December 31, 2013, the aggregate purchases from our top five suppliers and our largest supplier accounted for approximately 98.6% and 46.9% of our total purchases, respectively.

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year ended December 31, 2013, no major customer information is presented in accordance with *HKFRS 8 Operating Segments*.

As far as the directors are aware, neither the Directors, their associates, nor shareholders who own more than 5% of the Company's share capital as at December 31, 2013 had any interest in any of the five largest suppliers and customers disclosed above.

## DIRECTORS

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

### Executive Directors:

Mr. FENG Changge *(Chairman)*
Mr. YU Feng *(Chief Executive Officer)*
Mr. FONG Heung Sang, Addy (Dexter) *(Chief Financial Officer)*
Mr. YANG Lei *(Chief Operating Officer and Vice-president)*
Mr. CUI Ke *(Vice-president)*
Ms. LIU Wei *(Vice-president) (Resigned with effect from 29 January 2014)*
Ms. MA Lintao

### Non-executive Director:

Mr. WANG Nengguang

### Independent Non-Executive Directors:

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

In accordance with the Articles, Mr. YU Feng, Mr. YANG Lei, Mr. CUI Ke, Ms. MA Lintao, Mr. WANG Nengguang, Mr. XIAO Changnian, Mr. LIU Zhangmin, Mr. LI Daomin and Mr. XUE Guoping shall retire and being eligible, offer themselves for re-election at the AGM.

The Board proposed to re-appoint the directors standing for e-election at the forthcoming AGM of the Company.

## DIRECTORS' SERVICE CONTRACTS

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

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

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

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Except for the service contracts detailed above, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

## DIRECTORS' COMPETING INTERESTS

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

## MANAGEMENT CONTRACT

No contracts concerning the management and distribution of the whole or any substantial part of the business of the Company was entered into or existed during the year ended December 31, 2013.

## INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

## RESTRICTED SHARE UNIT SCHEME

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

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

On May 28, 2013, RSU Awards in respect of an aggregate of 19,110,898 new Shares, representing approximately 1.75% of the Shares in issue as at the date of this report, were granted pursuant to the RSU Scheme to several RSU Participants, 5 of which are Directors. During the period commencing from the date of grant of such RSU Awards to December 31, 2013, no RSU Award has been vested, nor has any of the RSU Awards lapsed or been cancelled.

Details of the RSU Awards granted pursuant to the RSU Scheme are set out below:

| Name | Number of Shares Underlying the RSU Awards Granted as at December 31, 2013 |
|---|---|
| Directors | |
| Mr. YU Feng | 2,600,994 |
| Mr. YANG Lei | 2,444,347 |
| Mr. FONG Heung Sang, Addy (Dexter) | 1,974,407 |
| Mr. CUI Ke | 1,817,760 |
| Ms. LIU Wei *(Note)* | 1,739,437 |
| Employees of the Group | 8,533,953 |
| Total | 19,110,898 |

*Note:* Ms. LIU Wei has resigned as a Director of the Company with effect from January 29, 2014. Having agreed between Ms. LIU and the Company, she could retain 10% of her original entitlement.

The RSU Awards granted to the RSU Participants on May 28, 2013 pursuant to the RSU Scheme originally had a vesting period of four years as follows: 10% on January 2, 2014, 30% on January 2, 2015, 30% on January 2, 2016 and 30% on January 2, 2017. Pursuant to a resolution passed by the Board on August 27, 2013 and as confirmed by each of the RSU Participants, the vesting period in respect of the RSU Awards granted is extended from four years to five years as follows: 10% on January 2, 2014, 10% on June 30, 2014, 20% on January 2, 2015, 20% on January 2, 2016, 20% on January 2, 2017 and 20% on January 2, 2018. Other than the adjustments in the number of Shares underlying the RSU Awards granted to certain RSU Participants as described in the previous paragraph and the duration of the vesting period, the terms of the RSU Scheme remain unchanged. Please refer to the prospectus of the Company dated May 31, 2013 for further details of the principal terms of the RSU Scheme.

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

As at December 31, 2013, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

| Name of Director | Name of Corporation | Capacity/ Nature of Interest | Number of Shares/ Underlying Shares(4) | Approximate % of Shareholding Interest |
|---|---|---|---|---|
| FENG Changge | Company | Interest of controlled corporation | 686,720,000 (L)(1) | 62.76% |
| MA Lintao | Company | Interest of spouse | 686,720,000 (L)(1) | 62.76% |
| YU Feng | Company | Beneficial owner | 2,600,994 (L)(2) | 0.24% |
| YANG Lei | Company | Beneficial owner | 2,444,347 (L)(2) | 0.22% |
| Fong Heung Sang, Addy (Dexter) | Company | Beneficial owner | 1,974,407 (L)(2) | 0.18% |
| CUI Ke | Company | Beneficial owner | 1,817,760 (L)(2) | 0.17% |
| LIU Wei | Company | Beneficial owner | 1,739,437 (L)(2)(3) | 0.16% |

*Notes:*

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

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

(3) Ms. LIU Wei has resigned as a Director of the Company with effect from January 29, 2014. Having agreed between Ms. LIU Wei and the Company, she could retain 10% of her original entitlement under the RSU Scheme.

(4) The letter "L" denotes the person's long position in such Shares.

Save as disclosed above, as at December 31, 2013, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at December 31, 2013, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

| Name | Capacity/ Nature of Interest | Number of Shares Directly or Indirectly Held[3] | Approximate % of Shareholding Interest |
|---|---|---|---|
| Eagle Seeker[1] | Beneficial owner | 686,720,000 (L) | 62.76% |
| LC Fund V, L.P. | Beneficial owner | 63,680,000 (L) | 5.82% |
| JPMorgan Chase & Co. | Beneficial owner | 6,383,000 (L) | |
| | Investment manager | 37,828,000 (L) | |
| | Custodian corporation/ approved lending agent | 17,899,000 (L) | |
| | | 62,110,000[2] | 5.78% |

*Notes:*

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

(2) JPMorgan Chase & Co. had, or was deemed to have, an interest in a total number of 62,110,000 Shares (including a lending pool of 17,899,000 Shares), of which (i) 6,383,000 Shares were beneficial interest held by J.P. Morgan Clearing Corp, a company wholly-owned by J.P. Morgan Securities LLC, the sole member of which is J.P. Morgan Broker-Dealer Holdings Inc.. J.P. Morgan Broker-Dealer Holdings Inc. is in turn wholly-owned by JPMorgan Chase & Co.; (ii) 37,828,000 Shares were interest held as an investment manager by J.P. Morgan Investment Management Inc., a company wholly-owned by JPMorgan Asset Management Holdings Inc., which is in turn wholly-owned by JPMorgan Chase & Co.; and (iii) 17,899,000 Shares were interest held by JPMorgan Chase Bank, N.A. as custodian corporation/approved lending agent. JPMorgan Chase Bank, N.A. is wholly-owned by JPMorgan Chase & Co.

As each of the above entities is ultimately controlled by JPMorgan Chase & Co., JPMorgan Chase & Co. was deemed to have a long position in such 62,110,000 Shares.

(3) The letter "L" denotes the person's long position in such Shares.

Save as disclosed above, as at December 31, 2013, no persons (other than the Directors or the chief executive of the Company) had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apartment from the RSU Awards, at no time during the reporting period was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

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

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at December 31, 2013 are set out in note 25 to the financial statements.

## EMOLUMENT POLICY

The emolument policy of the general staff of the Company is set up by the management of the Group on the basis of their merit, qualifications and competence.

The emoluments of the Directors and senior management of the Company are proposed by the remuneration committee of the Company to the Board, having regard to the Company's operating results, individual performance and comparable market statistics, subject to the final decision by the Board.

The remuneration of the Directors and chief executive are set out in note 8 to the financial statements.

Pursuant to the CG Code B.1.5, the remuneration of the members of the senior management by band for the year ended December 31, 2013 is set out below:

| **Remuneration bands** | **Number of persons** |
|---|---|
| Nil to HK$1,000,000 | 1 |
| HK$3,500,001 to HK$4,000,000 | 1 |
| | 2 |

## CORPORATE GOVERNANCE

For the period commencing from the Listing Date through to December 31, 2013, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the period from the Listing Date to December 31, 2013.

## SUFFICIENCY OF PUBLIC FLOAT

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

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended December 31, 2013, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## PRE-EMPTIVE RIGHTS

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

## DONATIONS

Donations made by the Group during the year ended December 31, 2013 amounting to RMB1,226,124 (2012: RMB150,662).

## AUDITORS

The consolidated financial statements have been audited by Ernst & Young who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM of the Company to be held in 2014. A resolution for the re-appointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming AGM of the Company.

