YONDA 永达汽车

# CHINA YONGDA AUTOMOBILES SERVICES HOLDINGS LIMITED
# 中國永達汽車服務控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code：03669

# 2014
# Annual Report



JAGUAR

CHINA YONGDA AUTOMOBILES SERVICES HOLDINGS LIMITED
ANNUAL REPORT 2014

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# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors**

Mr. CHEUNG Tak On *(Chairman)*
Mr. CAI Yingjie *(Vice-chairman and Chief Executive Officer)*
Mr. WANG Zhigao *(Vice-chairman)*
Mr. XU Yue *(President)*
Ms. CHEN Yi *(Vice-president)*

**Non-executive Director**

Mr. WANG Liqun

**Independent Non-executive Directors**

Mr. WANG Zhiqiang
Mr. LU Wei
Mr. CHEN Xianglin

## CORPORATE HEADQUARTER

299 Ruijin Nan Road, Huangpu District
Shanghai
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 5708, 57/F, The Center
99 Queen's Road Central
Central
Hong Kong

## REGISTERED OFFICE

190 Elgin Avenue
George Town
Grand Cayman KY1-9005
Cayman Islands

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue
George Town
Grand Cayman KY1-9005
Cayman Islands

## LEGAL ADVISERS TO HONG KONG LAW

Davis Polk & Wardwell
18th Floor, The Hong Kong Club Building
3A Chater Road, Hong Kong

## COMPANY SECRETARY

Ms. MOK Ming Wai *(FCIS, FCS)*

## AUTHORIZED REPRESENTATIVES

Mr. WANG Zhigao
Ms. MOK Ming Wai

## AUDIT AND COMPLIANCE COMMITTEE

Mr. WANG Zhiqiang *(Chairman)*
Mr. LU Wei
Mr. CHEN Xianglin

## REMUNERATION COMMITTEE

Mr. WANG Zhiqiang *(Chairman)*
Mr. WANG Zhigao
Mr. LU Wei

## NOMINATION COMMITTEE

Mr. CHEUNG Tak On *(Chairman)*
Mr. CHEN Xianglin
Mr. LU Wei

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## STOCK CODE

03669

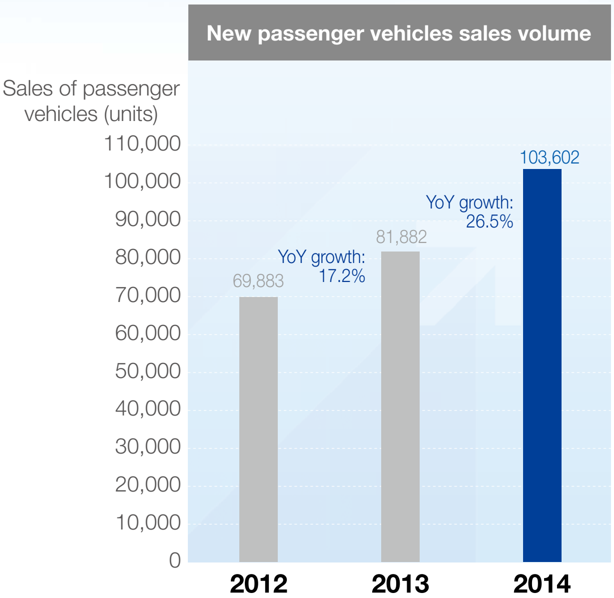
## AUDITOR

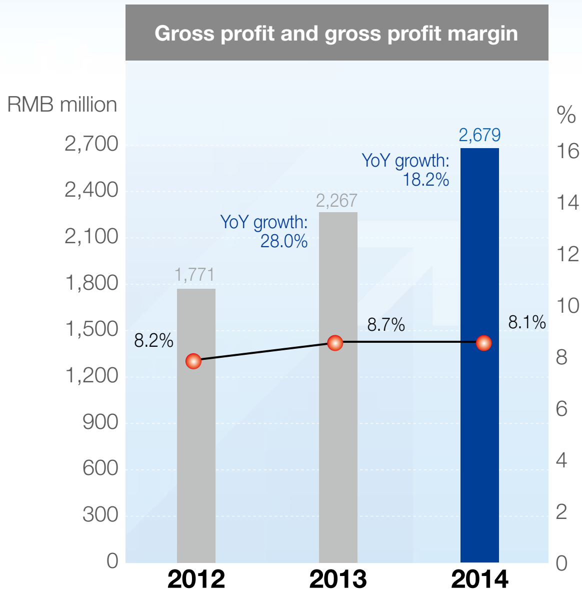
Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

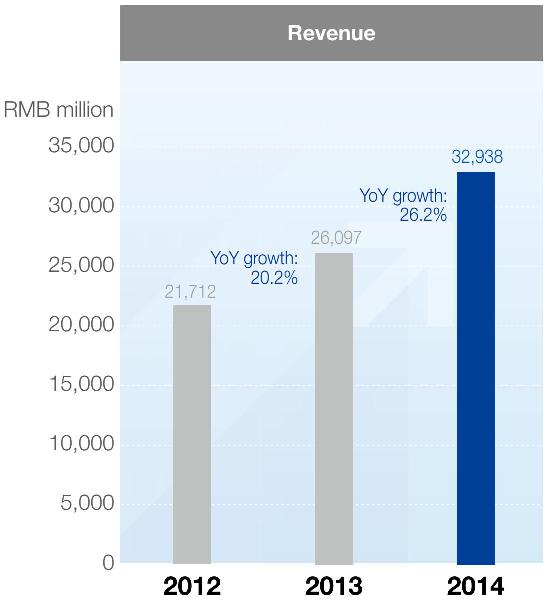
## COMPANY WEBSITE

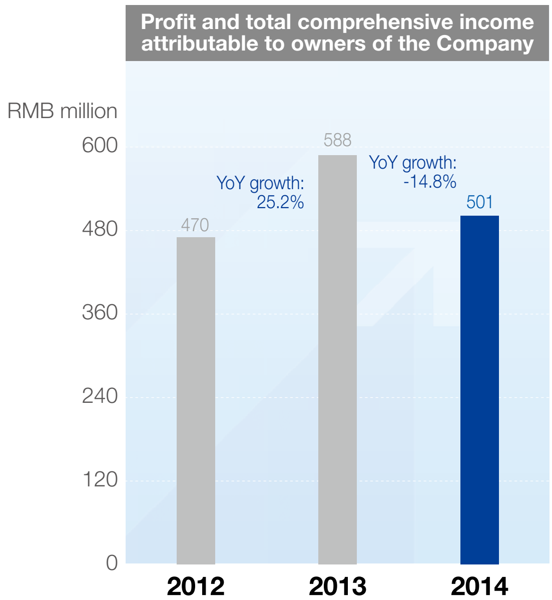
www.ydauto.com.cn

# Financial Highlights



# Chairman's Statement

Dear shareholders,

On behalf of the board of directors (the "Board") and the management of China Yongda Automobiles Services Holdings Limited (the "Company"), I am pleased to present the 2014 Annual Report of the Company and its subsidiaries (collectively referred to as "the Group", "we", or "us").

## I. MARKET ANALYSIS

In 2014, China's automobile market continued to maintain a steady growth. According to the China Association of Automobile Manufacturers, China's automobile sales volume was approximately 23,491,900 units for 2014, representing an increase of approximately 6.9% as compared with that of 2013, ranking the top of global automobile sales volume for the six consecutive years. In 2014, the sales volume for luxury and ultra-luxury brand passenger vehicles in China has continued its fast growth with an increase of 23.2% as compared to that of 2013. Given the rate of vehicle ownership per 1,000 people calculated based on the statistic data from the Traffic Management Bureau of the Ministry of Public Security and combined with the actual conditions of China's development, we believe that China's automobile sales volume still has high growth potential in the future.

According to the data from the Traffic Management Bureau of the Ministry of Public Security, the vehicle ownership in China reached 154 million units by the end of 2014, and with continuous rise in passenger vehicle ownership and the aging of vehicles in China, there is huge space for the after-sales service market. According to the forecast of Roland Berger, the revenue of after-sales service market of luxury and ultra-luxury brand passenger vehicles in China will reach approximately RMB343 billion by the year of 2018, with a compound annual growth rate ("CAGR") of approximately 22%.

In addition, although China achieved significant growth in pre-owned vehicles transaction, automobile finance and automobile rental businesses in 2014, there is still huge potential for development as compared with the developed markets dominated by the United States.

On the basis of the foregoing, the Group believes that the passenger vehicle market in China is favorable. It is crucial for us to seize the market opportunities while following the development of times, and steadily promote the rapid growth for our businesses.

## II. ACHIEVEMENTS OF THE COMPANY IN 2014

### 1. Faster Growth of New Vehicle Sales

In 2014, we seized every market opportunity, under complicated market environment and recorded the sales of new vehicle of 103,602 units, representing an increase of 26.5% compared to 2013, among which the sales of luxury and ultra-luxury passenger vehicles was 60,237 units, representing an increase of 42.3% as compared to 2013.

### 2. Rapid Development of After-sales Services Business

In 2014, the revenue from our after-sales services, mainly including repair and maintenance services and automobile extension products and services, reached RMB3.537 billion, representing an increase of 36.9% compared to 2013, among which the revenue from after-sales services for luxury and ultra-luxury brands reached RMB2.727 billion, representing an increase of 50.7% compared to 2013.

3. **Rapid Development of Automobile Finance Business**

   In 2014, our finance leasing business achieved additional interest-generating assets of RMB1.463 billion of which RMB1.198 billion was attributable to the second half of the year, representing an increase of 352% as compared to the first half of the year. In 2014, our finance leasing business contributed a net profit of RMB23.25 million, accounting for 4.31% of the combined net profit for the Group.

   In 2014, we further strengthened the all-round cooperation with financial institutions such as banks and insurance companies, continuously improved our product structure, enhanced our service efficiency and strengthened the performance appraisal in respect of financial permeability, which contributed to the rapid development of the related finance businesses.

4. **New Progress of the Pre-owned Vehicle Business**

   In 2014, we endeavored to promote the development of the pre-owned vehicle business. We established a new e-commerce platform through setting up a joint venture with BitAutocom and Youxinpai. Meanwhile, we launched the Yongda authentication quality standard system for pre-owned vehicles, and strengthened the construction of the offline outlets of pro-owned vehicles under "Yongda" brand. We strived to build a new pattern for Yongda pre-owned vehicle business featured by brand chain operation and new layout for online and offline integration.

5. **Strengthening the Construction of E-commerce Platform**

   In 2014, we paid high attention on the construction of e-commerce platform, with a view to build an e-commerce platform of "Yongda Automobiles World" (車生活). For this reason, we strived to build a digital marketing platform, after-sales e-commerce platform, pre-owned vehicle e-commerce platform and customer relationship management system. We believe that the Internet will promote the development of our industry and improve the quality of our customer services.

6. **Continuous Expansion of Our Network**

   In 2014, we opened 18 new passenger vehicle sales and services outlets focusing on luxury and ultra-luxury brands, and set up four "Auto Repair (車易修)" brand luxury automobile maintenance and repair centers which are not required to obtain authorization from the vehicle manufactures. Meanwhile, we continued to implement the low-cost mergers and acquisitions strategy of our Group, and successfully acquired ten 4S dealerships and city showroom for luxury brands. As of the end of 2014, we have opened 155 outlets, which together with the outlets we have been authorized to open totaled 192 outlets, which are located across 3 municipalities and 50 cities in 17 provinces in China.

7. **Continuous Improvement of Management Level**

   In 2014, we devoted great effort to various aspects such as standardization of business processes, division management, team building, performance appraisal in respect of remuneration and capital management, with a view to continuously improving our management level and enhancing our operating efficiency. We are deeply honored that our franchised outlets under the brands of BMW, Porsche, Jaguar/Land Rover, Buick and Shanghai-Volkswagen were granted various awards by the manufacturers for their excellent operating results.

## III. OUTLOOK FOR 2015

### 1. Comprehensively Promoting the Development of Each Business

We believe that China as the world's largest vehicle market has promising market prospect for passenger vehicles, especially for the luxury and ultra-luxury passenger vehicles. As such, we will scientifically promote our network construction and simultaneously implement strategy of low costs acquisition and merger, so as to increase the coverage of our service network in China. Moreover, we will actively develop automobile after-market services to continue to expand our after-sales services and improve our profitability, striving for significant breakthroughs in various areas such as automobile finance, automobile rental, pre-owned vehicles and automobile products to promote a healthy and sustainable development for the Group.

### 2. Strengthening the Construction of E-commerce Platform

We are in an era of rapid development of the Internet which will significantly change the way we live, and we need to hold positive attitude towards this and actively capture any market opportunity. Therefore, we plan to continue to strengthen our studies and research on the construction of the Internet e-commerce platform in 2015, with a view to create a distinctive e-commerce platform areas such as sales, after sales, finance and pre-owned vehicles and welcome the arrival of the era of intelligent vehicles in a pro-active manner.

### 3. Progressing with the Times, Granting Reasonable Authorization and Improving Efficiency

In 2015, we will keep pace with the times to enhance the Board's strategic decision-making capacity of the Company by taking the opportunity of further improving the corporate governance structure, and further divide and demarcate the respective functions of each level of management teams within the Group, grant reasonable authorization to cultivate our teams and intensify the performance appraisal, so as to motivate the ambitious and aggressive potential of the young teams and open up a new chapter for our business. We strongly believe that talents are the core competitiveness of the Company, and the enhancement of human resources management is the most important strategy of the Group. We will continue to devote more effort in three aspects, namely, talent introduction, talent training and performance appraisal. We plan to actively prepare for a corporate university to promote our training capacity of internal talents and promote the vigorous development of Yongda.

In 2014, despite the challenging market conditions, the Group achieved satisfactory results with joint efforts of all our staff. In this regards, I, on behalf of the Board, would like to take this opportunity to express my sincere gratitude. We are full of confidence that the luxury and ultra-luxury automobile market in China has a wide and bright prospect in the future, and we are willing to accept the coming challenges.

**CHEUNG Tak On**
*Chairman*

March 23, 2015

# Management Discussion and Analysis

## MARKET REVIEW

In 2014, China's automobile market continued to maintain a steady growth. According to the China Association of Automobile Manufacturers, China's automobile sales volume was approximately 23,491,900 units for 2014, representing an increase of 6.9% compared to 2013, and ranked the top of global automobile sales volume for the six consecutive years. Driven by the increasing demand for multi-purpose passenger vehicles (MPV) and sport utility passenger vehicles (SUV), the sales volume of passenger vehicles significantly increased to 19,700,600 units, representing an increase of 9.9% compared to 2013, among which, the sales volume of MPV was 1,914,300 units with a year-on-year growth of 46.8%; and the sales volume of SUV was 4,077,900 units with a year-on-year growth of 36.4%.

Benefiting from the continuous launch of new vehicle models, especially the domestically manufactured models and entry-level models, and the strong demand from customers for replacement and upgrading, the sales volume for luxury and ultra-luxury brand passenger vehicles in China for 2014 has continued its fast growth with an increase of 23.2% compared to 2013. In 2014, the sales volume of various mainstream luxury and ultra-luxury brands in mainland China, namely BMW, Audi, Porsche, Jaguar/Land Rover, Volvo and Cadillac, were 426,000 units, 579,000 units, 47,000 units, 122,000 units, 81,000 units and 74,000 units, respectively, representing a growth of approximately 17.6%, 17.7%, 25.7%, 27.7%, 32.8% and 47.0%, respectively, as compared to 2013.

Despite the fact that China's automobile market has maintained a fast growth for more than ten years, the rate of vehicle ownership per 1,000 people in China was far lower than that in the developed countries. According to the data from the Traffic Management Bureau of the Ministry of Public Security, it is estimated that the rate of vehicle ownership per 1,000 people in China was approximately 101 units at the end of 2013, whereas the rate of vehicle ownership per 1,000 people in the United States and Germany was approximately 812 units and 634 units respectively in 2013, therefore China's automobile market, especially the passenger vehicle market, still has high growth potential in the future.

According to the data from the Traffic Management Bureau of the Ministry of Public Security, the vehicle ownership in China reached 154 million units at the end of 2014. Currently, 35 cities across the country have achieved vehicle ownership of more than one million units, among which ten cities such as Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin and Chengdu have vehicle ownership of over two million units. Along with the continuous rise in passenger vehicle ownership and the aging of passenger vehicles in China, China's after-sales services market for passenger vehicles has maintained its fast-growing pace in 2014. Moreover, the demand from customers for high quality maintenance and repair and other related extension products and services from luxury and ultra-luxury brand passenger vehicles and their relatively lower sensitivity to price have further boosted the growth of the after-sales services market for luxury and ultra-luxury brand passenger vehicles. According to the forecast from Roland Berger, by 2018, the ownership of luxury and ultra-luxury brand passenger vehicles in China is expected to reach approximately 16,080,000 units, among which, the percentage of passenger vehicles that are older than two years is expected to rise to approximately 74%. As a result, Roland Berger predicts that China's after-sales services market for the luxury and ultra-luxury brand passenger vehicle segment is expected to generate revenue of about RMB343 billion with a compound annual growth rate ("CAGR") of approximately 22% by 2018.

According to the data from China Automobile Dealers Association, the transaction volume of pre-owned vehicles in China reached 6,050,000 units in 2014. Despite this, in China, the proportion of transaction volume of pre-owned vehicles to the sales volume of automobile for the same period was 25.8%, which was far below than that of approximately 300% in the United States for the same period. Meanwhile, the penetration rate of automobile finance in China was only 18% in 2013, which was far below the level of the developed western countries. Therefore, the growth potential for pre-owned vehicles and automobile finance business is expected to be enormous in the future.