By Order of the Board
**CHINA HARMONY AUTO HOLDING LIMITED**
**Feng Changge**
*Chairman and Executive Director*

March 30, 2014

Ernst & Young
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**To the shareholders of China Harmony Auto Holding Limited**
(Incorporated in the Cayman Islands as an exempted company with limited liability)

We have audited the consolidated financial statements of China Harmony Auto Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 41 to 109, which comprise the consolidated and company statements of financial position as at 31 December 2013, 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 a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

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

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong
30 March 2014

# Consolidated Statement of Profit or Loss

Year ended 31 December 2013

| | Notes | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **REVENUE** | 5(a) | **8,332,749** | 5,656,744 |
| Cost of sales and services | 6(b) | **(7,335,607)** | (4,993,298) |
| **Gross profit** | | **997,142** | 663,446 |
| Other income and gains, net | 5(b) | **303,160** | 236,658 |
| Selling and distribution costs | | **(426,408)** | (237,030) |
| Administrative expenses | | **(117,584)** | (71,611) |
| **Profit from operations** | | **756,310** | 591,463 |
| Finance costs | 7 | **(194,839)** | (116,403) |
| Share of profit of an associate | 18 | **501** | 222 |
| **Profit before tax** | 6 | **561,972** | 475,282 |
| Income tax expense | 10 | **(154,847)** | (124,563) |
| **Profit for the year** | | **407,125** | 350,719 |
| **Attributable to:** | | | |
| Owners of the parent | 11 | **404,135** | 350,822 |
| Non-controlling interests | | **2,990** | (103) |
| | | **407,125** | 350,719 |
| **Earnings per share attributable to ordinary equity holders of the parent** | 13 | | |
| Basic (RMB) | | **0.42** | 0.44 |
| Diluted (RMB) | | **0.42** | 0.44 |

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2013

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| PROFIT FOR THE YEAR | | **407,125** | 350,719 |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | |
| Exchange differences on translation of foreign operations | | **1,311** | (15) |
| Other comprehensive income for the year, net of tax | | **1,311** | (15) |
| Total comprehensive income for the year, net of tax | | **408,436** | 350,704 |
| **Attributable to:** | | | |
| Owners of the parent | 11 | **405,446** | 350,807 |
| Non-controlling interests | | **2,990** | (103) |
| | | **408,436** | 350,704 |

# Consolidated Statement of Financial Position

31 December 2013

| | Notes | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | **1,722,102** | 1,149,926 |
| Land use rights | 15 | **13,097** | 13,497 |
| Intangible assets | 16 | **4,381** | 1,050 |
| Prepayments | 17 | **104,444** | 31,943 |
| Investment in an associate | 18 | **6,523** | 6,222 |
| Deferred tax assets | 29 | **17,338** | 10,092 |
| Total non-current assets | | **1,867,885** | 1,212,730 |
| CURRENT ASSETS | | | |
| Inventories | 19 | **1,526,794** | 710,554 |
| Trade receivables | 20 | **116,777** | 59,112 |
| Prepayments, deposits and other receivables | 21 | **1,319,910** | 688,221 |
| Amounts due from related parties | 38(b) | **37,495** | 679,448 |
| Pledged bank deposits | 22 | **741,775** | 665,055 |
| Cash in transit | 23 | **34,012** | 17,333 |
| Cash and cash equivalents | 24 | **1,964,365** | 342,685 |
| Total current assets | | **5,741,128** | 3,162,408 |
| CURRENT LIABILITIES | | | |
| Bank loans and other borrowings | 25 | **2,672,045** | 1,777,774 |
| Trade and bills payables | 26 | **1,363,883** | 818,129 |
| Other payables and accruals | 27 | **937,299** | 626,852 |
| Income tax payable | | **338,152** | 255,415 |
| Total current liabilities | | **5,311,379** | 3,478,170 |
| NET CURRENT ASSETS/(LIABILITIES) | | **429,749** | (315,762) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **2,297,634** | 896,968 |

# Consolidated Statement of Financial Position

31 December 2013

| | Notes | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **2,297,634** | 896,968 |
| NON-CURRENT LIABILITIES | | | |
| Bank loans and other borrowings | 25 | **48,240** | 290,000 |
| Deferred tax liabilities | 29 | **12,274** | 4,929 |
| Total non-current liabilities | | **60,514** | 294,929 |
| NET ASSETS | | **2,237,120** | 602,039 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 30 | **8,633** | – |
| Reserves | 32 | **2,144,965** | 588,758 |
| Proposed final dividend | 12 | **67,251** | – |
| | | **2,220,849** | 588,758 |
| **Non-controlling interests** | | **16,271** | 13,281 |
| Total equity | | **2,237,120** | 602,039 |

**FONG Heung Sang, Addy (Dexter)**
*Director*

**YANG Lei**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2013

| | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000* | Statutory reserve RMB'000* | Merger reserve RMB'000* | Share award reserve RMB'000* | Exchange fluctuation reserve RMB'000* | Retained profits RMB'000* | Proposed final dividend RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2012 | – | – | 37,785 | 427,300 | – | – | 388,286 | – | 853,371 | 4,984 | 858,355 |
| Profit for the year | – | – | – | – | – | – | 350,822 | – | 350,822 | (103) | 350,719 |
| Other comprehensive income for the year: | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | – | (15) | – | – | (15) | – | (15) |
| Total comprehensive income for the year | – | – | – | – | – | (15) | 350,822 | – | 350,807 | (103) | 350,704 |
| Contribution by the then equity holders | – | – | – | 193,900 | – | – | – | – | 193,900 | – | 193,900 |
| Non-controlling interest arising from establishment of a new subsidiary | – | – | – | – | – | – | – | – | – | 8,400 | 8,400 |
| Acquisition of equity interests by the Group from the then equity holders | – | – | – | (250,000) | – | – | – | – | (250,000) | – | (250,000) |
| Dividends paid to the then equity holders | – | – | – | – | – | – | (559,320) | – | (559,320) | – | (559,320) |
| Transfer from retained profits | – | – | 20,664 | – | – | – | (20,664) | – | – | – | – |
| At 31 December 2012 | – | – | 58,449 | 371,200 | – | (15) | 159,124 | – | 588,758 | 13,281 | 602,039 |

# Consolidated Statement of Changes in Equity

Year ended 31 December 2013

| | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000* | Statutory reserve RMB'000* | Merger reserve RMB'000* | Share award reserve RMB'000* | Exchange fluctuation reserve RMB'000* | Retained profits RMB'000* | Proposed final dividend RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2013 | – | – | 58,449 | 371,200 | – | (15) | 159,124 | – | 588,758 | 13,281 | 602,039 |
| Profit for the year | – | – | – | – | – | – | 404,135 | – | 404,135 | 2,990 | 407,125 |
| Other comprehensive income for the year: | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | – | 1,311 | – | – | 1,311 | – | 1,311 |
| Total comprehensive income for the year | – | – | – | – | – | 1,311 | 404,135 | – | 405,446 | 2,990 | 408,436 |
| Issue of shares (note 30) | 8,633 | 1,194,164 | – | – | – | – | – | – | 1,202,797 | – | 1,202,797 |
| Equity-settled share award expense (note 31) | – | – | – | – | 23,848 | – | – | – | 23,848 | – | 23,848 |
| Proposed final 2013 dividend (note 12) | – | (67,251) | – | – | – | – | – | 67,251 | – | – | – |
| Transfer from retained profits | – | – | 31,223 | – | – | – | (31,223) | – | – | – | – |
| At 31 December 2013 | 8,633 | 1,126,913 | 89,672 | 371,200 | 23,848 | 1,296 | 532,036 | 67,251 | 2,220,849 | 16,271 | 2,237,120 |

* These reserve accounts comprise the consolidated reserves of RMB2,144,965,000 (2012: RMB588,758,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2013

| | Notes | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | **561,972** | 475,282 |
| Adjustments for: | | | |
| Share of profit of an associate | | **(501)** | (222) |
| Depreciation of items of property, plant and equipment | 14 | **73,984** | 37,368 |
| Amortisation of land use rights | 15 | **400** | 400 |
| Amortisation of intangible assets | 16 | **720** | 334 |
| Interest income | 5(b) | **(111,960)** | (156,169) |
| Net loss on disposal of items of property, plant and equipment | 6(c) | **6,810** | 1,630 |
| Equity-settled share award expense | 6(a) | **23,848** | – |
| Finance costs | 7 | **194,839** | 116,403 |
| | | **750,112** | 475,026 |
| Increase in pledged bank deposits | | **(76,720)** | (384,032) |
| Increase in cash in transit | | **(16,679)** | (3,687) |
| Increase in trade receivables | | **(57,665)** | (42,446) |
| Increase in prepayments, deposits and other receivables | | **(243,523)** | (25,329) |
| Increase in inventories | | **(816,240)** | (376,862) |
| Increase in trade and bills payables | | **545,754** | 95,800 |
| Increase in other payables and accruals | | **247,522** | 355,065 |
| **Cash generated from operations** | | **332,561** | 93,535 |
| Tax paid | | **(72,011)** | (2,556) |
| **Net cash generated from operating activities** | | **260,550** | 90,979 |

# Consolidated Statement of Cash Flows

Year ended 31 December 2013

| | Notes | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Purchase of items of property, plant and equipment | | **(664,245)** | (877,409) |
| Proceeds from disposal of items of property, plant and equipment | | **36,361** | 15,109 |
| Purchase of intangible assets | | **(4,051)** | (377) |
| Repayment of advance from an associate | | **2,086** | 121 |
| Repayment of advance from/(advance to) the Controlling Shareholder, net | | **639,867** | (97,955) |
| Acquisition of equity interests by the Group from the then equity holders | | **–** | (250,000) |
| Loans to third parties | | **(240,000)** | – |
| Advance to a third party | | **(159,500)** | – |
| Increase in time deposits | | **(1,180,500)** | – |
| Dividends received from an associate | | **200** | – |
| Interest received | | **119,197** | 8,429 |
| **Net cash used in investing activities** | | **(1,450,585)** | (1,202,082) |
| **Financing activities** | | | |
| Proceeds from issue of shares | | **1,319,737** | – |
| Share issue expenses | | **(116,940)** | – |
| Proceeds from bank loans and other borrowings | | **5,347,150** | 3,714,604 |
| Repayment of bank loans and other borrowings | | **(4,694,639)** | (2,506,365) |
| Contribution by the then equity holders | | **–** | 193,900 |
| Contributions from non-controlling shareholders | | **–** | 8,400 |
| Interest paid | | **(225,404)** | (136,119) |
| **Net cash generated from financing activities** | | **1,629,904** | 1,274,420 |
| **Net increase in cash and cash equivalents** | | **439,869** | 163,317 |
| Cash and cash equivalents at the beginning of year | | **342,685** | 179,383 |
| Effect of foreign exchange rate changes, net | | **1,311** | (15) |
| **Cash and cash equivalents at the end of year** | | **783,865** | 342,685 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 24 | **783,865** | 342,685 |
| Cash and cash equivalents as stated in the statement of cash flows | | **783,865** | 342,685 |
| Non-pledged time deposits with original maturity of more than three months when acquired | 24 | **1,180,500** | – |
| Cash and cash equivalents as stated in the statement of financial position | | **1,964,365** | 342,685 |

# Statement of Financial Position

31 December 2013

| | Notes | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | 41 | **1,176,782** | – |
| Total non-current assets | | **1,176,782** | – |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 24 | **13,547** | – |
| Total current assets | | **13,547** | – |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | | **–** | – |
| Total current liabilities | | **–** | – |
| NET CURRENT ASSETS | | **13,547** | – |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **13,547** | – |
| NET ASSETS | | **1,190,329** | – |
| EQUITY | | | |
| Share capital | 30 | **8,633** | – |
| Reserves | 32(iv) | **1,114,445** | – |
| Proposed final dividend | 12 | **67,251** | – |
| Total equity | | **1,190,329** | – |

**FONG Heung Sang, Addy (Dexter)**
*Director*

**YANG Lei**
*Director*

## 1. CORPORATE INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the sale and service of motor vehicles in Mainland China.