# Management Discussion and Analysis

According to the information from Roland Berger, based on income, the highly fragmented long-term automobile rental market accounts for the largest portion of China's automobile rental market. Based on income, long-term automobile rental market increased from approximately RMB7 billion in 2008 to approximately RMB24 billion in 2013 with a CAGR of 28%. Driven by factors such as increased car use by corporations, financial optimization for corporations and policy reforms on government vehicles, the long-term automobile rental market in China will maintain a relatively fast growth with further integration in the future.

We believe that, driven by the continuing growth in passenger vehicle ownership and a gradually maturing market, the after-market service business for luxury and ultra-luxury brand passenger vehicles in China, including maintenance and repair services, extension products and services, automobile finance and insurance services, pre-owned vehicles and automobile rental services, will continue its fast growth.

## BUSINESS REVIEW

As a leading passenger vehicle retailer and comprehensive service provider in China, we achieved favourable growth in 2014. Our revenue and gross profit for the year of 2014, were RMB32,938 million and RMB2,679 million, respectively, representing an increase of 26.2% and 18.2%, respectively, as compared to 2013. Our earnings before interests, taxation, depreciation and amortization (EBITDA) was RMB1,452 million, representing an increase of 11.7% compared to 2013. Set forth below is a summary of major developments of our business in 2014:

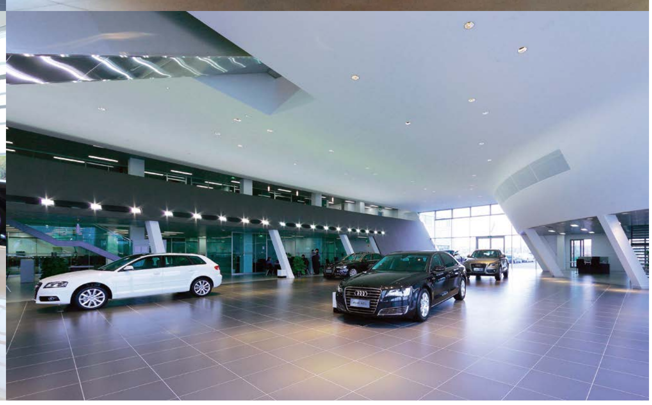
### Faster Growth in New Vehicle Sales

The market for passenger vehicles in China has continued to grow steadily in 2014. Based on the changes of market conditions and for the purpose of improving our profitability, we continue to strive for fully utilizing the business policy from our manufacturers, improving automobile model portfolio, optimizing our sales business mode, enhancing integrated management of inventory and selling price control, in order to achieve a balance between sustainable sales growth, satisfactory inventory level and reasonable profitability.


Despite the challenging market environment, driven by the overall growth in passenger vehicles market and the additional sales from the our newly opened outlets and outlets through mergers and acquisitions, our sales volume of passenger vehicles reached 103,602 units in 2014, representing a 26.5% increase compared to 2013, among which, the sales volume of luxury and ultra-luxury brand passenger vehicles reached 60,237 units in 2014, representing a 42.3% increase compared to 2013. Our sales revenue for passenger vehicles was RMB29,074 million in 2014, representing a 25.1% increase compared to that in 2013, among which, the sales revenue for luxury and ultra-luxury brand passenger vehicles reached RMB23,831 million, representing a 29.6% increase compared to 2013. The proportion of sales revenue from luxury and ultra-luxury brand passenger vehicles to the sales revenue from passenger vehicles further increased to 82.0% in 2014 from 79.1% in 2013.

**Rapid Development of After-sales Services**

Our repair and maintenance services continued its fast growth in 2014, particularly for our luxury and ultra-luxury brands. This was mainly due to the fact that we continued to enhance the quality and customer satisfaction through our “one-stop shop” repair and maintenance services; strengthened marketing and promotion via our well-known “Yongda” brand; enhanced our cooperation with insurance companies to boost the proportion of our accident car repair business; and effectively increased our efficiency of repair and maintenance services and lowered our costs through the improvement of repair and maintenance processes and management, and the centralized procurement of spare parts.



Meanwhile, we continued to strengthen the provision of comprehensive, diversified and value-added automobile extension products and services to customers through our "one-stop shop" service, which mainly includes automobile decoration, automobile related products, automobile modifications, automobile care and maintenance services. Through our continuous improvement and remodeling of the sales process, competitive evaluation and incentive system and the introduction of suppliers and products that meet customers' needs, our automobile extension products and services business has, to a certain extent, promoted the overall growth in revenue for our after-sales services in 2014.

In addition, the rapid increase in revenue from after-sales services of our newly-opened outlets and the contribution by our acquired outlets are additional factors that boost the overall growth in revenue for our after-sales services.

In 2014, our after-sales services business, which mainly includes repair and maintenance services and automobile extension products and services, achieved a revenue of RMB3,537 million, representing an increase of 36.9% compared to 2013, among which, revenue from after-sales services for luxury and ultra-luxury brands reached RMB2,727 million, representing an increase of 50.7% compared to 2013. In 2014, our gross profit margin of after-sales services was 45.8%, which remained stable as compared to 46.7% in 2013.

**Proactive Promotion of Pre-owned Vehicle Business**

During 2014, we put great efforts in promoting the development of pre-owned vehicle business. We established a new public e-commerce platform through the joint venture with BitAutocom and Youxinpai to create an O2O e-commerce business layout with the adoption of a nationwide B2C/C2B retail business mode and the coordination with offline service experience; accelerated the construction of high end boutique showrooms for pre-owned vehicles to form a business pattern with high end positioning and chained operation; extended the construction of Yongda's self-owned pre-owned vehicle outlets and established an operation pattern of brand chained operation; issued Yongda authentication standards for pre-owned vehicles and implemented 168 professional inspection and quality standards under seven major categories in order to expand its brand influence; achieved effective bundling between pre-owned vehicles and finance, insurance, extended warranty, supplies, maintenance and repair and other services, and enhanced the additional value of the pre-owned vehicles retail business. Meanwhile, we actively implemented the connection between the pre-owned vehicle business and the strong internet marketing channels, such as BitAutocom and Tmall, to lay a solid foundation for achieving the restructuring and upgrading of business.

**Proactive Layout of Automobile Rental Services**

In 2014, the revenue for our automobile rental services maintained a steady growth. Facing the opportunites for future development in rental market, we mainly conducted the layout for network development and business structure. In 2014, apart from focusing on the business development in Shanghai, we also set up branch companies in cities such as Chongqing, Suzhou and Guangzhou. In addition, we also kept abreast of the automobile rental platform development and actively explored opportunities for cooperation.

**Rapid Development of Finance Leasing**

Our finance leasing business achieved additional interest-generating assets of RMB1,463 million in 2014, in which the achievement for the second half of the year was RMB1,198 million representing an increase of 352% as compared to the first half of the year. In 2014, the finance leasing business contributed a net profit of RMB23.25 million for us, accounting for 4.31% of our combined net profit. The rapid development of finance leasing business was mainly due to the recruitment of professional management personnel, and the reconstruction of corresponding organizational structure and management procedures during the first half of the year; on the other hand, it was also due to the full utilization of our advantages in respect of the passenger vehicle sales channels and resources over the years.

**Fast Growth in Automobile Finance and Insurance Business**

We fully examined the cooperating organizations with respect to automobile finance and insurance during 2014 for the purpose of seeking the best partners in various areas including product structure, service efficiency and regional coverage, so as to effectively enhance the penetration rate of automobile finance and insurance and relevant incomes from these services.

In 2014, our revenue from after-market finance services in respect of automobile finance and insurance reached approximately RMB286 million, representing an increase of 58.2% compared to 2013.

**Creation of the E-commerce Platform — "Yongda Automobiles World"**

Along with the rapid development of domestic e-commerce in various industries, the reliance on e-commerce platforms for automobiles by customers is increasing. Therefore, we adhere to the concept of enhancing the customer experience to create the e-commerce platform "Yongda Automobiles World", and to gradually satisfy all kinds of vehicles usage demand via closed-loop e-commerce business in the future. In 2014, in respect of the e-commerce on the internet, we focused on the following works:

- ***Development on Digital Marketing System***

  As the entrance for "Yongda Automobiles World" e-commerce platform, the digital marketing system enables all existing self-media of Yongda including its website, Weibo, WeChat and its mobile applications, together with the need for docking of the mature external internet resources, such as the third party resources including automobile websites and portal websites of professional vertical mode, to effectively consolidate the offline resources for pre-sales, sales and after-sales services that we provide for customers via an integrated management system of interactive content, and therefore we can significantly improve customer experience and loyalty.

- ***Customer Relationship Management System***

  We believe the concept of internet is to transform the operation of business to the operation of customer relationship, whereas the development of a complete, highly efficient and flexible customer relationship management system for customers is the foundation for all successful internet e-commerce projects. During 2014, we invited an internationally-renowned software company to conduct upgrading and restructuring of our customer relationship management system and customer award point system. A system consolidating the functions of customer's vehicle ownership cycle management, customer-oriented management, classification management and award point management in the future, are expected to effectively improve our customers' loyalty, and increase their re-consumption rate and value contribution within the Group. Meanwhile, this system will also become the data collection centre for all our operating systems, and our business decisions will be based on the data provided through business intelligence (BI) conducting big data analysis.

- ***Setting up E-commerce for New Vehicles***

  We are now mainly relying on the mature e-commerce platforms provided by third parties such as Tmall and BitAutocom to find customers for new vehicle sales and to effectively attract offline customers. Our next stage will be the attempt for self-developing new vehicle e-commerce platform, adopting the strategies of limited-time sales promotion and weekly specials, and also combining the automobile finance service so as to explore new vehicle e-commerce business.

- ***Construction for After-sales E-commerce***
  We took advantage of the customers' reliance on mobile phones and mobile devices for dealing with various matters, developed a mobile phone application that users could make appointment for vehicles maintenance and repair simply through WeChat. In addition, users can check the available appointments for any 4S dealership through WeChat and conveniently make online appointment for vehicle maintenance and repair based on their needs.

  Meanwhile, we plan to link up our system to external internet channels such as Autohome and BitAutocom in order to direct more internet users to our offline 4S dealerships so as to effectively enhance the rate of customers visiting our stores.

- ***Construction of E-commerce for Pre-owned Vehicles***
  The e-commerce project for pre-owned vehicles is conducted by Yongda through a joint venture with BitAutocom and Youxinpai, which aims to build up a retail branding for self-owned authentication of pre-owned vehicles for Yongda. We also leverage the mode by centralizing the resources for online shops, in order to effectively enhance the awareness of pre-owned vehicle authentication brand and lay a solid foundation for rapid market expansion.

**Continuous and Steady Expansion of Our Network**

In 2014, we continued to maintain and develop our strong and long-term strategic relationships with leading manufacturers of luxury and ultra-luxury brand passenger vehicles. We continued to focus on luxury and ultra-luxury brands, including BMW, MINI, Audi, Porsche, Jaguar/Land Rover, Bentley, Volvo, Cadillac, Lincoln, Infiniti and Lexus. In addition, we also selectively expanded the sales and services network of mid to high end brands, mainly including Buick, Volkswagen and Ford.

In 2014, we obtained authorization to open 14 new passenger vehicles sales and services outlets focusing mainly on luxury and ultra-luxury brands, including one BMW 4S dealership, three BMW authorized repair centres, one Jaguar/Land Rover 4S dealership, one Porsche 4S dealership, one Bentley 4S dealership, one Volvo 4S dealership, one Infiniti 4S dealership, one Lincoln 4S dealership, one Buick 4S dealership, one Volkswagen 4S dealership, one Shanghai-Volkswagen 4S dealership and one Skoda 4S dealership, particularly the authorization for BMW 4S dealership in Shenzhen and Porsche 4S dealership in Suzhou, which have further enhanced our luxury and ultra-luxury brand portfolio and enabled us to explore new areas with high quality.

In 2014, we opened 18 new passenger vehicle sales and services outlets mainly for luxury and ultra-luxury brands, including three BMW 4S dealerships, one BMW pre-owned vehicle centre, one Audi 4S dealership, three Jaguar/Land Rover 4S dealerships, one Porsche 4S dealership, one Cadillac 4S dealership, one Lincoln 4S dealership, one Infiniti 4S dealership, one Shanghai-Volkswagen 4S dealership, one Ford 4S dealership, one Morgan 4S dealership, one BMW authorized repair center and two Cadillac city showrooms.

In 2014, we continued to actively implement the low-cost mergers and acquisitions strategy of our Group, captured the mergers and acquisitions opportunities in the market and successfully acquired ten 4S dealerships and city showroom for luxury brands, namely one BMW 4S dealership and one MINI city showroom in Tianjin; one BMW 4S dealership in Wuxi, one Audi 4S dealership and two Volvo 4S dealerships in Shanghai, respectively; and one BMW 4S dealership in Jinan, Shandong; one BMW 4S dealership in Shijiazhuang, Hebei; one Lexus 4S dealership in Guiyang, Guizhou; one Lexus 4S dealership in Nanning, Guangxi, which are all under construction. Moreover, we also acquired additional equity interests of two Porsche 4S dealerships, including one Porsche 4S dealership in Wuxi, Jiangsu and one Porsche 4S dealership in Nantong, Jiangsu, and after such acquisition, we owned 70% and 60% of equity interests in these two Porsche 4S dealerships, respectively. These acquisitions helped us to enter into new regional markets and acquire authorization for the new luxury passenger vehicles brands, which enabled us to achieve sustainable and rapid growth in the future. In addition, after such acquisitions, we have quickly completed the integration works in the area such as team, management, process and cultures, thereby enabling these outlets to improve their post-acquisition operating results.

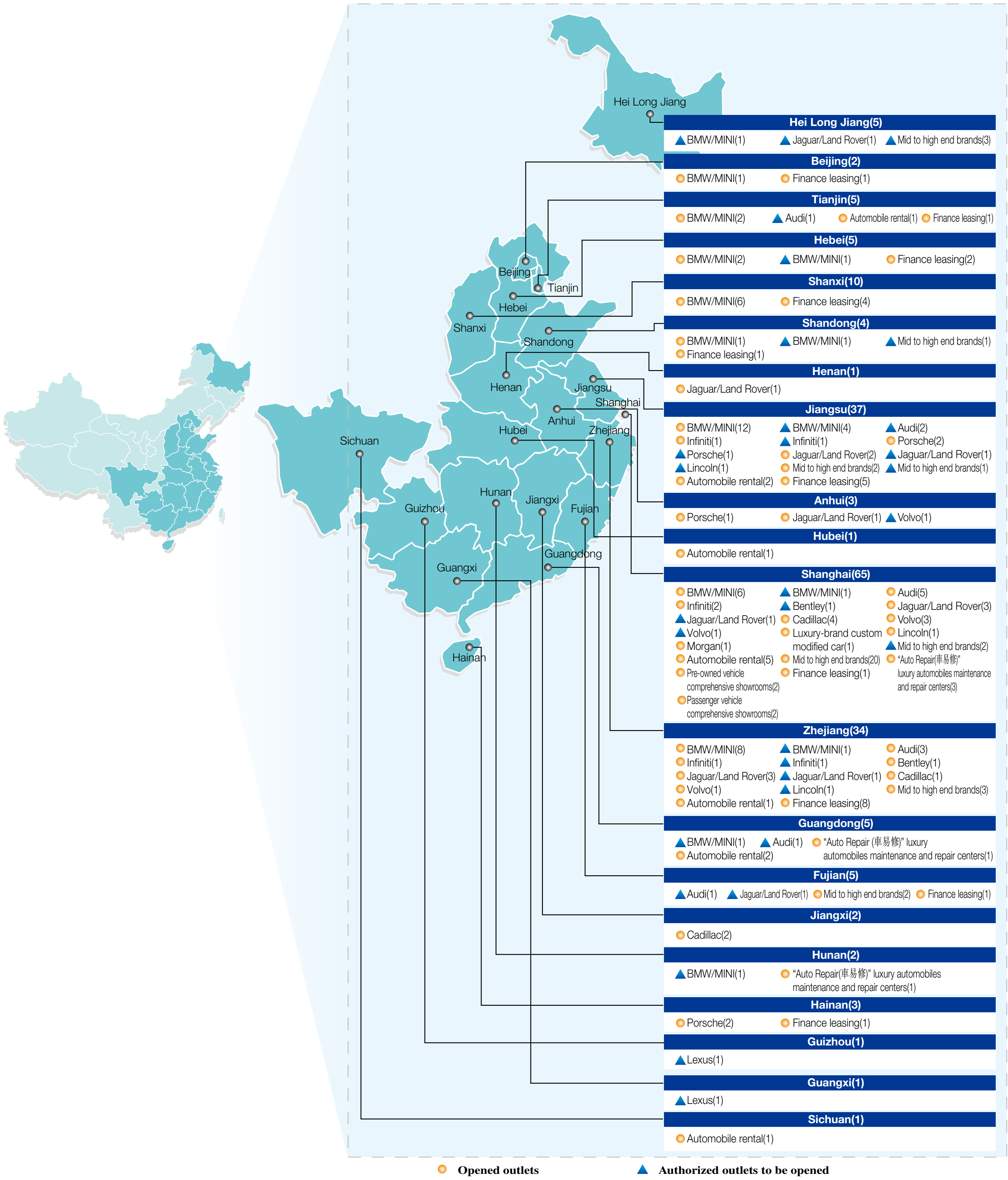
To deliver more convenient and diversified after-sales services to our customers and effectively attract these after-sales customers back to 4S dealerships, we commenced operations of our first “Auto Repair (車易修)” brand luxury automobile maintenance and repair centre which is not required to obtain authorization from the vehicle manufactures at the end of 2013 in Shanghai. In 2014, through the introduction of a professional operation team, the setting up of a performance reward scheme, the improvement on management process and standard, the enhancement of the expansion and marketing of markets adjacent to the outlets, and the promotion of the business cooperation with insurance companies, our first “Auto Repair (車易修)” outlet achieved a good start for its business development and accumulated valuable experience for the operation and management of new “Auto Repair (車易修)” outlets in the future. Meanwhile, we opened four new “Auto Repair (車易修)” outlets, among which, two of them were located in Shanghai, one in Shenzhen and one in Changsha, Hunan.

Meanwhile, during 2014, we actively expanded our network for automobile rental services and finance leasing service by establishing 24 branch companies for finance leasing service and 7 branch companies for automobile rental services in more economically developed provinces and cities other than Shanghai.

The table below sets forth the details of our outlets as of December 31, 2014:

| | Outlets opened | Outlets authorized to open | Total |
|---|---|---|---|
| Luxury and ultra-luxury brands 4S dealerships | 61 | 27 | 88 |
| Mid to high end brands 4S dealerships | 28 | 6 | 34 |
| Luxury brands city showrooms | 12 | 0 | 12 |
| Luxury brands authorized service centers | 5 | 4 | 9 |
| Luxury brands authorized certified pre-owned vehicle centers | 2 | 0 | 2 |
| Total manufacturer authorized outlets | 108 | 37 | 145 |
| “Auto Repair (車易修)” luxury automobile maintenance and repair centers | 5 | | 5 |
| Automobile rental outlets | 13 | | 13 |
| Finance leasing outlets | 25 | | 25 |
| Passenger vehicle comprehensive showrooms | 2 | | 2 |
| Pre-owned vehicle comprehensive showrooms | 2 | | 2 |
| Total outlets (not required to obtain authorization from the vehicle manufactures) | 47 | 0 | 47 |
| **Total outlets** | 155 | 37 | 192 |

We continued to operate our extensive network with the Yangtze River Delta as the center and have expanded our network to other regions in China, such as Northern China, Northeast China, Central China and Southern China. As of December 31, 2014, we have 192 outlets which are located across 3 municipalities and 50 cities in 17 provinces in China. The geographic coverage of our outlets is illustrated below:




*Note:*

Mid to high end brands include Buick, Chevrolet, FAW-Volkswagen, Shanghai-Volkswagen, Ford, Skoda, GAC-Honda, GAC-Toyota, FAW Toyota and Roewe.


**Continuously Improving Management and Marketing Capability**

Along with our rapid business expansion, we continued to standardize and optimize our management processes, and the operation pattern derived from these standardized management processes can be readily replicated to the outlets that we will establish and acquire in the future. In 2014, we particularly focused on enhancing our management by adopting the following key measures:

- for operational management, we continued strengthening resources sharing and synergies among same-brand and same-region sales and services outlets through continuous enhancement of our brand division and exploration of regional management pattern; continuously strengthened the target and budget management of gross profit margin, inventory turnover and expenses; organized business processes and established the Corporate Operation Management Standards Handbook of Yongda;

- for human resources management, we reformed the remuneration model for corporate general manager and his team, making the remuneration for the team as a whole be linked to corporate earnings, effectively raising the team's sense of ownership and enthusiasm for work; and through the appointment of third party company, we reformed the original human resources management system and introduced advanced ranking management system and remuneration management system; we continuously speeded up the training of strategic talents to establish a reasonable talent pool as well as teams of key management personnel;

- for capital management, we explored and established a capital pool for our brand division so as to enhance the efficiency of capital utilization and fully utilize the advantages of domestic and overseas market in order to broaden our financing channels and reduce finance costs.

In addition, with respect to marketing, we continued to build our corporate brand "Yongda" in 2014 and made continuous efforts in marketing innovation and customer retention through the following main channels, including:

- adhering to our customer-oriented strategy and enhancing customer's satisfaction through a variety of customer caring activities;

- strengthening the centralized customer service and management platform of our multi-media "96818";

- through the cooperation with TV shopping channels and well-renowned automobile e-commerce websites, developing and launching a unified "Yongda Automobile" WeChat service account to explore the O2O new marketing mode; and

- continuously organising and launching online and offline marketing activities for sales and after-sales with various themes.

We obtained a number of awards in recognition of the improvement of our management and marketing. For example, in 2014, we received numerous awards granted by many well-known passenger vehicles manufacturers, including but not limited to:

- Eight 4S dealerships have been awarded “Best Performance Dealership” Award by BMW in 2014;

- Five 4S dealerships have been awarded “Best Performance Dealership” Award by MINI in 2014, and one of the 4S dealerships in Shanghai ranked the top of MINI “Best Performance Dealership Award” in China;

- One of our Jaguar/Land Rover 4S dealerships in Shanghai has been awarded five best annual awards, such as Jaguar & Land Rover China 2013–2014 “Land Rover Annual Best Dealership” Award and “Jaguar Annual Best Dealership” Award;

- One of our Jaguar/Land Rover 4S dealerships in Shanghai has been awarded Jaguar & Land Rover China 2013–2014 “Jaguar Annual Best Dealership” Award;

- One of our Jaguar/Land Rover 4S dealerships in Zhengzhou, Henan has been awarded Jaguar & Land Rover China 2013–2014 “Land Rover Annual Best Dealership” Award and “Jaguar Annual Best Sales Dealership” Award;

- Five of our Buick 4S dealerships have been awarded “Five Star Franchised Sales and Services Center” Title by Buick in 2014, and three of our Buick 4S dealerships have been awarded “Five Star Franchised After-sales Services Center” Title by Buick in 2014; and

- One of our Shanghai-Volkswagen 4S dealership has been awarded “Five Star Authorised Dealership” Title by Shanghai-Volkswagen in 2014.

## FINANCIAL REVIEW

### Revenue

Revenue was RMB32,938.0 million in 2014, a 26.2% increase from RMB26,096.5 million in 2013, which was primarily due to the growth from sales and after-sales services in relation to luxury and ultra-luxury brand passenger vehicles. The table below sets forth a breakdown of our revenue and relevant information for the periods indicated:

| | For the year ended December 31, 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Amount** *(RMB in thousands)* | **Sales Volume** *(Units)* | **Average Selling Price** *(RMB in thousands)* | Amount *(RMB in thousands)* | Sales Volume *(Units)* | Average Selling Price *(RMB in thousands)* |
| Passenger Vehicle Sales | | | | | | |
| Luxury and ultra-luxury brands | 23,831,466 | 60,237 | 396 | 18,391,643 | 42,324 | 435 |
| Mid to high end brands | 5,242,622 | 43,365 | 121 | 4,851,421 | 39,558 | 123 |
| Subtotal | 29,074,088 | 103,602 | 281 | 23,243,064 | 81,882 | 284 |
| After-sales services | 3,537,388 | – | – | 2,583,647 | – | – |
| Automobile rental services | 273,904 | – | – | 266,167 | – | – |
| Finance leasing services | 52,595 | – | – | 3,648 | – | – |
| **Total** | 32,937,975 | – | – | 26,096,526 | – | – |


Revenue from passenger vehicle sales was RMB29,074.1 million in 2014, a 25.1% increase from RMB23,243.1 million in 2013, which was primarily due to (i) continuous growth of the overall demand for passenger vehicles in China, particularly for luxury and ultra-luxury passenger vehicles; (ii) the continued increase in revenue of our outlets opened in prior years; and (iii) the growth of passenger vehicle sales resulting from our newly opened outlets and acquired outlets in 2013 and 2014. Despite the increased proportion of entry-level and domestically manufactured models leading to a decrease in average selling prices of luxury and ultra-luxury brands of passenger vehicles, the proportion of revenue from luxury and ultra-luxury brands of passenger vehicle sales continued to increase, which resulted in the overall average selling price of our passenger vehicles in 2014 to remain in line with that of 2013.

Revenue from after-sales services was RMB3,537.4 million in 2014, a 36.9% increase from RMB2,583.6 million in 2013, which was primarily due to (i) our continuous enhancement of the quality and customer satisfaction of our "one-stop shop" repair and maintenance services; (ii) our strengthened marketing and promotion leveraging on our well-known "Yongda" brand; (iii) the reinforcement of cooperation with insurance companies to promote the proportion of our accident car repair business; (iv) our innovative efforts and launch of various comprehensive, diversified and value-added automobile extended products and services; (v) our continuing effort in enhancing service efficiency; and (vi) the increase in revenue of after-sales services from the newly opened and acquired outlets in 2013 and 2014.

Revenue from automobile rental services was RMB273.9 million in 2014, a 2.9% increase from RMB266.2 million in 2013.

Revenue from finance leasing services was RMB52.6 million in 2014, representing an increase of RMB49.0 million compared to RMB3.6 million in 2013.

### Cost of Sales and Services

Cost of sales and services was RMB30,258.8 million in 2014, a 27.0% increase from RMB23,829.9 million in 2013, which was generally in line with the growth of our revenue.

Cost of sales and services for passenger vehicle sales was RMB28,127.1 million in 2014, an increase of 26.3% from RMB22,276.1 million in 2013, which was generally in line with the growth in revenue from passenger vehicle sales.

Cost of sales and services for after-sales services was RMB1,917.6 million in 2014, a 39.3% increase from RMB1,376.3 million in 2013, which was generally in line with the growth in revenue from after-sales services.

Cost of sales and services for automobile rental services was RMB199.2 million in 2014, a 12.6% increase from RMB176.9 million in 2013, which increased at a relatively fast pace compared to the increase in revenue from our automobile rental services.

Cost of sales and services for finance leasing services was RMB14.9 million in 2014, representing an increase of RMB14.4 million compared to RMB0.5 million in 2013, which was the finance cost arising from the borrowings of Shanghai Yongda Finance Leasing Company Limited.

### Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit was RMB2,679.2 million in 2014, a 18.2% increase from RMB2,266.6 million in 2013.

Gross profit from passenger vehicle sales was RMB947.0 million in 2014, a 2.1% decrease from RMB966.9 million in 2013. Affected by the intense competition in passenger vehicle sales market and decline in retail price in 2014, gross profit margin for passenger vehicle sales decreased to 3.26% in 2014 from 4.16% in 2013.

Gross profit from after-sales services was RMB1,619.8 million in 2014, an increase of 34.2% from RMB1,207.3 million in 2013. Gross profit margin for after-sales services was 45.79% in 2014, which remained basically flat compared to 46.73% in 2013.

Gross profit from automobile rental services was RMB74.7 million in 2014, a decrease of 16.3% compared to RMB89.2 million in 2013. Affected by the intense market competition, the increase in costs such as salary, depreciation and fuel oil, gross profit margin for automobile rental services decreased from 33.53% in 2013 to 27.27% in 2014.

Gross profit from finance leasing services in 2014 was RMB37.7 million, representing an increase of RMB34.6 million compared to RMB3.1 million in 2013. Gross profit margin for finance leasing services was 71.70% in 2014 (2013: 85.25%).

### Other Income and Other Gains and Losses

Other income and other gains and losses were RMB374.8 million in 2014, a 48.8% increase compared to RMB251.8 million in 2013. The increase was primarily due to the fact that our revenue generated from after-market finance services including insurance and finance amounted to RMB286.3 million in 2014, a 58.2% increase compared to 2013.

### Distribution and Selling Expenses

Distribution and selling expenses were RMB1,287.5 million in 2014, a 35.1% increase from RMB952.9 million in 2013, which was primarily due to the expansion of our sales and services network and sales scale. As a percentage of revenue, our distribution and selling expenses increased from 3.65% in 2013 to 3.91% in 2014, which was primarily due to the newly opened outlets in 2014 were still in the early development stage.

### Administrative Expenses

Administrative expenses were RMB647.8 million in 2014, a 33.7% increase compared to RMB484.5 million in 2013, which was primarily due to the expansion of our sales and services network and sales scale. As a percentage of revenue, our administrative expenses increased from 1.86% in 2013 to 1.97% in 2014, which was primarily due to the newly opened outlets in 2014 were still in the early development stage.

### Finance Costs

Finance costs were RMB422.3 million in 2014, a 77.0% increase from RMB238.7 million in 2013, which was primarily due to the increased finance balance as a result of the expansion in sales and services network and business scale.

### Profit before Tax

As a result of the foregoing, profit before tax was RMB705.2 million in 2014, a 17.3% decrease as compared to RMB852.6 million in 2013.

### Income Tax Expenses

Income tax expenses were RMB165.8 million in 2014, a 21.3% decrease compared to RMB210.5 million in 2013. Our effective income tax rate slightly decreased to 23.5% in 2014 compared to 24.7% in 2013.

### Profit and Total Comprehensive Income

As a result of the foregoing, profit and total comprehensive income was RMB539.5 million in 2014, a 16.0% decrease from RMB642.0 million in 2013.

### Profit and Total Comprehensive Income Attributable to the Owners of the Company

As a result of the foregoing, profit and total comprehensive income attributable to the owners of the Company was RMB501.1 million in 2014, a 14.8% decrease from RMB588.3 million in 2013.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow

Our primary uses of cash are payment for purchases of passenger vehicles, spare parts and accessories, funding of our working capital and ordinary recurring expenses, funding of the capital expenditures in connection with the establishment and acquisition of outlets and repayment of our indebtedness. We maintain our liquidity through a combination of cash flows generated from our operating activities, capital injections, the issuance of bonds, bank loans and other borrowings. In the future, we believe that our capital expenditures and liquidity requirements are expected to be satisfied by using a combination of cash flows generated from our operating activities, bank loans and other borrowings, as well as funds raised from the capital markets from time to time.

In 2014, our net cash from operating activities was RMB719.5 million, a significant increase of approximately RMB676.7 million from RMB42.8 million in 2013, which was primarily due to a significant decrease of approximately RMB696.1 million in the net increase of inventories and prepayment balance as a result of our intensified inventory turnover management in 2014 compared to 2013.

In 2014, our net cash used in investing activities was RMB1,309.5 million, compared to net cash used in investing activities of RMB1,459.6 million in 2013. This was primarily due to our payment for purchases of property, plant and equipment, land use rights and intangible assets in the amount of RMB1,122.3 million and for acquisition of subsidiaries in the amount of RMB364.0 million, which was partially offset by the proceeds from disposals of property, plant and equipment, land use rights and intangible assets in the amount of RMB185.5 million.

In 2014, our net cash from financing activities was RMB1,045.9 million, compared to net cash from financing activities of RMB940.0 million in 2013, mainly including the proceeds from bank borrowings and other borrowings of RMB15,442.0 million, issuance of convertible bonds of RMB960.1 million, which was partially offset by the repayment of bank borrowings and other borrowings of RMB14,662.6 million, payment of interest of RMB423.7 million and payment of dividends of RMB177.6 million.

### Inventories

Our inventories mainly include passenger vehicles and, to a lesser extent, spare parts, accessories and other miscellaneous inventories. Our inventories were RMB4,324.2 million as of December 31, 2014, a 25.4% increase from RMB3,447.8 million as of December 31, 2013, which was primarily due to the expansion in our sales and services network and sales scale. The following table sets forth our average inventory turnover days for the periods indicated:

| | For the year ended December 31, | |
|---|---|---|
| | **2014** | 2013 |
| Average inventory turnover days[(1)] | **46.9** | 46.9 |

*Note:*

(1) The average inventory turnover days is the average of opening and closing inventory balances divided by the cost of sales and services for that year and multiplied by 365 days.

Average inventory turnover days in 2014 was 46.9 days, which was basically the same as 46.9 days in 2013.

### Capital Expenditures and Investment

Our capital expenditures comprised primarily expenditures on the purchase of property, plant and equipment, land use rights and intangible assets, as well as the acquisition of subsidiaries. In 2014, our capital expenditures of purchase of property, plant and equipment, land use rights and intangible assets amounted to RMB1,122.3 million and the expenditures on acquisition of subsidiaries amounted to RMB364.0 million.

### Borrowings and Bonds

We obtained borrowings consisting of bank loans and other borrowings from automobile manufacturers' captive finance companies, bonds and convertible bonds issuance to fund our working capital and network expansion. As of December 31, 2014, the outstanding amount of our borrowings, bonds and convertible bonds amounted to RMB7,091.8 million, a 39.4 % increase from RMB5,088.5 million as of December 31, 2013, which was primarily due to (i) increase in borrowings as a result of capital expenditures and mergers and acquisitions in 2014 and borrowings brought in by the acquired or merged outlets as well; and (ii) the expansion of sales scale resulting in the increase of working capital borrowings. The following table sets forth the maturity profile of the our borrowings, bonds and the convertible bonds as of December 31, 2014:

| | As of December 31, 2014 *(RMB in millions)* |
|---|---|
| Within one year | **4,855.7** |
| One year to two years | **1,318.2** |
| Two to five years | **906.6** |
| More than five years | **11.3** |
| **Total** | **7,091.8** |

As of December 31, 2014, our gearing ratio (being net debt divided by the aggregate amount of total equity and net debt) was 69.0% (as of December 31, 2013: 64.6%). The net debt was total debt net of cash and cash equivalents, pledged bank deposits, time deposits and cash in transit.