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

## 2.1 BASIS OF PREPARATION

Through a group reorganisation (the "Reorganisation") as more fully explained in the paragraph headed "Our Reorganisation" in the section headed "Our History and Reorganisation" in the prospectus dated 31 May 2013 (the "Prospectus") for the public listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 29 September 2012. Before and after the completion of the Reorganisation, the companies now comprising the Group were under the common control of Mr. Feng Changge (the "Controlling Shareholder"). Accordingly, the Reorganisation has been accounted for by applying the principles of merger accounting.

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

### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

## 2.1 BASIS OF PREPARATION (continued)

### Basis of consolidation (continued)

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans* |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* |
| HKFRS 10 | *Consolidated Financial Statements* |
| HKFRS 11 | *Joint Arrangements* |
| HKFRS 12 | *Disclosure of Interests in Other Entities* |
| HKFRS 10, HKFRS 11 and HKFRS 12 Amendments | Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance* |
| HKFRS 13 | *Fair Value Measurement* |
| HKAS 1 Amendments | Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* |
| HKAS 19 (2011) | *Employee Benefits* |
| HKAS 27 (2011) | *Separate Financial Statements* |
| HKAS 28 (2011) | *Investments in Associates and Joint Ventures* |
| HKAS 36 Amendments | Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (early adopted) |
| HK(IFRIC)-Int 20 | *Stripping Costs in the Production Phase of a Surface Mine* |
| *Annual Improvements 2009-2011 Cycle* | Amendments to a number of HKFRSs issued in June 2012 |

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

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| HKFRS 9 | *Financial Instruments*[4] |
| HKFRS 9, HKFRS 7 and HKAS 39 Amendments | *Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4] |
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments | Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1] |
| HKFRS 14 | *Regulatory Deferral Accounts*[3] |
| HKAS 19 Amendments | Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2] |
| HKAS 32 Amendments | Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1] |
| HKAS 39 Amendments | Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1] |
| HK(IFRIC)-Int 21 | *Levies*[1] |
| *Annual Improvements 2010-2012 Cycle* | Amendments to a number of HKFRSs issued in January 2014[2] |
| *Annual Improvements 2011-2013 Cycle* | Amendments to a number of HKFRSs issued in January 2014[2] |

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

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

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

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

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

In February 2014, the HKICPA issued HKFRS 14 *Regulatory Deferral Accounts* to ease the adoption of HKFRSs for rate-regulated entities. The standard allows an entity to continue applying most of its existing accounting policies for regulatory deferral account balances upon adoption of HKFRSs. This interim standard provides first-time adopters of HKFRS with relief from derecognising rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the HKICPA. HKFRS 14 is intended to encourage rate-regulated entities to adopt HKFRS while bridging the gap with entities that already apply HKFRSs, but do not recognise regulatory deferral accounts. This would be achieved by requiring separate presentation of the regulatory deferral account balances (and movements in these balances) in the statement of financial position, the statement of profit or loss and the statement of comprehensive income.

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

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

### Investments in associates

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

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments in associates (continued)

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### Fair value measurement

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fair value measurement (continued)

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

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

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

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

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

### Impairment of non-financial assets

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

(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).

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation

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

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

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

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

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

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

Construction in progress represents buildings, plant and machinery under construction or pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets (other than goodwill)

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

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful life of software is 5 years.

### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payment under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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

### Land use rights

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the rights to use certain land and the consideration paid for such rights are recorded as land use rights, which are amortised over the lease terms of 40 years using the straight-line method.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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

The Group's financial assets mainly include cash and cash equivalents, cash in transit, pledged bank deposits, amounts due from related parties and trade and other receivables.

*Subsequent measurement*

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

***Loans and receivables***

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

### Derecognition of financial assets

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derecognition of financial assets (continued)

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

### Impairment of financial assets

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

*Financial assets carried at amortised cost*

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

*Financial assets carried at amortised cost* (continued)

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

### Financial liabilities

*Initial recognition and measurement*

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

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

The Group's financial liabilities mainly include trade and bills payables, other payables, amounts due to related parties and bank loans and other borrowings.

*Subsequent measurement*

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

***Loans and borrowings***

After initial recognition, bank loans and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

### Derecognition of financial liabilities

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Offsetting of financial instruments

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

### Inventories

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

### Cash and cash equivalents

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

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

### Income tax

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Government grants

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

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

### Revenue recognition

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

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

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

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

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and

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

### Vendor rebates

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. Further details of the fair value are given in note 31 to the financial statements.

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

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

### Other employee benefits

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 7.8% has been applied to the expenditure on the individual assets during the year ended 31 December 2013 (2012: 8.0%).

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### Foreign currencies

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currencies** (continued)

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

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

**Judgements**

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

*Deferred tax assets*

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets was RMB17,338,000 as at 31 December 2013 (2012: RMB10,092,000). The amount of unrecognised tax losses at 31 December 2013 was RMB32,376,000 (2012: Nil). Further details are contained in note 29 to the financial statements.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty

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

*Impairment of non-financial assets (other than goodwill)*

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

*Useful lives of property, plant and equipment*

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

*Net realisable value of inventories*

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

## 4. OPERATING SEGMENT INFORMATION

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

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

### Information about geographical area

Since all of the Group's revenue was generated from the sale and service of motor vehicles in Mainland China and over 90% of the Group's identifiable assets and liabilities were located in Mainland China, no geographical segment information is presented in accordance with HKFRS 8 *Operating Segments*.

### Information about major customers

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

## 5. REVENUE, OTHER INCOME AND GAINS, NET

### (a) Revenue:

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and the value of services rendered after allowances for returns, trade discounts, where applicable.

| | **2013**<br>**RMB'000** | 2012<br>RMB'000 |
|---|---|---|
| Revenue from the sale of motor vehicles | **7,609,854** | 5,244,449 |
| Others | **722,895** | 412,295 |
| | **8,332,749** | 5,656,744 |

## 5. REVENUE, OTHER INCOME AND GAINS, NET (continued)

### (b) Other income and gains, net:

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Commission income | | **161,587** | 61,141 |
| Advertisement support received from motor vehicle manufacturers | | **7,814** | 5,326 |
| Bank interest income | | **38,372** | 8,429 |
| Interest income from the Controlling Shareholder | (i) | **66,077** | 147,740 |
| Interest income from third parties | | **7,511** | – |
| Others | | **21,799** | 14,022 |
| Total | | **303,160** | 236,658 |

(i) Interest income from the Controlling Shareholder was generated from loans the Group granted to the Controlling Shareholder before the Company's Listing, which bore an annual interest rate of 15% during the year (2012: 15%).

## 6. PROFIT BEFORE TAX

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

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

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Wages and salaries | **125,539** | 61,664 |
| Equity-settled share award expense | **23,848** | – |
| Other welfare | **23,238** | 20,847 |
| | **172,625** | 82,511 |

## 6. PROFIT BEFORE TAX (continued)

### (b) Cost of sales and services:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Cost of sales of motor vehicles | **6,944,839** | 4,762,592 |
| Others | **390,768** | 230,706 |
| | **7,335,607** | 4,993,298 |

### (c) Other items

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Depreciation of items of property, plant and equipment | **73,984** | 37,368 |
| Amortisation of land use rights | **400** | 400 |
| Amortisation of intangible assets | **720** | 334 |
| Auditors' remuneration | **3,671** | 103 |
| Advertisement and business promotion expenses | **103,435** | 51,989 |
| Bank charges | **9,650** | 9,285 |
| Lease expenses | **46,454** | 18,649 |
| Logistics and petroleum expenses | **25,495** | 15,103 |
| Office expenses | **10,880** | 11,015 |
| Net loss on disposal of items of property, plant and equipment | **6,810** | 1,630 |
| Foreign exchange differences, net | **425** | 3 |

## 7. FINANCE COSTS

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Interest expense on bank borrowings wholly repayable within five years | **197,776** | 131,275 |
| Interest expense on other borrowings | **27,628** | 4,844 |
| Less: Interest capitalised | **(30,565)** | (19,716) |
| | **194,839** | 116,403 |

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Year ended 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Fees RMB'000 | Salaries, allowances and other benefits RMB'000 | Performance related bonuses RMB'000 | Equity-settled share award expense RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
| Executive directors: | | | | | | |
| – Mr. Feng Changge | – | 900 | – | – | 34 | 934 |
| – Mr. Yu Feng[(i)] | – | 660 | – | 3,571 | 34 | 4,265 |
| – Ms. Liu Wei[(iv)] | – | 542 | – | 751 | 34 | 1,327 |
| – Mr. Yang Lei | – | 489 | – | 3,356 | 34 | 3,879 |
| – Mr. Cui Ke | – | 423 | – | 2,495 | 54 | 2,972 |
| – Ms. Ma Lintao[(ii)] | – | 360 | – | – | 34 | 394 |
| – Mr. Fong Heung Sang, Addy (Dexter) | – | 840 | – | 2,710 | – | 3,550 |
| | – | 4,214 | – | 12,883 | 224 | 17,321 |
| Non-executive director: | | | | | | |
| – Mr. Wang Nengguang | – | – | – | – | – | – |
| Independent non-executive directors: | | | | | | |
| – Mr. Xiao Changnian[(iii)] | 198 | – | – | – | – | 198 |
| – Mr. Liu Zhangmin[(iii)] | 198 | – | – | – | – | 198 |
| – Mr. Li Daomin[(iii)] | 198 | – | – | – | – | 198 |
| – Mr. Xue Guoping[(iii)] | 198 | – | – | – | – | 198 |
| | 792 | – | – | – | – | 792 |
| | 792 | 4,214 | – | 12,883 | 224 | 18,113 |

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

| | Year ended 31 December 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Fees RMB'000 | Salaries, allowances and other benefits RMB'000 | Performance related bonuses RMB'000 | Equity-settled share award expense RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
| Executive directors: | | | | | | |
| – Mr. Feng Changge | – | 900 | – | – | 34 | 934 |
| – Mr. Yu Feng(i) | – | 600 | – | – | 34 | 634 |
| – Ms. Liu Wei(iv) | – | 500 | – | – | 34 | 534 |
| – Mr. Yang Lei | – | 454 | – | – | 34 | 488 |
| – Mr. Cui Ke | – | 474 | – | – | 54 | 528 |
| – Ms. Ma Lintao(ii) | – | 360 | – | – | 34 | 394 |
| – Mr. Fong Heung Sang, Addy (Dexter) | – | 140 | – | – | – | 140 |
| | – | 3,428 | – | – | 224 | 3,652 |
| Non-executive director: | | | | | | |
| – Mr. Wang Nengguang | – | – | – | – | – | – |
| Independent non-executive directors: | | | | | | |
| – Mr. Xiao Changnian(iii) | – | – | – | – | – | – |
| – Mr. Liu Zhangmin(iii) | – | – | – | – | – | – |
| – Mr. Li Daomin(iii) | – | – | – | – | – | – |
| – Mr. Xue Guoping(iii) | – | – | – | – | – | – |
| | – | – | – | – | – | – |
| | – | 3,428 | – | – | 224 | 3,652 |

(i) The Group's chief executive is Mr. Yu Feng, who is also an executive director of the Group.

(ii) Ms. Ma Lintao was appointed as executive director with effect from 31 January 2013.

(iii) Mr. Xiao Changnian, Mr. Liu Zhangmin, Mr. Li Daomin and Mr. Xue Guoping were appointed as independent non-executive directors with effect from 18 March 2013.

(iv) Ms. Liu Wei resigned from her position as an executive director of the Company with effect from 29 January 2014.

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

During the year, certain directors were granted share awards, in respect of their services to the Group, under the share award scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such awards, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

No emoluments were paid to the non-executive director of the Company during the year (2012: Nil).

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included four directors for the year (2012: five), details of whose remuneration are detailed in note 8 above. Details of the remuneration of the remaining non-director and non-chief executive, highest paid employees for the year are as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | 324 | – |
| Equity-settled share award expense | 2,473 | – |
| Pension scheme contributions | 34 | – |
| | 2,831 | – |

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

| | Number of employees<br>2013 | <br>2012 |
|---|---|---|
| HK$3,500,001 to HK$4,000,000 | 1 | – |
| | 1 | – |

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

## 10. INCOME TAX

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

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Current Mainland China corporate income tax | **154,748** | 122,994 |
| Deferred tax (note 29) | **99** | 1,569 |
| | **154,847** | 124,563 |

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

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

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

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

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

A reconciliation of the tax expense applicable to profit before tax using the applicable rate for the region in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Profit before tax | **561,972** | 475,282 |
| Tax at the applicable tax rate (25%) | **140,493** | 118,821 |
| Profit attributable to an associate | **(125)** | (56) |
| Tax effect of non-deductible expenses | **6,385** | 5,798 |
| Tax losses not recognised | **8,094** | – |
| Tax charge | **154,847** | 124,563 |

## 11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a loss of RMB1,345,000 (2012: Nil) which has been dealt with in the financial statements of the Company (note 32(iv)).

## 12. DIVIDENDS

| | **2013** | 2012 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Proposed final – HK8 cents (2012: Nil) per ordinary share | **67,251** | – |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

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

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

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

### Earnings

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Profit for the year attributable to ordinary equity holders of the parent | **404,135** | 350,822 |

### Shares

| | 2013 | 2012 |
|---|---|---|
| Weighted average number of ordinary shares in issue | **952,261,512** | 800,000,000 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| –Restricted shares | **637,966** | – |
| | **952,899,478** | 800,000,000 |

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2012 was 800,000,000, which were deemed to have been issued throughout the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2013 includes the weighted average of 275,126,000 shares issued in connection with the Company's IPO as defined in the Prospectus and the aforesaid 800,000,000 ordinary shares.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 1 January 2013 | **423,093** | **72,859** | **46,436** | **33,948** | **130,418** | **511,249** | **1,218,003** |
| Additions | **279,669** | **6,410** | **29,152** | **30,037** | **101,401** | **242,662** | **689,331** |
| Transfer | **413,582** | **28,852** | **3,638** | **4,212** | **–** | **(450,284)** | **–** |
| Disposals | **–** | **–** | **(1,188)** | **(939)** | **(54,616)** | **–** | **(56,743)** |
| At 31 December 2013 | **1,116,344** | **108,121** | **78,038** | **67,258** | **177,203** | **303,627** | **1,850,591** |
| **Accumulated depreciation:** | | | | | | | |
| At 1 January 2013 | **22,493** | **2,855** | **10,948** | **8,999** | **22,782** | **–** | **68,077** |
| Depreciation provided during the year | **30,046** | **5,854** | **8,836** | **6,672** | **22,576** | **–** | **73,984** |
| Disposals | **–** | **–** | **(1,025)** | **(872)** | **(11,675)** | **–** | **(13,572)** |
| At 31 December 2013 | **52,539** | **8,709** | **18,759** | **14,799** | **33,683** | **–** | **128,489** |
| **Net book value:** | | | | | | | |
| At 31 December 2013 | **1,063,805** | **99,412** | **59,279** | **52,459** | **143,520** | **303,627** | **1,722,102** |
| **Cost:** | | | | | | | |
| At 1 January 2012 | 221,807 | 1,959 | 29,425 | 16,576 | 72,246 | 5,850 | 347,863 |
| Additions | 30,207 | 5,276 | 14,113 | 15,072 | 80,935 | 747,300 | 892,903 |
| Transfer | 171,079 | 65,624 | 2,898 | 2,300 | – | (241,901) | – |
| Disposals | – | – | – | – | (22,763) | – | (22,763) |
| At 31 December 2012 | 423,093 | 72,859 | 46,436 | 33,948 | 130,418 | 511,249 | 1,218,003 |
| **Accumulated depreciation:** | | | | | | | |
| At 1 January 2012 | 11,194 | 1,097 | 7,002 | 5,516 | 11,924 | – | 36,733 |
| Depreciation provided during the year | 11,299 | 1,758 | 3,946 | 3,483 | 16,882 | – | 37,368 |
| Disposals | – | – | – | – | (6,024) | – | (6,024) |
| At 31 December 2012 | 22,493 | 2,855 | 10,948 | 8,999 | 22,782 | – | 68,077 |
| **Net book value:** | | | | | | | |
| At 31 December 2012 | 400,600 | 70,004 | 35,488 | 24,949 | 107,636 | 511,249 | 1,149,926 |

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2013, the Group had not obtained the property ownership certificates for certain buildings with a net book value of approximately RMB1,028,713,000 (2012: RMB363,104,000).

At 31 December 2013, certain of the Group's buildings with an aggregate net book value of approximately RMB35,092,000 (2012: RMB37,496,000) were pledged as security for the Group's bank borrowings (note 25(a)).

## 15. LAND USE RIGHTS

| | **2013** | 2012 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Cost:** | | |
| At the beginning of the year | **15,981** | 15,981 |
| Additions | **–** | – |
| At the end of the year | **15,981** | 15,981 |
| **Amortisation:** | | |
| At the beginning of the year | **(2,484)** | (2,084) |
| Charge for the year | **(400)** | (400) |
| At the end of the year | **(2,884)** | (2,484) |
| **Net book value:** | | |
| At the end of the year | **13,097** | 13,497 |

The lease prepayments of the Group represent the cost of the Group's land use rights in respect of land located in Mainland China and are held under medium term lease.

All of the Group's land use rights were pledged as security for the Group's bank loans and other borrowings as at 31 December 2012 and 2013 (note 25(a)).

## 16. INTANGIBLE ASSETS

### Software

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| **Cost:** | | |
| At the beginning of the year | **2,261** | 1,884 |
| Additions | **4,051** | 377 |
| At the end of the year | **6,312** | 2,261 |
| **Amortisation:** | | |
| At the beginning of the year | **(1,211)** | (877) |
| Charge for the year | **(720)** | (334) |
| At the end of the year | **(1,931)** | (1,211) |
| **Net book value:** | | |
| At the end of the year | **4,381** | 1,050 |

## 17. PREPAYMENTS

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Prepayments for purchase of items of property, plant and equipment | **78,616** | 10,212 |
| Prepaid lease for buildings and land use rights | **25,828** | 21,731 |
| | **104,444** | 31,943 |

## 18. INVESTMENT IN AN ASSOCIATE

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Share of net assets | **6,523** | 6,222 |

鄭州永達和諧汽車銷售服務有限公司 (Zhengzhou Yongda Hexie Automobile Sales & Services Co., Ltd.) ("Yongda Hexie") is an associate of the Group and is considered to be a related party of the Group.