As of December 31, 2014, certain of our borrowings were secured by mortgages or pledges over our assets. Our assets subject to these mortgages or pledges as of December 31, 2014 consisted of (i) inventories of RMB689.4 million; (ii) property, plant and equipment of RMB140.2 million; and (iii) land use rights of RMB152.9 million.

In July 2014, we issued 1.5% USD settled convertible bonds due 2019 with an aggregate principal amount of RMB1 billion, and the funds raised will be used for establishment and acquisition of passenger vehicle sales and services outlets and replenishment of working capital.

### Contingent Liabilities

As of December 31, 2014, we did not have any material contingent liabilities.

### Interest Rate Risk and Foreign Exchange Risk

We are exposed to interest rate risk resulting from fluctuations in the interest rate on our borrowings. Certain of our borrowings were variable-rate borrowings that are mostly linked to the benchmark rates of the People's Bank of China or London Interbank Offered Rate. Increases in interest rates 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. We do not currently use any derivative financial instruments to hedge our exposure to interest rate risk.

Except a part of bank borrowings denominated in United States dollar, substantially all of our revenue, costs and expenses are denominated in Renminbi. We also use Renminbi as our reporting currency. We believe our operations currently are not subject to any significant direct foreign exchange risk. We do not currently use any derivative financial instruments to hedge our exposure to foreign exchange risk.

### Use of Proceeds

The net proceeds from our Company's initial public offering were approximately RMB1,013.2 million. The net proceeds have been utilized in the manner consistent with that disclosed in the prospectus of the Company dated June 29, 2012 under the section headed "Future Plans and Use of Proceeds."

## FUTURE PROSPECT AND STRATEGIES

From the year of 2015 to the future, in light of the progress of domestic urbanization and strong demand for upgrading and updating vehicle ownership within the society, China's automobile market is expected to maintain a fast-growing and stable development, especially for the luxury and ultra-luxury automobile market, which is expected to maintain fast growth. We also realize that after experiencing the rapid growth over the past few years, extended services such as automobile maintenance and repair, pre-owned vehicles, automobile decoration, care and maintenance, as well as after-market businesses such as automobile finance and insurance service and automobile rental are expected to have robust development with unlimited business opportunities. Therefore, we will adhere to the operating concept of "Introducing Auto Life" and keep developing the Company into a leading retailer and services provider of luxury and ultra-luxury passenger vehicles offering premium customer experience in China. At the same time, we will rely on the well-established industrial chain of automobile services to reconstruct a brand new business mode of "Automobile + Finance + Internet".

We will continue to promote sales and services network mainly focused on luxury and ultra-luxury brands via self-establishment and mergers and acquisitions to expand the coverage of such network. Meanwhile, under the control of investment scale, we plan to focus on promoting two types of major after-sales outlets, which are the maintenance and repair outlets authorized by brand manufacturers and the independent after-sales outlets of "Auto Repair (車易修)" in the community. We will also keep track of the trends and changes regarding the types of automobile service outlets and correspondingly promote the construction of outlets with a mix of different types of services, so as to enhance the response and coverage of the services.

We will firmly capture the opportunity in the internet era, and proactively realize the rapid transformation and upgrade from existing traditional business to auto life O2O business. Through the integration of manpower and technical resources platform for after-sales services, spare parts logistic platform and customer ownership data platform accumulated over the years, together with the internet e-commerce mobile access such as WeChat and mobile applications, we aim to provide personalised, comprehensive, innovative and convenient services in high quality to our customers.

We will concentrate on our self-owned automobile finance service system. We initially set up comprehensive automobile finance platfrom focusing on payment, credit, wealth and asset management as a whole, and fully utilize the potential of automobile finance as a leading role within the automobile service industrial chain, so as to enable this system to become a string that ties the various aspects of auto life including sales, maintenance and repair, insurance, pre-owned vehicles and etc. Meanwhile, by capturing the opportunity of automobile-related mobile payment derived from the further development of automobile network in the future, we aim to form a financial business ecosystem around various stages of the lifecycle for customers' automobiles.

We will proactively conduct the layout for the pre-owned vehicle business by leveraging on the e-commerce platform on the internet in order to develop Yongda's pre-owned vehicle authentication retail brand. This expects to attract the recognition and awareness in regional markets, effectively enlarge the market share of pre-owned vehicle business and also provide standard and replicable model for nationwide fast expansion.

In addition, we plan to seize the opportunity for future development in China's automobile rental market and thoroughly explore the demand for automobile rental market in order to rapidly expand our automobile rental network in more economically developed cities other than Shanghai, which may enable the automobile rental business to become another major growth momentum for our revenue and profit.

We also plan to seize the market opportunity and commercially develop the land for 4S dealership with high realized value as appropriate in order to gain higher revenue from land value appreciation. We plan to utilize such revenue to expand our network and develop various innovative businesses so as to maximize the value for our shareholders.

At the same time, we will further concentrate on offline customer experience and strengthen the basic corporate management. We will also continuously improve the quality of operational management and customer satisfaction via the enhanced measures on internal management such as standardized service training, innovative management system and procedures, and establishment of knowledge sharing system.

In 2015, we aim to intensify our capabilities for sustainable growth, exert great efforts in improving the operational level and profitability for Yongda, and create a new ground for a more moderate, stable and sustainable development for the purpose to further reinforce the leading position of Yongda within the automobile industry and endeavor to contribute significant rewards for our investors.

# Directors and Senior Management

## DIRECTORS

### Executive Directors

**CHEUNG Tak On (張德安)**, age 48, is our Chairman and was appointed as our executive director on January 18, 2012. Mr. Cheung has extensive experience in the passenger vehicle dealership sector and is responsible for setting the strategic vision, direction and goals of our Group and he participates in our Group's strategic and key operational decision-making processes. Mr. Cheung was brought up in the PRC. From November 1999 to February 2005 and from November 2005 to present, Mr. Cheung has been the chairman of Shanghai Yongda Holding (Group) Limited (上海永達控股(集團)有限公司) ("Yongda Holding") as well as its chief executive officer since November 1999, where he has been mainly responsible for overseeing its overall development and formulating corporate and business strategies. He is also currently a director of Shanghai Yongda Group Company Limited By Shares (上海永達(集團)股份有限公司) ("Yongda CLS") and Shanghai Shoujia Investment Co., Ltd. (上海首佳投資有限公司) ("Shanghai Shoujia") as well as the chairman of Shanghai Shouchuang Automobile Consultancy and Services Co., Ltd. (上海首創汽車諮詢服務有限公司) ("Shanghai Shouchuang"). From September 1991 to June 1998, Mr. Cheung was the general manager of Yongda CLS.

Mr. Cheung received numerous awards in recognition of his achievement. Set forth below are the details of the awards received by him:

| Award | Awarding Institutions |
|---|---|
| 2014 Youth Entrepreneur Contribution Award (二零一四年青年企業家貢獻獎) | China Youth Entrepreneurs Association (中國青年企業家協會) |
| 2014 Shanghai "TWO NEW" Organisation Public Service Counterparty Individual Outstanding Contribution (2014年上海「兩新」組織公益同行個人突出貢獻獎) | Human Resoures Department of CPC Shanghai Social Work Committee (中共上海市社會工作委員會人力資源部) |
| 2013 National Outstanding Business Entrepreneur (2013全國商業優秀企業家) | China Business Enterprises Management Association (中國商業企業管理協會) |
| 2013 Business Outstanding Contribution Award (2013年度事業突出貢獻獎) | Shanghai Youth Federation (上海市青年聯合會) |
| 2012 Business Outstanding Contribution Award (2012年度事業突出貢獻獎) | Shanghai Youth Federation (上海市青年聯合會) |
| 2012 Outstanding Entrepreneur (2012傑出企業家) | Pudong New Area, Shanghai Businesses, Entrepreneurs Association (上海市浦東新區企業、企業家聯合會) |
| Person of the Year, 2012 China Automobile Dealing Industry (2012中國汽車流通行業風雲人物獎) | China Automobile Dealers Association (中國汽車流通協會) |
| 2011 National May Day Labor Medal (2011全國五一勞動獎章) | All China Federation of Trade Union (中華全國總工會) |
| Outstanding Entrepreneur of China of 2009 (2009中國卓越企業家) | The research centre of the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會研究中心) and China Enterprise News Agency (中國企業報社) |
| Shanghai Labor Model of 2007 to 2009 (2007–2009年度上海市勞動模範) | The people's government of Shanghai City (上海市人民政府) |

Mr. Cheung obtained an adult higher education training certificate in economic law jointly granted by The Open University of China (中央廣播電視大學) and China University of Political Science and Law (中國政法大學) through distance learning in 1996 and a master of science degree in business administration (leadership studies) from Madonna University, Michigan in December 2001. Mr. Cheung also completed the Senior Seminar on MSBA Shanghai Program organized by Shanghai Institute of International Finance (上海國際金融學院), School of Business, Madonna University, Michigan and International Financial Center Association (國際金融中心協會) from September 1999 to December 2001, and the China CEO Program jointly offered by Cheung Kong Graduate School of Business (長江商學院), Columbia Business School, IMD and London Business School in 2011. Mr. Cheung completed the course of *China CEO Global Research Proposal* (《中國CEO全球研修計劃》) organised by Overseas Educaiton Collage of Shanghai Jiaotong University (上海交通大學) in 2014.

**CAI Yingjie (蔡英傑)**, age 47, is our Vice-chairman and was re-designated from our President to Chief Executive Officer on March 23, 2015 and was appointed as our executive director on January 18, 2012. Mr. Cai is responsible for overseeing our operations and investment, managing our relationships with automobile manufacturers and exploring new business opportunities for our Group. Mr. Cai is also responsible for guiding the operation and management of Shanghai Yongda Automobile Group Co., Ltd. (上海永達汽車集團有限公司) ("Automobile Group"), which is an indirect wholly-owned subsidiary of our Company, as well as the chairman or a director of several of our subsidiaries. From November 1998 to December 2011, he was the director of Yongda CLS and its general manager from November 1999 to December 2011. Mr. Cai was the deputy chief executive officer and a director of Yongda Holding from November 1999 to December 2011. From September 1991 to June 1998, Mr. Cai was the deputy general manager of Yongda CLS, where he was responsible for its business development. From September 1984 to July 1990, Mr. Cai worked in Shanghai Shenbao Automobiles Factory (上海申寶汽車廠) (later known as Shanghai Shenbao Automobiles Co., Ltd. (上海申寶汽車有限公司)), where he was responsible for automobiles inspection and management of the fleet of automobiles. Mr. Cai is currently a vice-chairman of the Shanghai Association of Automobile Manufacture (上海市汽車銷售行業協會) and he had also been a vice-president of the China Auto Dealers Chamber of Commerce (中華全國工商業聯合會汽車經銷商商會). Mr. Cai graduated from Nanjing Army Command College (南京陸軍指揮學院) with an adult higher education bachelor diploma in law in 2002.

**WANG Zhigao (王志高)**, age 46, is our Vice-chairman and was re-designated from our non-executive director to executive director on March 23, 2015. Mr. Wang is responsible for the financial management, legal affairs, budget management and corporate auditing of our Group, and also responsible for professional institutions in the capital market of our Group and leading the development of annual operating objectives of the Group. Mr. Wang has been our non-executive director from January 2012 to March 2015, a director of Yongda Holding since January 2005 and its deputy chief executive officer since January 2004, where he is responsible for its finance, audit, investment and legal affairs, and a director of Yongda CLS since December 2003. Mr. Wang is also currently a director of Sea of Wealth International Investment Company Limited and Grouprich International Investment Holdings Limited and the chairman or a director of several of our subsidiaries. He also serves as a director of Shanghai Shoujia and Shanghai Shouchuang, the chairman of Shanghai Yongda Asset Management Company Limited (上海永達資產管理股份有限公司) and Shanghai Yongda Investment Management Co., Ltd. (上海永達投資管理有限公司), as well as an executive director of Shanghai Yongda Property Development Co., Ltd. (上海永達置業發展有限公司). From March 1998 to December 2003, Mr. Wang was a lawyer at Shanghai Jin Shi Law Firm (上海金石律師事務所) and from January 1997 to February 1998, a lawyer at Shanghai Xin Cheng Law Firm (上海信誠律師事務所). Mr. Wang graduated from East China University of Politics and Law (華東政法大學) with a bachelor degree in economic law in 1992 and a master degree in law in 1999. Mr. Wang also received a master degree in business administration from China Europe International Business School (中歐國際工商學院) in 2007.

**XU Yue (徐悦)**, age 39, was appointed as our executive director and president on March 23, 2015 and is responsible for our operation and management and the same of Automobile Group. Mr. Xu joined our Group in 1999 and has more than 14 years of experience in the passenger vehicle dealership sector. Mr. Xu is also currently the general manager of Automobile Group and the chairman or a director of several of our subsidiaries.

He has been the executive president of the Company from January 2012 to March 2015, and the assistant to the chief executive officer of Yongda Holding from January 2009 to December 2011. From June 2004 to January 2009, Mr. Xu was the deputy general manager of Yongda CLS and the general manager of Shanghai Baozen Automobile Sales and Services Co. Ltd. (上海寶誠汽車銷售服務有限公司). Between February 2002 and March 2004, Mr. Xu was secretary to the chief executive officer of Yongda Holding, where he was mainly responsible for assisting the chief executive officer with daily administration. From November 2000 to February 2002, Mr. Xu was the general manager of Shanghai Yongda International Trading, Ltd. (上海永達國際貿易有限公司), where he was mainly responsible for the import of passenger vehicles. Between October 1999 and November 2000, Mr. Xu was the assistant to the general manager of Shanghai Yongda Automobile Pudong Sales and Services Co., Ltd. (上海永達汽車浦東銷售服務有限公司). Mr. Xu received a bachelor diploma in practical English and a secondary college diploma in international business and finance management from Shanghai Normal University (上海師範大學) in June 1997, and a master of science degree in business administration (leadership studies) from Madonna University, Michigan in December 2005. Mr. Xu also completed the Senior Seminar on MSBA Shanghai Program organized by Shanghai Institute of International Finance (上海國際金融學院), School of Business, Madonna University, Michigan and International Financial Center Association (國際金融中心協會) from October 2003 to July 2005. Mr. XU is currently pursuing a master degree in Executive Master of Business Administration at China Europe International Business School (中歐國際工商學院).

**CHEN Yi (陳昳)**, age 42, was appointed as our executive director on March 23, 2015 and is responsible for overseeing the operation and management of the Group and involvement in our management. Ms. Chen has been our Vice-president and the general manager of the financial innovation department since March 2014. She has over 18 years of experience in banking and financial industry. Prior to joining us, Ms. Chen was the senior assistant to the president of the Transportation Finance Division and the director of Eastern China Automobile Business Division of China Minsheng Bank Corp., Ltd. (中國民生銀行股份有限公司) (SSE stock code: 600016 and the Hong Kong Stock Exchange stock code: 01988) ("CMBC") from April 2013 to January 2014. From February 2004 to April 2013, Ms. Chen held several managerial positions in CMBC, including the senior customer manager of CMBC, Shanghai Branch, Anting Sub-branch (中國民生銀行股份有限公司上海分行安亭支行), the general manager of the Industrial and Commercial Enterprises Finance Division Two of CMBC, the general manager of the Automobile Finance Department and the president of CMBC, Shanghai Branch, Jiading Sub-branch (中國民生銀行股份有限公司民生銀行上海分行嘉定支行) and the president of CMBC, Shanghai Branch, Gubei Sub-branch (中國民生銀行股份有限公司上海分行古北支行). From July 1995 to February 2004, she worked at the Credit Card Division, Personal Banking Division and Customer Service Division of Bank of Communications Co., Ltd. (交通銀行股份有限公司) (SSE stock code: 601328 and the Hong Kong Stock Exchange stock code: 03328). Ms. Chen obtained a college diploma in International Finance from Shanghai Finance University (上海金融學院) (previously known as Shanghai Advanced Institute of Finance (上海金融高等學院)) in 1995, a bachelor degree in Money and Banking from Shanghai Jiao Tong University (上海交通大學) in 2000 and a master degree in Executive Master of Business Administration from Shanghai Jiao Tong University (上海交通大學) in 2014.

### Non-executive Director

**WANG Liqun (王力群)**, age 61, was appointed as our non-executive director on January 18, 2012, and is responsible for formulating major policies of our Group. Mr. Wang is currently the president of Shanghai Stone Capital Co., Ltd. (上海磐石投資有限公司), a China-based private equity fund. He is also an independent director of Talkweb Information System Co., Ltd. (拓維信息系統股份有限公司) (Shenzhen Stock Exchange ("SZSE") stock code: 002261). Mr. Wang has served a number of positions, including a director, general manager and senior consultant of Shanghai Bashi Industrial (Group) Co., Ltd. (上海巴士實業(集團)股份有限公司) (now known as Huayu Automotive Systems Company Limited (華域汽車系統股份有限公司)) (Shanghai Stock Exchange ("SSE") stock code: 600741). From 1999 to 2007, Mr. Wang was the chairman of Shanghai Urban Rail System Corporation (上海現代軌道交通股份有限公司). From 1999 to 2001, Mr. Wang was the general manager of Shanghai Chengtou Corporation (上海市城市建設投資開發總公司). Mr. Wang was qualified as a senior economist (高級經濟師) in 1992 by the Shanghai Economic (Production Area) Senior Professional and Technical Qualifications Committee (上海市經濟系列(生產領域)高級專業技術職務任職資格評審委員會) and was awarded the title of "Outstanding Young Entrepreneur" (傑出青年企業家) by the Youth Communist League Committee of Shanghai (共青團上海市委員會) and Shanghai Youth Entrepreneurs Association (上海市青年企業家協會). Mr. Wang obtained a college diploma in economics management from the School of Construction and Management of the University of Shanghai Urban Construction College (上海城市建設學院) in 1987.