### (a) Particulars of an associate

| Name | Place and date of incorporation/ registration | Authorised registered/paid-in / issued capital | Percentage of Ownership interest | Percentage of Voting power | Percentage of Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| Yongda Hexie | Zhengzhou, the PRC<br>26 December 2011 | RMB20,000,000 | 30% | 30% | 30% | Sale and service of motor vehicles |

(b) The following table illustrates the summarised financial information of the Group's associate shared by the Group:

*Share of the associate's assets and liabilities:*

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Non-current assets | **18,363** | 11,959 |
| Current assets | **34,289** | 57,660 |
| Current liabilities | **46,129** | 63,397 |
| Net assets | **6,523** | 6,222 |

*Share of the associate's results:*

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Revenue | **146,193** | 28,092 |
| Expenses | **(145,524)** | (27,795) |
| Tax | **(168)** | (75) |
| Profit for the year | **501** | 222 |

## 19. INVENTORIES

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Motor vehicles | **1,441,076** | 655,809 |
| Spare parts and accessories | **85,718** | 54,745 |
| | **1,526,794** | 710,554 |

At 31 December 2013, certain of the Group's inventories with an aggregate carrying amount of approximately RMB432,000,000 (2012: RMB242,559,000) were pledged as security for the Group's bank loans and other borrowings (note 25(a)).

At 31 December 2013, certain of the Group's inventories with an aggregate carrying amount of approximately RMB419,220,000 (2012: RMB165,826,000) were pledged as security for the Group's bills payable (note 26).

## 20. TRADE RECEIVABLES

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Trade receivables | **116,777** | 59,112 |

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

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

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Within 3 months | **112,794** | 54,222 |
| More than 3 months but less than 1 year | **3,983** | 4,890 |
| | **116,777** | 59,112 |

## 20. TRADE RECEIVABLES (continued)

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Neither past due nor impaired | **116,777** | 59,112 |

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.

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Prepayments to suppliers | **335,446** | 262,433 |
| Rebate receivables | **338,662** | 229,329 |
| Loans to third parties(i) | **232,763** | – |
| Advance to a third party(ii) | **159,500** | – |
| VAT receivables(iii) | **231,357** | 164,094 |
| Staff advances | **4,159** | 9,629 |
| Others | **18,023** | 22,736 |
| | **1,319,910** | 688,221 |

Notes:

(i) The loans granted to third parties are guaranteed by the Controlling Shareholder and 河南和諧實業集團有限公司 (Henan Hexie Industrial Group Co., Ltd. ("Hexie Industrial Group")), which is controlled by the Controlling Shareholder. These loans granted to third parties earn interest at fixed interest rates of 25% and have a maturity period within one year.

(ii) This advance was granted to a company, which is controlled by an employee of the Group. The advance is interest-free and guaranteed by the Controlling Shareholder and Hexie Industrial Group.

(iii) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is deductible input VAT, which has not been claimed to the tax bureau. The applicable tax rate for domestic sales of the Group is 17%.

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

## 22. PLEDGED BANK DEPOSITS

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Deposits pledged with banks as collateral against credit facilities granted by the banks | **741,775** | 665,055 |

Pledged bank deposits earn interest at interest rates stipulated by financial institutions. All pledged bank deposits at each reporting date were denominated in the currency of RMB.

## 23. CASH IN TRANSIT

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Cash in transit | **34,012** | 17,333 |

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

## 24. CASH AND CASH EQUIVALENTS

### Group

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Cash and bank balances | **783,865** | 342,685 |
| Time deposits | **1,180,500** | – |
| Cash and cash equivalents | **1,964,365** | 342,685 |

### Company

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Cash and bank balances | **13,547** | – |
| Cash and cash equivalents | **13,547** | – |

## 24. CASH AND CASH EQUIVALENTS (continued)

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| RMB | **1,914,800** | 332,609 |
| US$ | **9,832** | 10,047 |
| HK$ | **39,733** | 29 |
| | **1,964,365** | 342,685 |

## 25. BANK LOANS AND OTHER BORROWINGS

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Effective interest rate (%) | Amount RMB'000 | Effective interest rate (%) | Amount RMB'000 |
| CURRENT: | | | | |
| Bank loans | **5.9-9.0** | **1,951,447** | 6.2-12.0 | 1,283,000 |
| Other borrowings | **8.2-8.5** | **720,598** | 5.8-8.5 | 494,774 |
| | | **2,672,045** | | 1,777,774 |
| NON-CURRENT: | | | | |
| Bank loans | **8.7** | **48,240** | 6.6-7.2 | 60,000 |
| Other borrowings | **–** | **–** | 8.5 | 230,000 |
| | | **48,240** | | 290,000 |
| | | **2,720,285** | | 2,067,774 |

## 25. BANK LOANS AND OTHER BORROWINGS (continued)

| | | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Bank loans and other borrowings representing: | | | |
| – secured | (a) | **619,342** | 455,000 |
| – guaranteed | (b) | **1,226,940** | 675,000 |
| – secured and guaranteed | (a)(b) | **586,438** | 889,774 |
| – unsecured | | **287,565** | 48,000 |
| | | **2,720,285** | 2,067,774 |
| **Analysed into:** | | | |
| Bank loans repayable: | | | |
| Within one year or on demand | | **1,951,447** | 1,283,000 |
| In the second year | | **15,360** | 60,000 |
| In the third to fifth years, inclusive | | **32,880** | – |
| | | **1,999,687** | 1,343,000 |
| Other borrowings repayable: | | | |
| Within one year or on demand | | **720,598** | 494,774 |
| In the second year | | **–** | 230,000 |
| | | **720,598** | 724,774 |
| | | **2,720,285** | 2,067,774 |

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

(i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately RMB13,097,000 as at 31 December 2013 (2012: RMB13,497,000);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB35,092,000 as at 31 December 2013 (2012: RMB37,496,000); and

(iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB432,000,000 as at 31 December 2013 (2012: RMB242,559,000).

## 25. BANK LOANS AND OTHER BORROWINGS (continued)

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

(i) certain of the Group's bank loans and other borrowings amounting to RMB404,800,000 were guaranteed by the Controlling Shareholder as at 31 December 2013 (2012: RMB315,228,000);

(ii) certain of the Group's bank loans and other borrowings amounting to RMB618,578,000 were guaranteed by the Controlling Shareholder and Hexie Industrial Group as at 31 December 2013 (2012: RMB679,546,000);

(iii) certain of the Group's bank loans amounting to RMB25,000,000 were guaranteed by the Controlling Shareholder, Hexie Industrial Group, 河南東方金沙湖國際高爾夫俱樂部有限公司 ("Henan Jinshahu Golf Club Co., Ltd."), which is controlled by the Controlling Shareholder, and Ms. Zhao Lu, who is a close family member of the Controlling Shareholder, as at 31 December 2013 (2012: RMB35,000,000);

(iv) certain of the Group's bank loans amounting to RMB50,000,000 were guaranteed by the Controlling Shareholder, and secured by certain of the land use rights of 河南和諧置業有限公司 ("Henan Hexie Property Co., Ltd."), which is controlled by the Controlling Shareholder, as at 31 December 2013 (2012: RMB285,000,000);

(v) certain of the Group's bank loans amounting to RMB565,000,000 was guaranteed by the Controlling Shareholder and Henan Hexie Property Co., Ltd. as at 31 December 2013 (2012: Nil);

(vi) certain of the Group's bank loans amounting to RMB150,000,000 were secured by certain of the land use rights of Henan Hexie Property Co., Ltd. as at 31 December 2013 (2012: Nil);

(vii) certain of the Group's bank loans amounting to RMB35,000,000 were guaranteed by the Controlling Shareholder and 河南省同樂醫藥有限公司 (Henan Tongle Pharmaceutical Co., Ltd. ("Tongle Pharmaceutical")), which is controlled by a close family member of the Controlling Shareholder, as at 31 December 2012;

(viii) certain of the Group's bank loans amounting to RMB15,000,000 were guaranteed by the Controlling Shareholder and Mr. Liu Fenglei, who is an employee of the Group, as at 31 December 2012;

(ix) certain of the Group's bank loans amounting to RMB60,000,000 were guaranteed by the Controlling Shareholder, Mr. Liu Fenglei, Hexie Industrial Group, Henan Jinshahu Golf Club Co., Ltd. and Henan Hexie Property Co., Ltd. as at 31 December 2012;

(x) certain of the Group's bank loans amounting to RMB40,000,000 was guaranteed by Hexie Industrial Group as at 31 December 2012; and

(xi) certain of the Group's bank loans amounting to RMB100,000,000 was guaranteed by the Controlling Shareholder, Hexie Industrial Group and Henan Hexie Property Co., Ltd. as at 31 December 2012.

## 26. TRADE AND BILLS PAYABLES

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Trade payables | **51,002** | 11,383 |
| Bills payable | **1,312,881** | 806,746 |
| Trade and bills payables | **1,363,883** | 818,129 |

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

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Within 3 months | **1,161,408** | 777,735 |
| 3 to 6 months | **201,558** | 37,193 |
| 6 to 12 months | **834** | 2,836 |
| Over 12 months | **83** | 365 |
| | **1,363,883** | 818,129 |

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

(a) Certain of the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB419,220,000 as at 31 December 2013 (2012: RMB165,826,000).

(b) Certain of the Group's bills payable amounting to RMB344,605,000 were guaranteed by the Controlling Shareholder as at 31 December 2013 (2012: RMB505,745,000).

(c) Certain of the Group's bills payable amounting to RMB85,623,000 were guaranteed by the Controlling Shareholder and Hexie Industrial Group as at 31 December 2013 (2012: RMB139,202,000).

(d) Certain of Group's bills payable amounting to RMB145,432,000 were guaranteed by Hexie Industrial Group as at 31 December 2013 (2012: RMB32,235,000).

(e) Certain of Group's bills payable amounting to RMB25,519,000 were guaranteed by the Controlling Shareholder and Henan Hexie Property Co., Ltd. as at 31 December 2013 (2012: Nil).

(f) Certain of Group's bills payable amounting to RMB40,000,000 were guaranteed by the Controlling Shareholder and Tongle Pharmaceutical as at 31 December 2012.

## 27. OTHER PAYABLES AND ACCRUALS

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Payables for purchase of items of property, plant and equipment | **102,917** | 39,992 |
| Advances and deposits from distributors | **10,370** | 8,764 |
| Advances from customers | **335,558** | 244,313 |
| Taxes payable (other than income tax) | **331,266** | 271,641 |
| Lease payables | **12,010** | 10,846 |
| Staff payroll and welfare payables | **33,553** | 25,851 |
| Others | **111,625** | 25,445 |
| | **937,299** | 626,852 |

## 28. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries of Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 20% to 22% of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

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

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

As at 31 December 2013, the Group had no significant obligation apart from the contributions as stated above.

## 29. DEFERRED TAX

### Deferred tax assets

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

| | Losses available for offsetting against future taxable profits | Accrued payroll | Deferred rental expenses | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2012 | 2,122 | 4,302 | 308 | 6,732 |
| Deferred tax recognised in the consolidated statement of profit or loss during the year (note 10(a)) | (1,205) | 2,161 | 2,404 | 3,360 |
| At 31 December 2012 | 917 | 6,463 | 2,712 | 10,092 |
| Deferred tax recognised in the consolidated statement of profit or loss during the year (note 10(a)) | 5,030 | 1,925 | 291 | 7,246 |
| At 31 December 2013 | 5,947 | 8,388 | 3,003 | 17,338 |

As at 31 December 2013, the Group had accumulated tax losses arising in Mainland China of RMB32,376,000 (2012: Nil) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

## 29. DEFERRED TAX (continued)

### Deferred tax liabilities

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

| | **Capitalised interest expense** RMB'000 |
|---|---|
| At 1 January 2012 | – |
| Deferred tax charged to the consolidated statement of profit or loss during the year (note 10(a)) | 4,929 |
| At 31 December 2012 | 4,929 |
| Deferred tax charged to the consolidated statement of profit or loss during the year (note 10(a)) | 7,345 |
| At 31 December 2013 | 12,274 |

Pursuant to the CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors.

As at 31 December 2013, the Group has not provided for withholding taxes on accumulated earnings of RMB511,920,000 (2012: RMB150,329,000) generated by its PRC entities, because it is not probable that such accumulated earnings will be distributed to the holding company outside the PRC in the foreseeable future.

## 30. SHARE CAPITAL

### Authorised

| | **2013** **No. of shares at HK$0.01 each** | 2012 No. of shares at HK$0.01 each |
|---|---|---|
| Ordinary shares | **2,000,000,000** | 38,000,000 |

## 30. SHARE CAPITAL (continued)

### Issued and fully paid

| | 2013 No. of shares at HK$0.01 each | 2012 No. of shares at HK$0.01 each |
|---|---|---|
| Ordinary shares | **1,075,126,000** | 1 |
| Restricted shares | **19,110,898** | – |
| | **1,094,236,898** | 1 |

| | Number of issued and fully paid shares | Nominal value of shares HK$'000 | Share premium HK$'000 | Equivalent nominal value of shares RMB'000 | Equivalent share premium RMB'000 |
|---|---|---|---|---|---|
| As at 1 January 2013 | 1 | – | – | – | – |
| Capitalisation issue of ordinary shares on 13 June 2013 (note (a)) | 799,999,999 | 8,000 | (8,000) | 6,311 | (6,311) |
| Capitalisation issue of restricted shares on 13 June 2013 (note (b)) | 19,110,898 | 191 | (191) | 151 | (151) |
| Issue of new shares on 13 June 2013 (note (c)) | 275,126,000 | 2,751 | 1,670,015 | 2,171 | 1,317,566 |
| Share issue expenses | – | – | (148,221) | – | (116,940) |
| As at 31 December 2013 | 1,094,236,898 | 10,942 | 1,513,603 | 8,633 | 1,194,164 |

(a) Pursuant to the resolution of the board of directors of the Company on 27 May 2013, 799,999,999 ordinary shares of HK$0.01 each were allotted and issued and to be converted as fully paid at par on 13 June 2013, by way of capitalisation of the sum of HK$8,000,000 (equivalent to approximately RMB6,311,000) standing to the credit of the share premium account.

(b) Pursuant to the resolution of the board of directors of the Company on 28 May 2013, 19,110,898 restricted shares of HK$0.01 each were allotted and issued and to be converted as fully paid at par on 13 June 2013, by way of capitalisation of the sum of HK$191,000 (equivalent to approximately RMB151,000) standing to the credit of the share premium account. These restricted shares were issued for the purpose of the Company's Restricted Share Unit Scheme ("RSU Scheme") and managed by a professional trustee. For further details of the RSU Scheme, please refer to note 31 below.

(c) On 13 June 2013, in connection with the Company's IPO as defined in the Prospectus, 275,126,000 new ordinary shares of the Company of HK$0.01 each were issued at a price of HK$6.08 per share with gross proceeds of HK$1,672,766,000 (equivalent to approximately RMB1,319,737,000).

## 31. RSU SCHEME

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

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

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

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

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

The fair value of the RSU awards granted as at the grant date was RMB82,554,000 (RMB4.32 each), of which the Group recognised a total RSU award expense of RMB23,848,000 during the year ended 31 December 2013.

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

At the end of the year, the Company had 19,110,898 RSU awards outstanding under the RSU Scheme.

## 32. RESERVES

### (i) Statutory reserve

Pursuant to the relevant PRC rules and regulations, these PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 41 to the financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

### (ii) Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company. The additions during the year represent the injection of additional paid-up capital by the equity holders of the subsidiaries to the respective companies, which were consolidated from the earliest date presented or since the date when the subsidiaries first came under the common control of the Controlling Shareholder. The deductions during the year represent the decrease in the Group's net assets resulted from distribution to equity holders of the Company and acquisition of equity interests in subsidiaries from the Controlling Shareholder for business combination under common control.

### (iii) Exchange fluctuation reserve

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

### (iv) Company

| | **Share premium** | **Exchange fluctuation reserve** | **Accumulated losses** | **Total** |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 31 December 2012 and 1 January 2013 | – | – | – | – |
| Total comprehensive income for the year | – | (11,123) | (1,345) | (12,468) |
| Issue of shares | 1,194,164 | – | – | 1,194,164 |
| Proposed final 2013 dividend | (67,251) | – | – | (67,251) |
| At 31 December 2013 | 1,126,913 | (11,123) | (1,345) | 1,114,445 |

## 33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at each reporting date were as follows:

### Group

*Financial assets*

| | Loans and receivables | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Trade receivables | **116,777** | 59,112 |
| Financial assets included in prepayments, deposits and other receivables | **753,107** | 261,694 |
| Amounts due from related parties | **37,495** | 679,448 |
| Pledged bank deposits | **741,775** | 665,055 |
| Cash in transit | **34,012** | 17,333 |
| Cash and cash equivalents | **1,964,365** | 342,685 |
| | **3,647,531** | 2,025,327 |

*Financial liabilities*

| | Financial liabilities at amortised cost | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Trade and bills payables | **1,363,883** | 818,129 |
| Financial liabilities included in other payables and accruals | **224,912** | 74,201 |
| Bank loans and other borrowings | **2,720,285** | 2,067,774 |
| | **4,309,080** | 2,960,104 |

### Company

*Financial assets*

| | Loans and receivables | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Amount due from a subsidiary | **1,176,782** | – |
| Cash and cash equivalents | **13,547** | – |
| | **1,190,329** | – |

## 34. CONTINGENT LIABILITIES

As at 31 December 2013, neither the Group nor the Company had any significant contingent liabilities.

As at 31 December 2012, the equity shares of four subsidiaries of the Group, Nanyang Wandebao Automobile Sales & Services Co., Ltd., Henan Hedabao Automobile Services Co., Ltd., Anyang Andebao Automobile Sales & Service Co., Ltd. and Beijing Huadebao Automobile Sales & Services Co., Ltd. ("Huadebao") were pledged to Hua Ao International Trust Co., Ltd. ("HAT") as security for the credit facilities of RMB180 million granted to Hexie Industrial Group by HAT. In addition, two subsidiaries of the Group, Henan Zhongdebao Automobile Sales & Services Co., Ltd. and Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd., provided corporate guarantees to Hexie Industrial Group by HAT. The above pledges over the equity shares and the guarantees were released during the year ended 31 December 2013.

## 35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The fair values of bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, which are also approximate to their carrying amounts. The Group's own non-performance risk for bank loans and other borrowings as at 31 December 2013 was assessed to be insignificant.

At the end of the year, neither the Group nor the Company had any financial asset or liability measured at fair value (2012: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2012: Nil).