### Independent Non-executive Directors

**WANG Zhiqiang (王志強)**, age 57, was appointed as our independent non-executive director on January 18, 2012. Mr. Wang is currently the deputy general manager of Shanghai Chengtou Corporation (上海市城市建設投資開發總公司) and a director of Galaxy Asset Management Co., Ltd. (銀河基金管理有限公司).

Mr. Wang also has extensive experience of serving senior positions in listed companies:

| Companies | Positions | Duration |
|---|---|---|
| Shanghai 3F New Materials Company Limited (上海三愛富新材料股份有限公司) (SSE stock code: 600636) | Independent Director | April 2011–October 2014 |
| Shanghai Mechanical & Electrical Industry Co., Ltd. (上海機電股份有限公司) (SSE stock code: 600835) | Independent Director | May 2009–May 2012 |
| Shanghai Chengtou Holding Co., Ltd. (上海城投控股股份有限公司) (formerly known as Shanghai Raw Water Co., Ltd. (上海市原水股份有限公司)) (SSE stock code: 600649) | Chief Supervisor | June 2005–June 2011 |

Before assuming these senior managerial positions, Mr. Wang had also been the head of finance department and deputy chief accountant of Shanghai Chengtou Corporation (上海市城市建設投資開發總公司). Mr. Wang became a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in 1997. Mr. Wang graduated with a college diploma in industrial accounting from Shanghai College of Finance and Economics (上海財經學院) which is now known as Shanghai University of Finance and Economics (上海財經大學) in 1983 and obtained an adult higher education bachelor diploma in economics management from East China Normal University (華東師範大學) in 1995. In 2007, Mr. Wang obtained his master degree in business administration from China Europe International Business School (中歐國際工商學院).

**LU Wei (呂巍)**, age 50, was appointed as our independent non-executive director on January 18, 2012. Mr. Lu began his career in academia. Mr. LU is the head of preparatory group of Cultural and Creative Industry is Faculty of University of Southern California Shanghai Jiao Tong University (上海交通大學美國南加州大學文化創意產業學院) as well a professor of Management Department of Antai College of Economics and Management at Shanghai Jiao Tong University. From 2003 to October 2014, Mr. Lu has been the Associate Dean of the Antai College of Economics and Management (安泰經濟與管理學院) at Shanghai Jiao Tong University (上海交通大學). Between February 1997 and March 2003, Mr. Lu was an assistant to the Dean of the School of Management of Fudan University (復旦大學) and a professor in its Department of Marketing from November 2001 to March 2003. From

1996 to 1997, Mr. Lu was a visiting scholar at the Sloan School of Management of Massachusetts Institute of Technology.

Mr. Lu's academic qualifications and extensive experiences have led to his appointments in a number of listed companies:

| Companies | Positions | Duration |
|---|---|---|
| Shanghai Shibei Hi-Tech Co., Ltd (上海市北高新股份有限公司) (SSE stock code: 600604) | Independent Director | September 2012–present |
| Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. (陸家嘴金融貿易開發區股份有限公司) (SSE stock code: 600663) | Independent Director | May 2008–May 2014 |
| Shanghai Guangdian Electric Group Co., Ltd. (上海廣電電器(集團)股份有限公司) (SSE stock code: 601616) | Independent Director | December 2007–April 2014 |
| Luolai Home Textile Co., Ltd. (羅萊家紡股份有限公司) (SZSE stock code: 002293) | Independent Director | November 2007–October 2013 |
| Shanghai Yaohua Pilkington Glass Co., Ltd. (上海耀華皮爾金頓玻璃股份有限公司) (SSE Stock Code: 600819) | Independent Director | June 2006–April 2012 |
| China Seven Star Shopping Limited (中國七星購物有限公司) (Stock Code: 245) (listed on the Hong Kong Stock Exchange) | Independent Non-executive Director | June 2005–present |
| Giti Tire Corporation (佳通輪胎股份有限公司) (formerly known as Hualin Tire Corporation (樺林輪胎股份有限公司)) (SSE Stock Code: 600182) | Independent Director | July 2003–May 2009 |

Mr. Lu graduated with a bachelor degree in management science from Fudan University (復旦大學) in 1986 before obtaining his master degree in economics in 1989 and PhD in economics in 1996 at the same university.

**CHEN Xianglin (陳祥麟)**, age 70, was appointed as our independent non-executive director on January 18, 2012. From 1995 to 2006, Mr. Chen had been the chairman of Shanghai Automobile Industry (Group) Limited (上海汽車工業(集團)總公司). Between April 2004 and June 2008, Mr. Chen was the chairman of the supervisory committee of Shanghai Automotive Co., Ltd. (上海汽車集團股份有限公司) (SSE stock code: 600104), where his main responsibilities included monitoring the board and management activities and the internal control of the company. Mr. Chen has held a number of senior positions in the government, including the deputy secretary general of the Shanghai People's Government (上海市人民政府), deputy head of the Shanghai First Electromechanical Bureau (上海市第一機電工業局) and director of Shanghai Planning Committee (上海市計畫委員會). He had also been the vice-chairman of the Shanghai Federation of Economic Organization (上海市經濟團體聯合會) and Shanghai Federation of Industrial Economics (上海市工業經濟聯合會). In 1989, Mr. Chen obtained accreditation as senior economist (高級經濟師) from the Shanghai Economic (Production Area) Senior Professional and Technical Qualifications Committee (上海市經濟系列(生產領域)高級專業技術職務任職資格評審委員會). Mr. Chen was admitted as a senior economist (高級經濟師) in 1994, and was later promoted as a senior international business engineer (高級國際商務師) in 1995 by the Shanghai Professional Titles Reform Work Leading Group (上海市職稱改革工作領導小組) and the Economic Professional Qualifications Committee of Shanghai University of Finance and

Economics (上海財經大學經濟專業職務評審委員會). Mr. Chen graduated with a bachelor diploma in mathematics from Fudan University (復旦大學) in 1967, and has also completed a training course on independent directors organized by the SSE in 2008 and a training course on directors and supervisors of listed company organized by the Shanghai Securities Regulatory Bureau under the China Securities Regulatory Commission.

## SENIOR MANAGEMENT

Our senior management team, in addition to our directors listed above, is as follows:

**YE Ming (葉明)**, age 37, was appointed as our Vice-president on January 18, 2012 and is responsible for managing the internal operation of our Group. Mr. Ye is also currently the deputy general manager of Automobile Group and a director of several of our subsidiaries. From January 2009 to December 2011, Mr. Ye simultaneously held the offices of the assistant to chief executive officer of Yongda Holding and the deputy general manager of Yongda CLS. Mr. Ye held a number of managerial positions at Yongda CLS between 2003 and 2008, including the director of the business development department and assistant to the general manager. In 2002, Mr. Ye held the office of assistant to the general manager of Shanghai Yongda Automobile Rental Company (永達汽車租賃有限公司). Mr. Ye received a bachelor degree in law from Shanghai University (上海大學) in 2001.

**DONG Ying (董穎)**, age 45, was appointed as our Vice-president on January 18, 2012 and is also the deputy general manager of the Automobile Group. Mr. Dong joined our Group in November 2011 and has been responsible for our financial management. Mr. Dong has 20 years of experience in corporate finance, accounting, auditing, risk management and internal control. Mr. Dong was the deputy head of financial control center of Yongda Holding between November 2011 and December 2011. Prior to joining us, Mr. Dong was the financial controller of China Huiyuan Juice Group Limited (中國匯源果汁集團有限公司) (stock code: 1886) from 2006 to 2011, a company whose shares are listed on the Hong Kong Stock Exchange. Mr. Dong worked at PricewaterhouseCoopers Zhong Tian Limited Company CPAs (普華永道中天會計師事務所有限公司) from 2003 to 2006 as a senior manager in its risk management and internal control service department and from 1994 to 2003 as a senior manager in its audit department. He is a member of the Chinese Institute of Certified Public Accountants, the American Institute of Certified Public Accountants and the Institute of Chartered Accountants in Australia. Mr. Dong obtained a bachelor degree in fine chemical engineering and a secondary diploma in international corporate management from East China University of Science and Technology (華東理工大學) in July 1993.

**TANG Hua (唐華)**, aged 42, was appointed as our Vice-president on March 23, 2015, responsible for the overall marketing and brand promotion of our Group. Mr. Tang is also the deputy general manager of Automobile Group and the director of our certain subsidiaries. After joining us in 2002, Mr. Tang held various positions in our Group, such as the press spokesman, the director of brand and PR office, the director of marketing center, the secretary of the Youth League Committee of our Group, the director of Jaguar & Land Rover Business Division of Yongda (永達捷豹路虎事業部), and the general manager of Shanghai Oriental Yongda Automobile Sales Co., Ltd. (上海東方永達汽車銷售公司), a non-wholly owned subsidiary of our Company. Mr. Tang is also the vice president of Shanghai Automobile Sales Trade Association (上海汽車銷售行業協會), and the deputy secretary general of Shanghai Young Entrepreneurs' Association (上海青年企業家協會), who has made positive efforts for the development of the industry. Mr. Tang has more than 20 years of experience in the automobile industry. Mr. Tang won many awards in various fields of society and planed a number of influential activities under the leadership of the Group. Mr. Tang obtained double bachelor's degree in economic management from Air Force Political Academy (空軍政治學院) and in administrative management from Fudan University (復旦大學) in 2001, and later obtained a master's degree in public administration from Fudan University (復旦大學) in 2005.

**WEI Dong (衛東)**, age 45, was appointed as our Vice-president on January 18, 2012 and is responsible for managing the sales, pre-owned vehicle business and extended services of our Group. Mr. Wei is also currently the deputy general manager of Automobile Group and a director of several of our subsidiaries. Mr. Wei has more than 15 years of experience in sales management. From January 2008 to December 2011, Mr. Wei was the deputy general manager of Yongda CLS. From November 2004 to December 2008, Mr. Wei was the general manager of Shanghai Yongda Automobile Trade Center Co., Ltd. (上海永達汽車貿易中心有限公司). From April 2002 to October 2004, he was the deputy general manager of Shanghai Number One Yongda Automobile Trading Co., Ltd. (上海一百永達汽車貿易有限公司). Between April 2000 and March 2002, he was the deputy general manager of the Songjiang store of the Shanghai Number One Department Store Co., Ltd. (上海第一百貨松江店有限公司). From October 1989 to July 1998, Mr. Wei was a salesman, deputy secretary and secretary of the Youth League Committee at the Shanghai Number One Department Store Co., Ltd. (上海市第一百貨商店股份有限公司). Mr. Wei obtained an adult higher education bachelor diploma in business administration from Shanghai Second Polytechnic University (上海市第二工業大學) in 2002.

**HE Min (何敏),** aged 38, was appointed as the assistant to our president on March 23, 2015, responsible for the development of our after-sales management and the independent after-sales maintenance business. Mr. He is also the deputy general manager of Automobile Group. Mr. He, who has served our Group for 16 years, has 18 years of experience in automobile sales and service industry. Prior to joining us, Mr. He served in Shanghai Huchang Motor Service Co. Ltd (上海滬昌汽車服務有限公司) from August 1997 to July 1999 as a quality inspector. Mr. He joined our Company in July 1999 and successively served as the after-sales service manager of Yongda Guangzhou Honda 4S dealerships, the after-sales service manager of Yongda Toyota 4S dealerships, the deputy general manager and after-sales service manager of Yongda BMW 4S dealerships as well as the general manager of Yongda Infiniti 4S dealerships. Mr. He graduated from Liao Yuan Vocational Technical College (上海遼源職業技術學院) in Shanghai in 1997, and later graduated from East China Normal University (華東師範大學) in Shanghai in 2000 with a college diploma in economic management.

**TANG Liang (唐亮),** aged 36, was appointed as the assistant to our president on March 23, 2015. Mr. Tang is also the deputy general manager of Automobile Group. Mr. Tang joined us in May 4, 2010 and served as the deputy general manager and the general manager of Shanghai Baozen Automobile Sales and Services Co. Ltd. (上海寶誠汽車銷售服務有限公司) and the vice director of Baocheng Business Division. Mr. Tang has over 10 years of working experience in the automobile industry. Prior to joining us, Mr. Tang worked at SGM Automobile Manufacturing Department (上海通用汽車製造部) from April 2004 to the end of 2008, during which period he held a number of managerial positions in respect of engineering and production, and later served as the assistant to the vice president of SGM Automobile Marketing (上海通用汽車營銷) from the end of 2008 until he joined our Group. Mr. Tang graduated from the Material Science and Engineering Institute of Shanghai Jiao Tong University (上海交通大學) in 2001 with a bachelor's degree in material science and engineering, and obtained a master's degree in the same major in 2004. Mr. Tang is currently pursuing a master degree in Executive Master of business administration at China Europe International Business School (中歐國際工商學院).

## COMPANY SECRETARY

**MOK Ming Wai (莫明慧)**, aged 43, is a director of KCS Hong Kong Limited. She has around 20 years of professional and in-house experience in the company secretarial field. She is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She currently acts as the sole company secretary and joint company secretary of various publicly listed companies.

# Report of the Directors

The directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended December 31, 2014 (the "Financial Statements").

## PRINCIPAL ACTIVITIES

We are a leading passenger vehicle retailer and comprehensive service provider in China focused on luxury and ultra-luxury brands. We have dealership agreements to operate our 4S dealerships for a diversified portfolio of luxury and ultra-luxury automobile brands including BMW/MINI, Audi, Porsche, Jaguar/Land Rover, Bentley, Volvo, Cadillac, Lincoln, Infiniti, Lexus and Morgan and mid to high end automobile brands, mainly including Buick, Volkswagen and Ford.

The principal activities of the Company are as follows:

(i) new passenger vehicle sales;

(ii) repair and maintenance services;

(iii) automobile extended products and services, including sales of spare parts and accessories, automobile decoration products, automobile care services, agency services of vehicle title registration and vehicle inspection service;

(iv) agency services for automobile finance and insurance products;

(v) pre-owned vehicle business;

(vi) automobile rental services; and

(vii) finance leasing service.

There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS

The results of the Group for the year ended December 31, 2014 are set out in the Financial Statements on pages 54 to 139 of this annual report.

## FINAL DIVIDEND

The Board resolved to propose to the shareholders of the Company in the forthcoming annual general meeting on May 8, 2015 (Friday) (the "AGM") for the distribution of a final dividend of RMB0.1 per share for the year ended December 31, 2014. The final dividend is expected to be paid on or about May 29, 2015 (Friday) to the shareholders of the Company whose names are listed in the register of members of the Company on May 14, 2015 (Thursday), in an aggregate amount of RMB148.0 million. The proposal for the distribution of the final dividend above is subject to the consideration and approval of the shareholders at the forthcoming AGM of the Company.

## CAPITAL

Details of the capital of the Group during the year are set out in note 31 to the Financial Statements.

## RESERVES

Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 57 of this annual report.

## DISTRIBUTABLE RESERVES

As at December 31, 2014, the Company has distributable reserves of RMB1,270.2 million in total available for distribution, of which RMB140.8 million has been proposed as final dividend for the year.

## FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 140 of this annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the Financial Statements.

## BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group during the year are set out in note 28 to the Financial Statements.

## CONTINGENT LIABILITIES

As at December 31, 2014, our Group had no significant contingent liabilities.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of our directors, the Company has maintained the amount of public float as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as at the date of this annual report.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company (the "Articles of Association") and there is no restriction against such rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## DIRECTORS

The directors of the Company during the year and up to the date of this annual report are:

**Executive Directors**
Mr. CHEUNG Tak On *(Chairman)*
Mr. CAI Yingjie *(Vice-chairman) (re-designated as Chief Executive Officer with effect from March 23, 2015)*
Mr. WANG Zhigao *(Vice-chairman) (re-designated as Executive Director with effect from March 23, 2015)*
Mr. XU Yue *(President) (appointed as Executive Director and President with effect from March 23, 2015)*
Ms. CHEN Yi *(Vice-president) (appointed as Executive Director with effect from March 23, 2015)*

**Non-executive Director**
Mr. WANG Liqun

**Independent Non-executive Directors**
Mr. WANG Zhiqiang
Mr. LU Wei
Mr. CHEN Xianglin

In accordance with article 104(1) of the Articles of Association, one-third of the directors of the Company will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with article 99(3) of the Articles of Association, any director of the Company appointed to fill a casual vacancy or as an addition to the existing board of directors of the Company will hold office until the next following annual general meeting of the Company and be eligible for re-election.

Details of the directors of the Company to be re-elected at the forthcoming annual general meeting of the Company are set out in the circular to shareholders dated April 8, 2015.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 25 to 31 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company under which they agreed to act as executive directors for an initial term of three years commencing from their respective effective date of appointment, which may be terminated by not less than one month's notice in writing served by either the executive director or the Company. Each of the non-executive directors and the independent non-executive directors has signed an appointment letter with the Company for a term of three years with effect from their respective effective date of appointment. The appointments of directors are subject to the provisions of retirement and rotation of directors under the Articles of Association.

None of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

## CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

We have received from each of the independent non-executive directors, namely Mr. WANG Zhiqiang, Mr. LU Wei and Mr. CHEN Xianglin, the confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has duly reviewed the confirmation of independence of each of these directors. We consider that our independent non-executive directors have been independent from the date of their appointments to December 31, 2014 and remain so as of the date of this annual report.

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

As at the date of this annual report, the interests and short positions of our directors and chief executives in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which were required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as contained in Appendix 10 to the Listing Rules, were as follows:

### A) Long positions in the Company's shares

| Name of Director | Capacity/Nature of Interest | Total number of shares | Approximate Percentage of Shareholding (%) |
|---|---|---|---|
| Mr. CHEUNG Tak On[1] | Founder of a discretionary trust | 384,000,000 (long position) | 25.946 |
| | Interest of controlled corporation | 302,080,000 (long position) | 20.411 |
| | Beneficial owner | 604,500 (long position) | 0.041 |
| Mr. CAI Yingjie[2] | Interest of controlled corporation | 108,288,000 (long position) | 7.317 |
| | Beneficial owner | 674,500 (long position) | 0.046 |
| Mr. WANG Zhigao[3] | Interest of controlled corporation | 57,160,000 (long position) | 3.862 |
| | Beneficial owner | 910,500 (long position) | 0.062 |
| Mr. XU Yue | Beneficial owner | 1,420,000 (long position) | 0.096 |
| Ms. CHEN Yi | Beneficial owner | 900,000 (long position) | 0.061 |

*Notes:*

(1) (i) Mr. CHEUNG Tak On is the settlor and protector of a discretionary trust of which HSBC International Trustee Limited acts as its trustee and the beneficiaries of which are Mr. CHEUNG Tak On and certain of his family members (the "Family Trust"). Palace Wonder Company Limited (栢麗萬得有限公司) ("Palace Wonder") is wholly-owned by Regency Valley Company Limited (麗晶萬利有限公司) ("Regency Valley"), which is in turn wholly-owned by HSBC International Trustee Limited, as the trustee of the Family trust. Mr. CHEUNG Tak On (as founder of the Family Trust), HSBC International Trustee Limited and Regency Valley are deemed to be interested in the 384,000,000 shares held by Palace Wonder.

(ii) Asset Link Investment Limited ("Asset Link") is wholly-owned by Mr. CHEUNG Tak On and he is deemed to be interested in the 302,080,000 shares held by Asset Link.

(iii) Mr. CHEUNG Tak On also holds 604,500 shares of the Company as beneficial owner.

(2) Mr. CAI Yingjie holds 100% of the issued share capital of Ample Glory International Investment Company Limited ("Ample Glory") and he is deemed to be interested in the 108,288,000 shares held by Ample Glory. He also holds 674,500 shares of the Company as beneficial owner.

(3) Mr. WANG Zhigao holds 100% of the issued share capital of Golden Rock Global Investment Company Limited ("Golden Rock") and he is deemed to be interested in the 57,160,000 shares held by Golden Rock. He also holds 910,500 shares of the Company as beneficial owner.

### (B) Long positions in underlying shares of the Company

| Name of Director | Capacity | Number of underlying shares in respect of the share options granted | Percentage of underlying shares over the Company's issued share capital (%) |
|---|---|---|---|
| Mr. XU Yue | Beneficial owner | 3,000,000 | 0.203 |
| Ms. CHEN Yi | Beneficial owner | 1,300,000 | 0.088 |
| Mr. WANG Liqun | Beneficial owner | 200,000 | 0.014 |
| Mr. WANG Zhiqiang | Beneficial owner | 200,000 | 0.014 |
| Mr. LU Wei | Beneficial owner | 200,000 | 0.014 |
| Mr. CHEN Xianglin | Beneficial owner | 200,000 | 0.014 |

Save as disclosed above, as at the date of this annual report, none of the directors or chief executives of the Company has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or which will be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or which will be required, pursuant to the Model Code as contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

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

As at the date of this annual report, the followings are the persons, other than the directors or chief executives of the Company, who had interests or short positions in the shares and underlying shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

**Long positions in the Shares and underlying shares of the Company**

| Name of Shareholder | Capacity/Nature of Interest | Total number of shares | Approximate Percentage of Shareholding (%) |
|---|---|---|---|
| Palace Wonder[(1)] | Beneficial owner | 384,000,000 (long position) | 25.946 |
| Regency Valley[(1)] | Interest of controlled corporation | 384,000,000 (long position) | 25.946 |
| HSBC International Trustee Limited[(1)] | Trustee | 384,000,000 (long position) | 25.946 |
| Asset Link[(2)] | Beneficial owner | 302,080,000 (long position) | 20.411 |
| Ample Glory[(3)] | Beneficial owner | 108,288,000 (long position) | 7.317 |
| Runda Holdings Limited ("Runda Holdings")[(4)] | Beneficial owner | 76,800,000 (long position) | 5.189 |
| Sun Moon China Investment Company Limited ("Sun Moon")[(4)] | Beneficial owner | 40,590,000 (long position) | 2.743 |
| | Interest of controlled corporation | 76,800,000 (long position) | 5.189 |
| Mr. GU Mingchang[(4)] | Interest of controlled corporation | 117,390,000 (long position) | 7.932 |
| Baring Private Equity Asia V Holding (7) Limited[(5)] | Beneficial owner | 94,136,500 (long position) | 6.360 |
| The Baring Asia Private Equity Fund V, L.P.[(5)] | Interest of controlled corporation | 94,136,500 (long position) | 6.360 |
| Baring Private Equity Asia GP V, L.P.[(5)] | Interest of controlled corporation | 94,136,500 (long position) | 6.360 |
| Baring Private Equity Asia GP V Limited[(5)] | Interest of controlled corporation | 94,136,500 (long position) | 6.360 |
| Jean Eric SALATA[(5)] | Interest of controlled corporation | 94,136,500 (long position) | 6.360 |

| Name of Shareholder | Capacity/Nature of Interest | Total number of shares | Approximate Percentage of Shareholding (%) |
|---|---|---|---|
| Mr. WAN Zhanggen[(6)] | Interest of controlled corporation | 85,211,500 (long position) | 5.757 |
| | Beneficial owner | 14,858,500 (long position) | 1.004 |
| Eternal Wealth Global Investment Company Limited ("Eternal Wealth")[(6)] | Beneficial owner | 85,211,500 (long position) | 5.757 |

*Notes:*

(1) Palace Wonder is wholly-owned by Regency Valley, which is in turn wholly-owned by HSBC International Trustee Limited as the trustee of the Family Trust. The Family Trust is a discretionary trust established by Mr. CHEUNG Tak On as settlor and protector with HSBC International Trustee Limited appointed as trustee on April 5, 2012. The beneficiary objects of the Family Trust are Mr. CHEUNG Tak On and certain of his family members. Mr. CHEUNG Tak On (as founder of the Family Trust), HSBC International Trustee Limited and Regency Valley are deemed to be interested in the 384,000,000 shares held by Palace Wonder.

(2) Asset Link is wholly-owned by Mr. CHEUNG Tak On and he is deemed to be interested in the 302,080,000 shares held by Asset Link.

(3) Ample Glory is wholly-owned by Mr. CAI Yingjie. Mr. CAI Yingjie is deemed to be interested in the 108,288,000 shares held by Ample Glory.

(4) Runda Holdings is wholly-owned by Sun Moon and Sun Moon is deemed to be interested in the 76,800,000 Shares held by Runda Holdings. Sun Moon is in turn wholly-owned by Mr. GU Mingchang, the brother of Ms. GU Lifang (being the wife of Mr. CHEUNG Tak On) and he is deemed to be interested in the 40,590,000 shares held by Sun Moon as well as 76,800,000 shares held by Runda Holdings.

(5) The Baring Asia Private Equity Fund V, L.P. approximately owns 99.35% of Baring Private Equity Asia V Holding (7) Limited. Baring Private Equity Asia GP V, L.P. is the general partner of The Baring Asia Private Equity Fund V, L.P.. Jean Eric SALATA is the sole shareholder of Baring Private Equity Asia GP V Limited (the general partner of Baring Private Equity Asia GP V, L.P.). Each of Baring Private Equity Asia GP V Limited and Jean Eric SALATA is therefore deemed to be interested in 94,136,500 shares held by Baring Private Equity Asia V Holding (7) Limited. Jean Eric SALATA disclaims beneficial ownership of such shares, other than to the extent of his economic interest in such entities.

(6) Eternal Wealth is wholly-owned by Mr. WAN Zhanggen. Mr. WAN Zhanggen is deemed to be interested in the 85,211,500 shares held by Eternal Wealth and he also holds 14,858,500 shares of the Company as beneficial owner.

Save as disclosed above, as at the date of this annual report, the directors and the chief executives of the Company are not aware of any other person (other than the directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year and up to the date of this annual report was the Company or any of its subsidiaries, a party to any arrangement that would enable the directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

## CONVERTIBLE BONDS

Pursuant to the announcement of the Company dated June 25, 2014 in relation to the proposed issue of the RMB1,000,000,000 1.5% USD settled convertible bonds due in 2019 (the "Bonds"), all conditions precedent under the subscription agreement have been satisfied (or waived) and completion of the subscription agreement took place on July 18, 2014. The net proceeds from the issue of the Bonds, after deduction of expenses, amount to approximately RMB977,000,000, will be used by the Group for establishing and acquiring 4S dealerships, and working capital. Assuming full conversion of the Bonds at the initial conversion price of HK$7.958 per share, the Bonds would be convertible into approximately 158,259,610 shares.

Approval has been granted by the Hong Kong Stock Exchange for the listing of the Bonds and the conversion shares. For further details and principal terms of the Bonds, please refer to the above-mentioned announcement.

As at the date of this annual report, none of the conversion rights attached to the Bonds was exercised.

## LOAN AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

On June 25, 2014, the Company as borrower entered into a letter of credit facility agreement (the "Facility Agreement") with DBS Bank Ltd. in relation to the letter of credit issued to the trustee in an amount up to RMB1,025,000,000 as part of the credit-enhancement or guarantee arrangement for the Bonds.

The Facility Agreement contains, inter alia, covenants to the effect that Mr. Cheung Tak On (whether directly or indirectly, or as the beneficiary of a trust acting individually or together) shall beneficially own not less than 30% of the issued share capital having the right to cast votes in general meetings of the Company. A breach of such covenants will constitute an event of default under the Facility Agreement.

## DIRECTORS AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in the section headed "Our History and Reorganisation — Onshore Reorganisation" in our prospectus dated June 29, 2012 and save for their respective interests in the Group, none of the directors and controlling shareholders of the Company was interested in any business which competes or is likely to compete with the businesses of the Group for the year ended December 31, 2014.

We have received an annual written confirmation from our controlling shareholders, including Mr. CHEUNG Tak On and Asset Link, in respect of the compliance by and with the provisions of the deed of non-competition entered into between the Company and our controlling shareholders (the "Deed of Non-competition").

Our independent non-executive directors have reviewed the compliance with the Deed of Non-competition during the financial year ended December 31, 2014 based on the information and confirmation provided by or obtained from the controlling shareholders, and were satisfied that our controlling shareholders, including Mr. CHEUNG Tak On and Asset Link, have duly complied with the Deed of Non-competition.

## CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

Among the related party transactions disclosed in note 36 to the Financial Statements, the following transaction constitute a continuing connected transaction for the Company under Rule 14A.76 of the Listing Rules and are required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules. Please see below the information required to be disclosed in compliance with Chapter 14A of the Listing Rules.

On May 11, 2012, we entered into a properties leasing agreement with Yongda Holding and certain of its subsidiaries (the "Properties Leasing Agreement") pursuant to which Yongda Holding and its relevant subsidiaries agreed to lease certain owned properties and properties rented from independent third parties to us. Both Yongda Holding and Yongda CLS are our connected persons and therefore the transaction under the Properties Leasing Agreement constitutes continuing connected transaction under Chapter 14A of the Listing Rules. The term of lease of the properties under the Properties Leasing Agreement expired on December 31, 2014 (or such earlier date when the leases entered into between Yongda Holding or its subsidiaries and the Independent Third Parties expire or terminate, where applicable). The Properties Leasing Agreement is renewable for a term of three years, subject to compliance with all applicable requirements under the PRC laws and the Listing Rules (and the term of the leases entered into between Yongda Holding or its subsidiaries and the independent third parties, where applicable). Please refer to the section headed "Connected Transaction" in our prospectus dated June 29, 2012 for details.

The annual caps for the rental payable under the Properties Leasing Agreement for the years ended December 31, 2012, 2013 and 2014 are RMB23,464,000, RMB23,853,000 and RMB24,286,000, respectively. Please also refer to note 36 to the Financial Statements on pages 132 for details.

As disclosed above, the term of lease under the Properties Leasing Agreement expired on December 31, 2014. On December 23, 2014, we entered into a new properties leasing agreement with Yongda Holding and certain of its subsidiaries (including Yongda CLS) (the "New Properties Leasing Agreement"), for renewal of the Properties Leasing Agreement with some modifications to the list of leased properties as set out in the Properties Leasing Agreement for a term of three years commencing from January 1, 2015 to December 31, 2017. As Mr. CHEUNG Tak On, one of the controlling shareholders and directors of the Company, is indirectly interested in more than 30% of the voting power at the general meeting of Yongda Holding and that Yongda CLS is its subsidiary, both Yongda Holding and Yongda CLS are connected persons of the Company and the transactions contemplated under the New Properties Leasing Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules.

The aggregate sum of rental payable under the New Properties Leasing Agreement for each of the three years ending December 31, 2015, 2016, 2017 are RMB22,967,300, RMB23,253,600 and RMB24,314,200 respectively. The rental payable was determined with reference to the historical rental amounts and the prevailing market rates of properties with similar locations and sizes. The annual caps for each of the three years ending December 31, 2015, 2016, 2017 are RMB25,264,000, RMB25,578,900 and RMB26,745,700 respectively. As one or more of the applicable percentage ratios for the annual caps under the New Properties Leasing Agreement for the three years ending December 31, 2017 are more than 0.1% but less than 5%, the continuing connected transaction contemplated under the New Properties Leasing Agreement is exempted from the circular and shareholders' approval requirements but subject to the reporting and announcement requirements as set out in Chapter 14A of the Listing Rules. For details of the New Properties Leasing Agreement and the transaction contemplated thereunder, please refer to the announcement of the Company dated December 23, 2014 and note 36 to the Financial Statements on page 132.

The auditor of the Group has reviewed the continuing connected transactions referred to above and confirmed to the Board that the continuing connected transactions: (i) have received the approval of the Board; (ii) were in accordance with the pricing policies of the Group; (iii) were entered into in accordance with the relevant agreement governing the transaction; and (iv) have not exceeded the caps.

The independent non-executive directors have confirmed that the above continuing connected transactions were entered into by the Group: (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreement (including the pricing principle and guidelines set out therein) governing them and on terms that were fair and reasonable and in the interests of the Company and the shareholders as a whole.

Save for disclosed above, during the year, we have not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the Rules 14A.49 and 14A.71 of the Listing Rules.

## DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed in "Connected and Continuing Connected Transactions", no director had a material interest, either directly or indirectly, in any contract of significance to the business of our Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended December 31, 2014 and up to the date of this annual report.

## CONTRACT OF SIGNIFICANCE

Save as disclosed in "Connected and Continuing Connected Transactions", no contract of significance was entered into between the Company, or one of its subsidiary companies, and a controlling shareholder or any of its subsidiaries during the year ended December 31, 2014.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year and up to the date of this annual report.

## REMUNERATION POLICY AND DIRECTORS' REMUNERATION

As at December 31, 2014, we had 8,857 employees. The remuneration of our employees includes salaries and allowances. We provide training to our staff to enhance technical and product knowledge. Our Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. Our Group offers competitive remuneration packages to our directors, and the directors' remuneration are subject to shareholders' approval at general meeting. Other emoluments are determined by the Company's Board with reference to directors' duties, responsibilities and performance and the results of our Group.

Details of the directors' remuneration during the year are set out in note 12 to the Financial Statements.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme pursuant to Chapter 17 of the Listing Rules on October 10, 2013 (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide incentive or reward to eligible persons for their contribution to, and continuing efforts to promote the interests of, the Group and for such other purposes as the Board may approve from time to time. Eligible persons include (a) any director (whether executive or non-executive, including any independent non-executive director) or employee (whether full time or part time) of the Group; (b) any supplier to the Group; (c) any customer of the Group; (d) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to the Group; (e) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group; (f) any joint venture partner, business or strategic alliance partner, in each case, of any member of the Group; and (g) any discretionary trust whose discretionary objects may be any person belonging to any of the above classes (a) to (f) (the "Eligible Persons"). The Share Option Scheme shall be valid and effective for a period of 10 years commencing from October 10, 2013, being the date on which the shareholders of the Company approved the Share Option Scheme, after which period no further share option shall be granted.

Under the Share Option Scheme, the Remuneration Committee will from time to time propose for the Board's approval for grant of share options and the number of share options to be granted to the relevant grantees. The aggregate number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any new share option scheme of the Company which may be adopted hereafter must not, in aggregate, exceed 10 per cent of the total number of shares in issue as at the date of adoption of the Share Option Scheme or any new share option scheme (as the case may be). The maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company, must not, in aggregate, exceed 30 per cent of the total number of shares in issue from time to time.