## 36. COMMITMENTS

### (a) Capital commitments

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

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Contracted, but not provided for land use rights and buildings | 126,514 | 164,592 |

### (b) Operating lease commitments

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Properties RMB'000 | Land RMB'000 | Properties RMB'000 | Land RMB'000 |
| Within one year | 47,738 | 12,666 | 23,451 | 11,277 |
| In the second to fifth years, inclusive | 161,529 | 59,495 | 73,019 | 38,763 |
| After five years | 115,265 | 223,399 | 30,078 | 163,138 |
| | 324,532 | 295,560 | 126,548 | 213,178 |

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

## 37. PLEDGE OF ASSETS

Details of the Group's assets pledged for its bank loans and other borrowings and bills payable as disclosed in note 14, note 15, note 19 and note 22 to these financial statements.

As at 31 December 2012, the equity shares of four subsidiaries of the Group were pledged to HAT as security for the credit facilities of RMB180 million granted to Hexie Industrial Group by HAT. Further details are contained in note 34 to the financial statements.

## 38. RELATED PARTY TRANSACTIONS AND BALANCES

Mr. Feng Changge is the Controlling Shareholder of the Group and is also considered to be a related party of the Group.

In addition to the disclosures in note 5, note 21, note 25, note 26 and note 34 to the financial statements, the Group had the following transactions with related parties during the year:

### (a) Transactions with related parties

(i) During the year, revenue from the sale of motor vehicles to certain related parties are as follows:

| | Notes | **2013** **RMB'000** | 2012 RMB'000 |
|---|---|---|---|
| Tongle Pharmaceutical | (a) | **–** | 15,480 |
| 河南省醫藥超市有限公司 ("Henan Pharmaceutical Supermarket Co., Ltd.") | (a) | **–** | 6,684 |
| 河南銀保投資擔保有限公司 ("Henan Yinbao Investment Guarantee Co., Ltd.") | (b) | **–** | 8,204 |
| 鄭州金沙湖置業有限公司 ("Zhengzhou Jinshahu Property Co., Ltd.") | (c) | **–** | 1,521 |
| Henan Jinshahu Golf Club Co., Ltd. | (c) | **–** | 699 |
| | | **–** | 32,588 |

(a) Tongle Pharmaceutical & Henan Pharmaceutical Supermarket Co., Ltd. are both controlled by a close family member of the Controlling Shareholder.

(b) Henan Yinbao Investment Guarantee Co., Ltd. is controlled by a close family member of the Controlling Shareholder.

(c) Henan Jinshahu Golf Club Co., Ltd. and Zhengzhou Jinshahu Property Co., Ltd. are both controlled by the Controlling Shareholder.

## 38. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (b) Balances with related parties

The Group had the following significant balances with its related parties during the year:

Due from related parties:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Non-trade related: | | |
| The Controlling Shareholder | | |
| – Mr. Feng Changge | 36,585 | 676,452 |
| An associate | | |
| – Yongda Hexie | 910 | 2,996 |
| | 37,495 | 679,448 |

Except for the loans the Group granted to the Controlling Shareholder before the Company's Listing, which bore an annual interest rate of 15% during the year (2012: 15%), other balances with related parties were unsecured and non-interest-bearing and had no fixed repayment terms.

### (c) Compensation of key management personnel of the Group

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Short term employee benefits | 5,603 | 3,744 |
| Equity-settled share award expense | 15,786 | – |
| Post-employee benefits | 312 | 162 |
| Total compensation paid to key management personnel | 21,701 | 3,906 |

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

## 39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

During the year ended 31 December 2012, certain of the subsidiaries now comprising the Group declared dividend of RMB559,320,000 to the Controlling Shareholder, which was then offset against the loan due from the Controlling Shareholder to the Group.

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

### Interest rate risk

The Group has no significant interest-bearing assets other than loans to the Controlling Shareholder (note 38(b)), loans to third parties (note 21), pledged bank deposits (note 22) and cash and cash equivalents (note 24).

The Group's interest rate risk arises from its bank loans and other borrowings, details of which are set out in note 25. Borrowings at variable rates expose the Group to the risk of changes in market interest rates.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

| | **Increase/(decrease) in basis points** | **Increase/(decrease) in profit before tax** RMB'000 |
|---|---|---|
| Year ended 31 December 2013 | | |
| RMB | **50** | **(1,844)** |
| RMB | **(50)** | **1,844** |
| Year ended 31 December 2012 | | |
| RMB | 50 | (1,171) |
| RMB | (50) | 1,171 |

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Foreign currency risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in US$ and HK$ as disclosed in note 24.

The Group's assets and liabilities denominated in US$ and HK$ were mainly held by certain subsidiaries incorporated outside Mainland China who had US$ and HK$ as their functional currencies, and the Group did not have material foreign currency transactions in Mainland China during the year. Therefore, the Group had immaterial foreign currency risk.

### Credit risk

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

As at 31 December 2013, all pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

### Liquidity risk

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

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

| | **As at 31 December 2013** | | | | | |
|---|---|---|---|---|---|---|
| | **On demand RMB'000** | **Less than 3 months RMB'000** | **3 to 12 months RMB'000** | **1 to 5 years RMB'000** | **Over 5 years RMB'000** | **Total RMB'000** |
| Bank loans and other borrowings | **–** | **1,184,871** | **1,555,548** | **61,530** | **–** | **2,801,949** |
| Trade and bills payables | **4,747** | **1,008,545** | **350,591** | **–** | **–** | **1,363,883** |
| Other payables and accruals | **224,912** | **–** | **–** | **–** | **–** | **224,912** |
| | **229,659** | **2,193,416** | **1,906,139** | **61,530** | **–** | **4,390,744** |

| | As at 31 December 2012 | | | | | |
|---|---|---|---|---|---|---|
| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | 1 to 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
| Bank loans and other borrowings | – | 753,563 | 1,094,347 | 298,412 | – | 2,146,322 |
| Trade and bills payables | 3,805 | 584,558 | 229,766 | – | – | 818,129 |
| Other payables and accruals | 74,201 | – | – | – | – | 74,201 |
| | 78,006 | 1,338,121 | 1,324,113 | 298,412 | – | 3,038,652 |

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Capital management

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

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

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

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Bank loans and other borrowings | **2,720,285** | 2,067,774 |
| Trade and bills payables | **1,363,883** | 818,129 |
| Other payables and accruals | **937,299** | 626,852 |
| Less: Cash and cash equivalents | **(1,964,365)** | (342,685) |
| Net debt | **3,057,102** | 3,170,070 |
| Equity attributable to owners of the parent | **2,220,849** | 588,758 |
| Gearing ratio | **57.9%** | 84.3% |

## 41. INTERESTS IN SUBSIDIARIES

| | **Company** | |
|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 |
| Unlisted shares, at cost | **–** | – |
| Due from a subsidiary | **1,176,782** | – |
| | **1,176,782** | – |

## 41. INTERESTS IN SUBSIDIARIES (continued)

The amount due from a subsidiary included in the interests in subsidiaries above is unsecured, interest-free and has no fixed terms of repayment.

As at 31 December 2013, the Company had direct or indirect interests in the following subsidiaries:

| Company name | Place and date of incorporation/ registration | Authorised/registered/ paid-in/issued capital | Proportion of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Crystalline Prestige Investments Limited | Tortola, British Virgin Islands 2012 | Registered capital of US$500 and paid-in capital of US$0.01 | 100% | – | Investment holding |
| LC Gloricar Investment Limited | Tortola, British Virgin Islands 2011 | Registered capital of US$1,000,000 and paid-in capital of US$10,000 | – | 100% | Investment holding |
| Ace Manufacturing Holding Limited | Hong Kong, the PRC 2012 | Registered capital of HK$10,000 and paid-in capital of HK$100 | – | 100% | Investment holding |
| Daoable Future Limited | Hong Kong, the PRC 2011 | Registered capital of US$10,000 and paid-in capital of US$100 | – | 100% | Investment holding |
| 河南和諧汽車貿易有限公司 (Henan Hexie Automobile Trading Co., Ltd.) | Zhengzhou, the PRC 2011 | Registered and paid-in capital of RMB1,215,000,000 | – | 100% | Investment holding |
| 河南中德寶汽車銷售服務有限公司 (Henan Zhongdebao Automobile Sales & Services Co., Ltd.) | Zhengzhou, the PRC 2005 | Registered and paid-in capital of RMB42,860,000 | – | 100% | Sale and service of motor vehicles |
| 鄭州鄭德寶汽車銷售服務有限公司 (Zhengzhou Zhengdebao Automobile Sales & Services Co., Ltd.) | Zhengzhou, the PRC 2009 | Registered and paid-in capital of RMB40,000,000 | – | 100% | Sale and service of motor vehicles |
| 西安華都汽車銷售服務有限公司 (Xi'an Huadu Automobile Sales & Services Co., Ltd.) | Xi'an, the PRC 2012 | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale and service of motor vehicles |

## 41. INTERESTS IN SUBSIDIARIES (continued)

| Company name | Place and date of incorporation/ registration | Authorised/registered/ paid-in/issued capital | Proportion of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| 河南英之翼汽車銷售服務有限公司 (Henan Yingzhiyi Automobile Sales & Services Co., Ltd.) | Zhengzhou, the PRC 2012 | Registered and paid-in capital of RMB10,010,000 | – | 100% | Sale and service of motor vehicles |
| 廣州市廣德寶汽車銷售服務有限公司 (Guangzhou Guangdebao Automobile Sales & Services Co., Ltd.) | Guangzhou, the PRC 2012 | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale and service of motor vehicles |
| 鄭州華鼎汽車銷售服務有限公司 (Zhengzhou Huading Automobile Sales & Services Co., Ltd.) | Zhengzhou, the PRC 2012 | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale and service of motor vehicles |
| 洛陽路和汽車銷售服務有限公司 (Luoyang Luhe Automobile Sales & Services Co., Ltd.) | Luoyang, the PRC 2012 under construction | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale and service of motor vehicles |
| 上海上德寶駿汽車銷售服務有限公司 (Shanghai Shangdebaojun Automobile Sales & Services Co., Ltd.) | Shanghai, the PRC 2011 | Registered and paid-in capital of RMB50,000,000 | – | 90% | Sale and service of motor vehicles |
| 宜昌路順汽車銷售服務有限公司 (Yichang Lushun Automobile Sales & Services Co., Ltd.) | Yichang, the PRC 2012 | Registered and paid-in capital of RMB10,000,000 | – | 65% | Sale and service of motor vehicles |
| 新鄉市新德寶汽車服務有限公司 (Xinxiang Xindebao Automobile Services Co., Ltd.) | Xinxiang, the PRC 2009 | Registered and paid-in capital of RMB1,500,000 | – | 100% | Service of motor vehicles |
| 洛陽豫德寶汽車銷售服務有限公司 (Luoyang Yudebao Automobile Sales & Services Co., Ltd.) | Luoyang, the PRC 2009 | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale and service of motor vehicles |