No option shall be granted to any Eligible Person if, at the relevant time of grant, the number of shares issued and to be issued upon exercise of all share options (granted and proposed to be granted, whether exercised, cancelled or outstanding) to the relevant Eligible Person in the 12-month period up to and including the date of such grant would exceed 1 per cent of the total number of shares in issue at such time. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

The subscription price of share options is determined by the Board and shall be at least the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Hong Kong Stock Exchange on the date of offer of the share options, which must be a business day; (ii) the average of the closing prices of the Company's shares as stated in the daily quotations sheets of the Hong Kong Stock Exchange for the five business days immediately preceding the date of offer of the share options; and (iii) the nominal value of a share of the Company.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of a grant. Unless the Board determines otherwise, there is no minimum period for which an option must be held before it can be exercised. The Board shall specify in an offer letter a date by which a grantee must accept an offer, being a date no later than 28 days after the date on which the option is offered or the date on which the conditions for the offer are satisfied. Payment of option price of RMB1.00 shall be made upon acceptance of the offer.

Further details of the Share Option Scheme are set out in note 32 to the Financial Statements and the circular of the Company dated September 5, 2013. Details of movements in the options granted under the Share Option Scheme during the year ended December 31, 2014 are as follows:

| | Number of Share Options | | | | | | | | | Price of the Company's shares Immediately before the grant date of options | Weighted average price of the Company's shares | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name of category of grantee | As at January 1, 2014 | Granted during the year | Exercised during the year | Forfeited during the year | Expired during the year | As at December 31, 2014 | Date of grant of share options | Exercise period of share options | Exercise price of share options HK$ *per share* | HK$ *per share* | Immediately before the exercise date HK$ *per share* | At exercise date of options HK$ *per share* |
| *Executive Directors* | | | | | | | | | | | | |
| XU Yue | 3,000,000 | 0 | – | – | – | 3,000,000 | December 30, 2013 | December 30, 2013 to December 29, 2018 | 6.950 | 6.850 | – | – |
| CHEN Yi | 1,300,000 | 0 | – | – | – | 1,300,000 | December 30, 2013 | December 30, 2013 to December 29, 2018 | 6.950 | 6.850 | – | – |
| *Non-executive Director* | | | | | | | | | | | | |
| WANG Liqun | 200,000 | 0 | – | – | – | 200,000 | December 30, 2013 | December 30, 2013 to December 29, 2018 | 6.950 | 6.850 | – | – |
| *Independent Non-executive Directors* | | | | | | | | | | | | |
| WANG Zhiqiang | 200,000 | 0 | – | – | – | 200,000 | December 30, 2013 | December 30, 2013 to December 29, 2018 | 6.950 | 6.850 | – | – |
| LU Wei | 200,000 | 0 | – | – | – | 200,000 | December 30, 2013 | December 30, 2013 to December 29, 2018 | 6.950 | 6.850 | – | – |
| CHEN Xianglin | 200,000 | 0 | – | – | – | 200,000 | December 30, 2013 | December 30, 2013 to December 29, 2018 | 6.950 | 6.850 | – | – |
| Other Employees in aggregate | 24,900,000 | 0 | – | 300,000 | – | 24,600,000 | December 30, 2013 | December 30, 2013 to December 29, 2018 | 6.950 | 6.850 | – | – |

## AMENDED EMPLOYEE PRE-IPO INCENTIVE SCHEME

Our employee pre-IPO incentive scheme (the "Employee Pre-IPO Incentive Scheme"), the details of which are set out in the paragraph headed "Employee Pre-IPO Incentive Scheme" in Appendix IV to our prospectus dated June 29, 2012, was conditionally approved and adopted by a resolution of the directors on April 3, 2012. Any employees, directors (other than independent non-executive directors) and members of the senior management of the Company, but excluding (a) any person who has given or been given notice terminating his or her office or directorship, as the case may be; and (b) any other person that the Board may determine from time to time, may participate in this scheme.

The Remuneration Committee has full power and authority to (a) propose, select or determine which beneficiary is entitled to an award; (b) determine the amount of the award for each selected beneficiary; and (c) make the relevant award to the beneficiaries under the Employee Pre-IPO Incentive Scheme. Only the dividend payments on the shares held by HSBC Trustee (Hong Kong) Limited ("HSBC HK Trustee") via special purpose vehicle under the Employee Pre-IPO Incentive Scheme (the "Scheme Shares") will be distributed to the beneficiaries, and the Scheme Shares themselves will not be vested in the beneficiaries of the Employee Pre-IPO Incentive Scheme.

Unless terminated earlier by a resolution of the Board made in accordance with the terms of the trust deed, the Employee Pre-IPO Incentive Scheme has a term of 80 years from the listing date of the Company. On termination of the Employee Pre-IPO Incentive Scheme, HSBC HK Trustee will transfer the Scheme Shares to Yongda Holding, unless the board of directors of Yongda Holding request the Scheme Shares to be transferred to such other employee incentive scheme trust as may be selected by the board of directors of Yongda Holding, provided that such other employee award scheme trust selected by the board of directors of Yongda Holding satisfies the reasonable requirements for the time being of HSBC HK Trustee, the Articles of Association and all applicable laws, failing which the Scheme Shares will be transferred directly to Yongda Holding.

On August 30, 2013, the Board resolved to amend the Employee Pre-IPO Incentive Scheme (the "Amended Scheme") to the effect that, in addition to the previously allowed cash awards, awards of restricted share awards could be granted to eligible persons pursuant to the terms of the Amended Scheme. The scope of the eligible persons under the Amended Scheme was amended to include any director (whether executive or non-executive, including any independent non-executive director), employee (whether full time or part time) and members of the senior management of the Group, but excluding (i) any person who has given or been given notice terminating his or her office or directorship, as the case may be; and (ii) any other person that the Board may determine from time to time. For further details of the amendments to the Employee Pre-IPO Incentive Scheme, please refer to the announcement of the Company dated August 30, 2013.

During the year and up to the date of this annual report, 7,030,000 restricted shares and a total of HK$3,820,700 cash award were awarded to eligible persons in accordance with the terms of the Amended Scheme.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2014, the respective percentage of purchases attributable to the Group's largest supplier and five largest suppliers in aggregate was 43.5% and 88.1%. The percentage of the total sales attributable to the Group's five largest customers was below 30% of the total sales in the Group.

None of our directors or any of their close associates or any shareholders (which to the best knowledge of our directors owned more than 5% of the Company's issued share capital) had a material interest in our five largest suppliers or customers.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended December 31, 2014.

## EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period requiring disclosure in this annual report.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules and has complied with the code provisions in the CG Code during the reporting period.

## AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2014 have been audited by Deloitte Touche Tohmatsu, certified public accountants.

Deloitte Touche Tohmatsu shall retire and being eligible, offer itself for re-appointment, and a resolution to this effect shall be proposed at the forthcoming annual general meeting.

## RECORD DATE OF ANNUAL GENERAL MEETING

Shareholders whose names appear on the register of members of the Company at the close of business on May 7, 2015 (Thursday) (the "Record Date") will be entitled to attend the forthcoming annual general meeting to be held on May 8, 2015 (Friday) (the "AGM"). In order to be eligible to attend and vote at the AGM, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on the Record Date.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will also be closed from May 14, 2015 (Thursday) to May 18, 2015 (Monday), both days inclusive, in order to determine the entitlement of the shareholders to the final dividend. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on May 13, 2015 (Wednesday).

By order of the Board
**Cheung Tak On**
*Chairman of the Board*

PRC, March 23, 2015

# Corporate Governance Report

The Board of the Company is pleased to present this corporate governance report in the Group's annual report for the year ended December 31, 2014.

## CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the Corporate Governance Code and Corporate Governance Report as contained in Appendix 14 to the Listing Rules (the "CG Code").

The CG Code sets out the principles of good corporate governance and two levels of corporate governance practices, as follows:

a) code provisions, which listed issuers are expected to comply with or to give considered reasons for deviation.

b) recommended best practices for guidance only, which listed issuers are encouraged to comply with.

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code.

The Company regularly reviews its corporate governance practices and the Company was in compliance with the code provisions of the CG Code during the year ended December 31, 2014.

## A. THE BOARD

### 1. Responsibilities

The Board is responsible for the leadership and control of the Company and is responsible for promoting the success of the Company by directing and supervising its affairs. The Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference which are published on the websites of the Hong Kong Stock Exchange and the Company.

All directors have carried out their duties in good faith and in compliance with the standards of applicable laws and regulations, and have acted in the best interests of the Company and its shareholders at all times.

### 2. Delegation of Management Function

The Board is responsible for making all major decisions of the Company including: the approval and monitoring of all major policies of the Group and overall strategies, internal control and risk management systems, notifiable and connected transactions, nomination of directors and company secretary, and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is entitled to seek independent professional advice in appropriate circumstances at the Company's expense.

The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions are periodically reviewed. Approval has to be obtained from the Board prior to any significant transaction is entered into.

3. **Board Composition**

The Board of the Company comprises the following directors:

| | |
|---|---|
| **Executive Directors** | Mr. CHEUNG Tak On *(Chairman)*<br>Mr. CAI Yingjie *(Vice-chairman) (re-designated as Chief Executive Officer with effect from March 23, 2015)*<br>Mr. WANG Zhigao *(Vice-chairman) (re-designated as Executive Director with effect from March 23, 2015)*<br>Mr. XU Yue *(President) (appointed as Executive Director and President with effect from March 23, 2015)*<br>Ms. CHEN Yi *(Vice-president) (appointed as Executive Director with effect from March 23, 2015)* |
| **Non-executive Director** | Mr. WANG Liqun |
| **Independent Non-executive Directors** | Mr. WANG Zhiqiang<br>Mr. LU Wei<br>Mr. CHEN Xianglin |

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

Save as disclosed in our prospectus dated June 29, 2012 and in this annual report, to the best knowledge of the Company, there are no financial, business, family, or other material relationships among members of the Board.

During the year, 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 at least one-third of the Board and at least one independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence requirements set out in the Listing Rules.

4. **Appointment and Re-election of Directors**

The procedures and process of appointment, re-election and removal of directors are laid down in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Each of the executive directors has entered into a service contract with the Company for a term of three years with effect from their respective effective date of appointment unless terminated by not less than one month's notice in writing served by either the executive directors or the Company. Each of the non-executive director and independent non-executive directors has signed an appointment letter with the Company for a term of three years with effect from their respective effective date of appointment. The appointments are subject to the provisions of retirement and rotation of directors under the Articles of Association.

In accordance with the Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself for re-election by shareholders at the first general meeting after appointment.

5. **Induction and Continuing Development for Directors**

Each newly appointed director receives formal, comprehensive and tailored induction on the first occasion of his appointment, so as to ensure that he understands the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and other relevant regulatory requirements.

The directors are continually provided with information relating to the developments in the legal and regulatory regime and the business and market environments to facilitate the execution of their responsibilities. Continuing briefings and professional development for the directors were arranged by the Company and its professional advisers.

Except for Mr. XU Yue and Ms. CHEN Yi who have just been appointed since March 23, 2015, each of our directors has attended training sessions arranged by our Company on the continuing obligations of listed companies and its directors, disclosure obligations of listed companies and update on the Listing Rules.

On top of the above-mentioned trainings, some directors and members of the senior management have also attended several presentations and trainings organized by the Company in relation to compliance of listed companies, Internet E-commerce business and automobile industry, and other trainings organized by external organizations on management, etc..

6. **Board Meetings and General Meetings**

***Number of Meetings and Directors' Attendance***

Code provision A.1.1 of the CG Code prescribes that at least four regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through electronic means of communication.

The Board met five times during the year ended December 31, 2014 for discussing and approving the overall strategies and policies of the Company, reviewing and approving the audited annual results for the year ended December 31, 2013, unaudited interim results for the six months ended June 30, 2014, discussing the reports and suggestions from all Board Committees, approving the issue of RMB1,000,000,000 1.5% USD settled convertible bonds due in 2019, and approving the renewing of the continuing connected transaction for the three years ended December 31, 2017.

The attendance records of each director at the Board meetings and general meeting(s) are set out below:

| Name of Director | Attendance/ Number of Board Meetings | Attendance/ Number of General Meeting(s)* |
|---|---|---|
| Mr. CHEUNG Tak On | 5/5 | 1/1 |
| Mr. CAI Yingjie | 4/5 | 0/1 |
| Mr. WANG Zhigao | 5/5 | 1/1 |
| Mr. WANG Liqun | 5/5 | 1/1 |
| Mr. WANG Zhiqiang | 5/5 | 1/1 |
| Mr. LU Wei | 5/5 | 1/1 |
| Mr. CHEN Xianglin | 5/5 | 1/1 |

* One annual general meeting had been held during the year ended December 31, 2014 on May 16, 2014.

***Practices and Conduct of Meetings***

Annual meeting schedules and draft agenda of each meeting are made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice will generally be given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least three days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The senior management (including the President) attend all regular Board meetings and where necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The company secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

The Articles of Association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

## B. CHAIRMAN AND CHIEF EXECUTIVE

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

Mr. CHEUNG Tak On is the Chairman of the Board, who provides leadership for the Board and is responsible for chairing the meetings, managing the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. He is also responsible for setting the strategic vision, direction and goals of our Group and he participated in our Group's strategic and key operational decision-making processes. He is the primary responsible person for ensuring that good corporate governance practices and procedures are established, and that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole. He holds meetings with the non-executive directors (including independent non-executive directors) without the executive directors present at least annually. Mr. CAI Yingjie is our Vice-chairman and President, who performs the functions of the chief executive and is responsible for overseeing our operations and investment, managing our relationship with automobile manufacturers and exploring new business opportunities for our Group.

To facilitate discussion of all key and appropriate issues by the Board in a timely manner, the Chairman co-ordinate with the senior management to provide adequate, complete and reliable information to all directors for consideration and review.

## C. BOARD COMMITTEES

The Board has established three committees, namely, the Remuneration Committee, the Audit and Compliance Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All of these three committees are established with defined written terms of reference which are available at the websites of the Hong Kong Stock Exchange and the Company.

The majority of the members of the Remuneration Committee, Audit and Compliance Committee and Nomination Committee are independent non-executive directors.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

1. **Remuneration Committee**

We have established a remuneration committee with written terms of reference in compliance with code provision B.1 of the CG Code. The Remuneration Committee consists of two independent non-executive directors, being Mr. WANG Zhiqiang and Mr. LU Wei, and one non-executive director, being Mr. WANG Zhigao *(note)*. The chairman of the Remuneration Committee is Mr. WANG Zhiqiang.

The primary duties of the Remuneration Committee include, but are not limited to: (i) making recommendations to the directors on our policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) reviewing and approving the management's remuneration proposals with reference to our Board's corporate goals and objectives and ensuring that it is consistent with contractual terms and are reasonable and appropriate; and (iii) determining or making recommendation to the Board on the terms of the remuneration package of our executive directors and senior management with reference to their time commitment and responsibilities, and employment condition in the Group, and comparable companies.

The Remuneration Committee normally meets at least once a year for reviewing the remuneration policy and structure and making recommendations to the Board on determining the annual remuneration packages of the executive directors and the senior management and other related matters.

The Remuneration Committee held one meeting during the year ended December 31, 2014 to review the remuneration policy and structure of the Company.

The attendance records of the Remuneration Committee are set out below:

| Name of Director | Attendance/ Number of Meeting(s) |
|---|---|
| Mr. WANG Zhiqiang | 1/1 |
| Mr. LU Wei | 1/1 |
| Mr. WANG Zhigao | 1/1 |

Details of the directors' remuneration are set out in note 12 to the Financial Statements. In addition, the remuneration of each member of our senior management for the year ended December 31, 2014 is below RMB2,600,000.

Note: Mr. WANG Zhigao was re-designated as executive director with effect from March 23, 2015.

2. **Audit and Compliance Committee**

We have established the Audit and Compliance Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules as well as code provisions C.3 and D.3 of the CG Code. The Audit and Compliance Committee consists of two independent non-executive directors, being Mr. WANG Zhiqiang and Mr. LU Wei, and one executive director, being Mr. WANG Zhigao *(note)*. The chairman of the Audit and Compliance Committee is Mr. WANG Zhiqiang, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The primary duties of the Audit and Compliance Committee include, but are not limited to: (i) reviewing and monitoring the relationship of the external auditor and the Group, particularly the independence and objectivity and effectiveness of the external auditor; (ii) providing an independent view of the effectiveness of the financial reporting process, internal control, compliance and risk management systems of our Group; (iii) overseeing the audit process and performing other duties and responsibilities as assigned by our Board; (iv) developing, reviewing and monitoring our policies and practices on corporate governance, compliance with legal and regulatory requirements and requirements under the Listing Rules; (v) reviewing the financial information of the Company and ensuring compliance with accounting standards and reviewing significant adjustments resulting from audit; and (vi) developing, reviewing and monitoring the code of conduct applicable to our employees and directors.

The Audit and Compliance Committee has considered and reviewed the accounting principles and practices adopted by the Group and discussed matters in relation to internal control and financial reporting with the management. The Audit and Compliance Committee considers that the annual financial results for the year ended December 31, 2014 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

The Audit and Compliance Committee held two meetings during the year ended December 31, 2014 to review the unaudited interim results for the six months ended June 30, 2014 and report, the financial reporting and the compliance procedures, the corporate governance policy and practice, the audited annual results and financial report for the year ended December 31, 2013, the non-exempt continuing connected transaction for the year ended December 31, 2013, the policies and practices regarding compliance with laws and regulations, the code of conduct and the compliance manuals for employees and directors, the financial, operational and compliance monitoring, the risk management control, the work of the internal and external auditor, the service fees due to the external auditor as well as the misconduct-related reporting measures.