## 41. INTERESTS IN SUBSIDIARIES (continued)

| Company name | Place and date of incorporation/ registration | Authorised/registered/ paid-in/issued capital | Proportion of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| 南陽宛德寶汽車銷售服務有限公司 (Nanyang Wandebao Automobile Sales & Services Co., Ltd.) | Nanyang, the PRC 2010 | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale and service of motor vehicles |
| 河南和德寶汽車服務有限公司 (Henan Hedebao Automobile Services Co., Ltd.) | Zhengzhou, the PRC 2011 under construction | Registered and paid-in capital of RMB20,000,000 | – | 100% | Service of motor vehicles |
| 鄭州華誠汽車銷售服務有限公司 (Zhengzhou Huacheng Automobile Sales & Services Co., Ltd.) | Zhengzhou, the PRC 2011 | Registered and paid-in capital of RMB20,000,000 | – | 100% | Sale and service of motor vehicles |
| 安陽安德寶汽車銷售服務有限公司 (Anyang Andebao Automobile Sales & Services Co., Ltd.) | Anyang, the PRC 2011 | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale and service of motor vehicles |
| 開封汴德寶汽車銷售服務有限公司 (Kaifeng Biandebao Automobile Sales & Services Co., Ltd.) | Kaifeng, the PRC 2012 | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale and service of motor vehicles |
| 北京市華德寶汽車銷售服務有限公司 (Beijing Huadebao Automobile Sales & Services Co., Ltd.) | Beijing, the PRC 2010 | Registered and paid-in capital of RMB55,000,000 | – | 100% | Sale and service of motor vehicles |
| 鄭州遠達雷克薩斯汽車銷售服務有限公司 (Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd.) | Zhengzhou, the PRC 2006 | Registered and paid-in capital of RMB50,000,000 | – | 100% | Sale and service of motor vehicles |
| 廈門遠達雷克薩斯汽車銷售服務有限公司 (Xiamen Yuanda Lexus Automobile Sales & Services Co., Ltd.) | Xiamen, the PRC 2011 | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale and service of motor vehicles |

## 41. INTERESTS IN SUBSIDIARIES (continued)

| Company name | Place and date of incorporation/ registration | Authorised/registered/ paid-in/issued capital | Proportion of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| 武漢漢德寶汽車銷售服務有限公司 (Wuhan Handebao Automobile Sales & Services Co., Ltd.) | Wuhan, the PRC 2012 | Registered and paid-in capital of RMB20,000,000 | – | 100% | Sale and service of motor vehicles |
| 武漢華鄭汽車銷售服務有限公司 (Wuhan Huazheng Automobile Sales & Services Co., Ltd.) | Wuhan, the PRC 2012 | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale and service of motor vehicles |
| 蘇州意駿汽車銷售服務有限公司 (Suzhou Yijun Automobile Sales & Services Co., Ltd.) | Suzhou, the PRC 2012 | Registered and paid-in capital of RMB50,000,000 | – | 100% | Sale and service of motor vehicles |
| 新鄉和德寶汽車銷售服務有限公司 (Xinxiang Hedebao Automobile Sales & Services Co., Ltd.) | Xinxiang, the PRC 2012 | Registered and paid-in capital of RMB10,000,000 | – | 51% | Sale and service of motor vehicles |
| 瀋陽瀋德寶汽車銷售服務有限公司 (Shenyang Shendebao Automobile Sales & Services Co., Ltd.) | Shenyang, the PRC 2013 under construction | Registered and paid-in capital of RMB20,000,000 | – | 100% | Sale and service of motor vehicles |
| 瀋陽瀋之翼汽車銷售服務有限公司 (Shenyang Shenzhiyi Automobile Sales & Services Co., Ltd.) | Shenyang, the PRC 2013 under construction | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale and service of motor vehicles |
| 北京豪駿行汽車銷售服務有限公司 (Beijing Haojunhang Automobile Sales & Services Co., Ltd.) | Beijing, the PRC 2013 | Registered and paid-in capital of RMB50,000,000 | – | 100% | Sale and service of motor vehicles |
| 漯河漯德寶汽車銷售服務有限公司 (Luohe Luodebao Automobile Sales & Services Co., Ltd.) | Luohe, the PRC 2013 | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale and service of motor vehicles |
| 常州常駿行汽車銷售服務有限公司 (Changzhou Changjunhang Automobile Sales & Services Co., Ltd.) | Changzhou, the PRC 2013 under construction | Registered and paid-in capital of RMB20,000,000 | – | 100% | Sale and service of motor vehicles |

## 41. INTERESTS IN SUBSIDIARIES (continued)

| Company name | Place and date of incorporation/ registration | Authorised/registered/ paid-in/issued capital | Proportion of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| 北京華駿行汽車銷售服務有限公司 (Beijing Huajunhang Automobile Sales & Services Co., Ltd.) | Beijing, the PRC 2013 | Registered and paid-in capital of RMB50,010,000 | – | 100% | Sale and service of motor vehicles |
| 無錫龍駿行汽車銷售服務有限公司 (Wuxi Longjunhang Automobile Sales & Services Co., Ltd.) | Wuxi, the PRC 2013 | Registered and paid-in capital of RMB50,000,000 | – | 100% | Sale and service of motor vehicles |
| 河南和諧汽車融資租賃有限公司 (Henan Lease Finance Co., Ltd.) | Zhengzhou, the PRC 2013 | Registered and paid-in capital of HK$250,000,000 | – | 100% | Service of finance lease |
| 鄭州悅達和諧汽車服務有限公司 (Zhengzhou Yueda Hexie Automobile Services Co., Ltd.) | Zhengzhou, the PRC 2013 | Registered and paid-in capital of RMB30,090,000 | – | 100% | Service of motor vehicles |
| 洛陽和諧汽車維修服務有限公司 (Luoyang Hexie Automobile Repair Services Co., Ltd.) | Luoyang, the PRC 2013 | Registered and paid-in capital of RMB5,000,000 | – | 100% | Service of motor vehicles |
| 陝西和諧汽車維修服務有限公司 (Shaanxi Hexie Automobile Repair Services Co., Ltd.) | Xi'an, the PRC 2013 | Registered and paid-in capital of RMB10,000,000 | – | 100% | Service of motor vehicles |
| 上海和諧汽車維修服務有限公司 (Shanghai Hexie Automobile Repair Services Co., Ltd.) | Shanghai, the PRC 2013 | Registered and paid-in capital of RMB10,000,000 | – | 100% | Service of motor vehicles |
| 洛陽遠達雷克薩斯汽車銷售服務有限公司 (Luoyang Yuanda Lexus Automobile Sales & Services Co., Ltd.) | Luoyang, the PRC 2013 under construction | Registered and paid-in capital of RMB20,000,000 | – | 100% | Sale and service of motor vehicles |

## 42. EVENTS AFTER THE REPORTING PERIOD

There is no significant subsequent event undertaken by the Company or by the Group after 31 December 2013.

## 43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2014.

# Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the published audited financial information and statements is set out below.

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 |
| **RESULTS** | | | | |
| **REVENUE** | **8,332,749** | 5,656,744 | 3,031,856 | 1,801,358 |
| Cost of sales and services | **(7,335,607)** | (4,993,298) | (2,614,356) | (1,569,951) |
| **Gross profit** | **997,142** | 663,446 | 417,500 | 231,407 |
| Other income and gains, net | **303,160** | 236,658 | 78,903 | 23,634 |
| Selling and distribution costs | **(426,408)** | (237,030) | (106,737) | (64,517) |
| Administrative expenses | **(117,584)** | (71,611) | (30,330) | (18,716) |
| **Profit from operations** | **756,310** | 591,463 | 359,336 | 171,808 |
| Finance costs | **(194,839)** | (116,403) | (61,872) | (19,956) |
| Share of profit of an associate | **501** | 222 | – | – |
| **Profit before tax** | **561,972** | 475,282 | 297,464 | 151,852 |
| Income tax expense | **(154,847)** | (124,563) | (77,014) | (39,152) |
| **Profit for the year** | **407,125** | 350,719 | 220,450 | 112,700 |
| **Attributable to:** | | | | |
| Owners of the parent | **404,135** | 350,822 | 220,466 | 112,700 |
| Non-controlling interests | **2,990** | (103) | (16) | – |
| | **407,125** | 350,719 | 220,450 | 112,700 |
| **ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS** | | | | |
| TOTAL ASSETS | **7,609,013** | 4,375,138 | 2,850,188 | 1,343,273 |
| TOTAL LIABILITIES | **(5,371,893)** | (3,773,099) | (1,991,833) | (1,003,418) |
| NON-CONTROLLING INTERESTS | **(16,271)** | (13,281) | (4,984) | – |
| | **2,220,849** | 588,758 | 853,371 | 339,855 |