The attendance records of the Audit and Compliance Committee are set out below:

| Name of Director | Attendance/ Number of Meeting(s) |
|---|---|
| Mr. WANG Zhiqiang | 2/2 |
| Mr. LU Wei | 2/2 |
| Mr. WANG Zhigao | 2/2 |

The Company's annual results for the year ended December 31, 2014 have been reviewed by the Audit and Compliance Committee on March 23, 2015.

Note: Mr. WANG Zhigao ceased to be a member of the Audit and Compliance Committee upon his re-designation as executive director on March 23, 2015 and Mr. CHEN Xianglin was appointed as a member of the Audit and Compliance Committee with effect from March 23, 2015, which is in compliance with the Rule 3.21 of the Listing Rules.

### 3. Nomination Committee

We have established the Nomination Committee with written terms of reference in compliance with code provision A.5 of the CG Code. The Nomination Committee currently consists of one executive director, being Mr. CHEUNG Tak On, and two independent non-executive directors, being Mr. CHEN Xianglin and Mr. LU Wei. The chairman of the Nomination Committee is Mr. CHEUNG Tak On. The Nomination Committee reviews the structure, size and composition of the Board at least once a year and make recommendations on any proposed changes (if any) to it.

The primary duties of the nomination committee include, but are not limited to (i) identifying, selecting and recommending to our Board suitable candidates to serve as directors and president of our Company, and formulating plans for succession for both executive directors and non-executive directors; (ii) reviewing the structure, size, composition and diversity of the Board as well as the Board Diversity Policy; (iii) overseeing the process for evaluating the performance of the Board; (iv) developing, recommending to the Board and monitoring nomination guidelines for our Company; and (v) assessing the independence of independent non-executive directors.

The Nomination Committee held one meeting during the year ended December 31, 2014 to review the structure, size, composition and diversity (including the skills, knowledge, experience, gender, age, cultural and educational background, ethnicity, professional experience and length of service) of the Board to ensure that the Board has a balance of expertise, skills and experience appropriate for the requirements of the business of our Company, to assess the independence of the independent non-executive directors and to discuss the directors who retired by rotation in accordance with the Articles of Association and, being eligible, had offered themselves for re-election at the 2014 annual general meeting of the Company.

The attendance records of the Nomination Committee are set out below:

| Name of Director | Attendance/ Number of Meeting(s) |
|---|---|
| Mr. CHEUNG Tak On | 1/1 |
| Mr. CHEN Xianglin | 1/1 |
| Mr. LU Wei | 1/1 |

Where vacancies on the Board arise, the Nomination Committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, our Company's needs and other relevant statutory requirements and regulations.

The Board has adopted the Board Diversity Policy on August 30, 2013. A summary of the Board Diversity Policy is set out below:

| | |
|---|---|
| Purpose: | The Board Diversity Policy aims to set out the approach to achieve diversity of the Board. |
| Board Diversity Policy statement: | With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. |
| Measurable Objectives: | Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. |

In reviewing the structure, size, composition and diversity of the Board, the Nomination Committee has taken into account the measureable objectives as set out in the Board Diversity Policy. The Nomination Committee is of the view that the diversity level of the Board is appropriate in terms of knowledge, experience and skills of the directors. However, the Nomination Committee will continue to observe the Board Diversity Policy and consider potential candidates against the objective criteria set out in the Board Diversity Policy in order to achieve increasing diversity at the Board level.

## D. MODEL CODE FOR SECURITIES TRANSACTIONS

Our Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the directors and the directors have confirmed that they have complied with the Model Code during the year ended December 31, 2014.

Our Company's employees, who are likely to be in possession of unpublished inside information of the Company, are also subject to the Model Code.

## E. DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2014.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required by the Listing Rules and other regulatory requirements.

The senior management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company in order to put forward such information to the Board for approval.

## F. EXTERNAL AUDITOR AND AUDITOR REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on page 53.

The external auditor of the Company will be invited to attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report and auditor's independence.

During the year, the remuneration paid to the external auditor of the Company in respect of audit services for the year ended December 31, 2014 amounted to RMB6,000,000.

## G. INTERNAL CONTROLS

During the year, the Board has reviewed the effectiveness of the internal control system of our Group. The review covered the financial, operational, compliance and risk management aspects of the Group.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such system on an annual basis through the Audit and Compliance Committee.

## H. COMMUNICATIONS 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 also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company are expected to provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Remuneration Committee, Audit and Compliance Committee and Nomination Committee and, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at shareholders' meetings.

To promote effective communication, the Company maintains a website at www.ydauto.com.cn, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. During the year, the Company has not made any changes to its Articles of Association. An up-to-date version of the Articles of Association is also available on the websites of the Company and the Hong Kong Stock Exchange.

## I. SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors. Meanwhile, the procedures for shareholder to (i) convene an extraordinary general meeting; (ii) direct their enquiries to the Board; and (iii) put forward proposals at shareholders' meetings are available.

General meetings shall be convened on the written requisition of any two or more shareholders of the Company deposited at the principal place of business of the Company in Hong Kong or, in the event the Company ceases to have such a principal place of business, headquarters or the registered office, specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one shareholder of the Company which is a recognized clearing house (or its nominee(s)) deposited at the place of business of the Company in Hong Kong or, in the event the Company ceases to have such a principal place of business, headquarters or the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to convene the meeting shall be reimbursed to them by the Company.

Shareholders holding not less than one-tenth of the total number of the Company's voting shares shall be entitled to propose new proposals in writing to the Company. The Company shall include in the agenda for the meeting the matters in the proposals that fall within the scope of duties of the shareholders' meeting. The written request/statements must be signed by the shareholders concerned and deposited at the Company's principal place of business in Hong Kong or, in the event the Company ceases to have such a principal place of business, headquarters or the registered office for the attention of the Company, not less than six weeks before the general meeting in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company at Unit 5708, 57/F., The Center, 99 Queen's Road Central, Hong Kong.

All resolutions put forward at a general meeting will be taken by poll pursuant to the Listing Rules except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. In addition, the poll results will be posted on the websites of the Company and the Hong Kong Stock Exchange after the relevant shareholders' meeting.

## J. COMPANY SECRETARY

Ms. MOK Ming Wai ("MS. MOK") of KCS Hong Kong Limited, external service provider, has been engaged by the Company as the company secretary and authorized representative. During the year, Ms. MOK has undertaken over 15 hours of professional training to update her skill and knowledge.

## K. PRIMARY CONTACT PERSON

Mr. Dong Ying, our Vice-president and Ms. Zhang Hong, our head of legal department, are the key contact persons of our company secretary.

## L. GOING CONCERN

Our Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

There are no material uncertainties relating to events or conditions that cast significant doubt upon the Company's liability to continue as a going concern.

# Independent Auditor's Report

**Deloitte.**
**德勤**

**TO THE SHAREHOLDERS OF CHINA YONGDA AUTOMOBILES SERVICES HOLDINGS LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Yongda Automobiles Services Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 54 to 139, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 International Financial Reporting Standards 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.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 auditor's judgment, 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 auditor considers internal control relevant to the entity's preparation of the 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 Group as at December 31, 2014, and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

March 23, 2015

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2014

| | NOTES | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| Revenue | 7 | **32,937,975** | 26,096,526 |
| Cost of sales and services | | **(30,258,756)** | (23,829,909) |
| Gross profit | | **2,679,219** | 2,266,617 |
| Other income and other gains and losses | 8 | **374,787** | 251,800 |
| Distribution and selling expenses | | **(1,287,515)** | (952,875) |
| Administrative expenses | | **(647,759)** | (484,512) |
| Finance costs | 9 | **(422,329)** | (238,671) |
| Share of profits of joint ventures | | **8,181** | 9,567 |
| Share of profits of associates | | **651** | 651 |
| Profit before tax | 10 | **705,235** | 852,577 |
| Income tax expense | 11 | **(165,755)** | (210,540) |
| Profit and total comprehensive income for the year | | **539,480** | 642,037 |
| Profit and total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **501,130** | 588,310 |
| Non-controlling interests | | **38,350** | 53,727 |
| | | **539,480** | 642,037 |
| Earnings per share-basic and diluted | 14 | **RMB0.34** | RMB0.40 |

# Consolidated Statement of Financial Position

At December 31, 2014

| | NOTES | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **3,210,162** | 2,228,386 |
| Prepaid lease payments | 16 | **578,739** | 374,502 |
| Goodwill | 17 | **286,624** | 104,927 |
| Intangible assets | 18 | **490,421** | 275,635 |
| Deposits paid for acquisition of property, plant and equipment | | **101,205** | 75,991 |
| Deposits paid for acquisition of land use rights | | **41,230** | 173,444 |
| Deposits paid for acquisition of a subsidiary | 24 | **–** | 35,380 |
| Interests in joint ventures | 19 | **76,246** | 66,571 |
| Interests in associates | 20 | **15,106** | 26,947 |
| Finance lease receivables | 21 | **467,969** | 32,556 |
| Deferred tax assets | 22 | **102,557** | 48,722 |
| | | **5,370,259** | 3,443,061 |
| **Current assets** | | | |
| Prepaid lease payments | 16 | **15,285** | 9,515 |
| Inventories | 23 | **4,324,167** | 3,447,838 |
| Finance lease receivables | 21 | **357,144** | 55,681 |
| Trade and other receivables | 24 | **3,353,186** | 3,443,629 |
| Amounts due from related parties | 36 | **37,874** | 33,176 |
| Cash in transit | 25 | **72,125** | 81,628 |
| Pledged bank deposits | 26 | **1,515,013** | 965,221 |
| Bank balances and cash | 26 | **1,874,217** | 1,418,408 |
| | | **11,549,011** | 9,455,096 |
| **Current liabilities** | | | |
| Trade and other payables | 27 | **4,986,004** | 3,667,080 |
| Amounts due to related parties | 36 | **11,370** | 20,694 |
| Income tax liabilities | | **427,908** | 352,328 |
| Borrowings | 28 | **4,855,730** | 3,887,420 |
| | | **10,281,012** | 7,927,522 |
| **Net current assets** | | **1,267,999** | 1,527,574 |
| **Total asset less current liabilities** | | **6,638,258** | 4,970,635 |

# Consolidated Statement of Financial Position

At December 31, 2014

| | NOTES | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Borrowings | 28 | 198,757 | 51,171 |
| Medium-term note | 29 | 1,153,682 | 1,149,892 |
| Convertible bonds | 30 | 883,669 | — |
| Other liabilities | 27 | 118,515 | 14,741 |
| Deferred tax liabilities | 22 | 107,945 | 63,375 |
| | | 2,462,568 | 1,279,179 |
| **Net assets** | | 4,175,690 | 3,691,456 |
| **Capital and reserves** | | | |
| Share capital | 31 | 12,065 | 12,065 |
| Reserves | | 3,831,826 | 3,412,000 |
| Equity attributable to owners of the Company | | 3,843,891 | 3,424,065 |
| Non-controlling interests | | 331,799 | 267,391 |
| **Total equity** | | 4,175,690 | 3,691,456 |

The consolidated financial statements on pages 54 to 139 were approved and authorised for issue by the Board of Directors on March 23, 2015 and are signed on its behalf by:

**CHEUNG Tak On**
*DIRECTOR*

**WANG Zhigao**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2014

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Paid-in Issued share capital** RMB'000 | **Share premium** RMB'000 | **Statutory surplus reserve** RMB'000 (note a) | **Special reserve** RMB'000 (note b) | **Share-based payments reserve** RMB'000 | **Convertible bonds reserve** RMB'000 (Note 30) | **Retained profits** RMB'000 | **Subtotal** RMB'000 | **Non-controlling interests** RMB'000 | **Total** RMB'000 |
| At January 1, 2013 | 12,065 | 1,526,090 | 142,958 | 333,939 | – | – | 1,047,531 | 3,062,583 | 256,016 | 3,318,599 |
| Profit for the year | – | – | – | – | – | – | 588,310 | 588,310 | 53,727 | 642,037 |
| Capital injection | – | – | – | – | – | – | – | – | 41,218 | 41,218 |
| Acquisition of non-controlling interests of subsidiaries | – | – | – | (86,226) | – | – | – | (86,226) | (44,829) | (131,055) |
| Acquisition of a subsidiary | – | – | – | – | – | – | – | – | 14,337 | 14,337 |
| Transfer to statutory reserve | – | – | 109,931 | – | – | – | (109,931) | – | – | – |
| Dividends recognized as distributions *(Note 13)* | – | (140,602) | – | – | – | – | – | (140,602) | – | (140,602) |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | (53,078) | (53,078) |
| At December 31, 2013 | 12,065 | 1,385,488 | 252,889 | 247,713 | – | – | 1,525,910 | 3,424,065 | 267,391 | 3,691,456 |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **–** | **501,130** | **501,130** | **38,350** | **539,480** |
| Capital injection | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **39,195** | **39,195** |
| Acquisition of non-controlling interests of subsidiaries *(Note 35)* | **–** | **–** | **–** | **4,966** | **–** | **–** | **–** | **4,966** | **(20,161)** | **(15,195)** |
| Disposal of partial interests in subsidiaries without losing control | **–** | **–** | **–** | **571** | **–** | **–** | **–** | **571** | **1,548** | **2,119** |
| Recognition of equity-settled share-based payments | **–** | **–** | **–** | **–** | **28,272** | **–** | **–** | **28,272** | **–** | **28,272** |
| Acquisition of a subsidiary *(Note 33)* | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **32,643** | **32,643** |
| Transfer to statutory reserve | **–** | **–** | **94,876** | **–** | **–** | **–** | **(94,876)** | **–** | **–** | **–** |
| Dividends recognized as distributions *(Note 13)* | **–** | **(177,603)** | **–** | **–** | **–** | **–** | **–** | **(177,603)** | **–** | **(177,603)** |
| Dividends paid to non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(27,167)** | **(27,167)** |
| Recognition of equity component of convertible bonds | **–** | **–** | **–** | **–** | **–** | **62,490** | **–** | **62,490** | **–** | **62,490** |
| At December 31, 2014 | **12,065** | **1,207,885** | **347,765** | **253,250** | **28,272** | **62,490** | **1,932,164** | **3,843,891** | **331,799** | **4,175,690** |

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2014

Notes:

a. As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve. An appropriation to such reserve is made out of net profit after tax as reflected in the statutory financial statements of the PRC subsidiaries with the amount and allocation basis to be decided by the respective boards of directors annually. The appropriation is 10% of profit after tax at a minimum and should cease when it reaches 50% of the registered capital of the relevant PRC subsidiaries. The statutory surplus reserve, which is non-distributable, can be used (i) to make up for prior year losses, if any, and/or (ii) in capital conversion.

b. The special reserve mainly consisted of:

   (i) an amount of RMB333,647,000 representing deemed distribution to the owners of the subsidiaries of the Group pursuant to a group reorganisation which was effected in 2011;

   (ii) an amount of RMB292,000 representing the difference between the fair value of the consideration received and the carrying amount of the non-controlling interests upon disposal of partial interests in subsidiaries in 2012;

   (iii) a reduction of reserve of approximately RMB86,226,000 representing the difference between the consideration paid and the carrying amount of the non-controlling interests upon acquisition of partial interests in subsidiaries in 2013;

   (iv) an amount of RMB571,000 representing the difference between the consideration paid and the carrying amount of the non-controlling interests upon acquisition of partial interests in subsidiaries in 2014, and;

   (v) an amount of RMB4,966,000 representing the difference between the fair value of the consideration received and the carrying amount of the non-controlling interests upon disposal of partial interests in subsidiaries in 2014 Details of the transactions are set out in Note 35.

# Consolidated Statement of Cash Flows

For the year ended December 31, 2014

| | 2014<br>RMB'000 | 2013<br>RMB'000<br>(Restated) |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before tax | 705,235 | 852,577 |
| Adjustments for: | | |
| Finance costs | 422,329 | 238,671 |
| Interest income | (20,291) | (17,482) |
| Depreciation of property, plant and equipment | 292,465 | 198,469 |
| Release of prepaid lease payments | 12,895 | 9,395 |
| Amortization of intangible assets | 7,219 | — |
| Share-based payment expenses | 28,272 | — |
| Loss on disposal of property, plant and equipment | 1,705 | 7,406 |
| Gain on bargain purchase | — | (20,195) |
| Gain on disposal of interest in associate | (8,195) | — |
| (Gain) loss on disposal of a subsidiary | (7,656) | 718 |
| Gain on subsequent adjustment to acquisition consideration | (3,311) | — |
| Gain on disposal of partial interest of joint ventures | (67) | — |
| Share of profits of associates | (651) | (651) |
| Share of profits of joint ventures | (8,181) | (9,567) |
| Operating cash flows before movements in working capital | 1,421,768 | 1,259,341 |
| Increase in inventories | (614,254) | (583,198) |
| Decrease (increase) in trade and other receivables | 359,445 | (663,298) |
| Increase in finance lease receivables | (736,876) | (88,237) |
| Decrease (increase) cash in transit | 9,503 | (29,333) |
| Increase in other liabilities | 89,994 | 11,609 |
| Increase in trade and other payables | 821,334 | 295,285 |
| (Increase) decrease in amounts due from related parties | (6,225) | 521 |
| Increase in amounts due to related parties | 267 | 885 |
| Withdrawal of pledged bank deposits | 1,035,824 | 907,131 |
| Placement of pledged bank deposits | (1,515,013) | (965,221) |
| Cash from operations | 865,767 | 172,375 |
| Income taxes paid | (146,290) | (102,693) |
| NET CASH FROM OPERATING ACTIVITIES | 719,477 | 42,792 |

# Consolidated Statement of Cash Flows

For the year ended December 31, 2014

| | NOTES | 2014<br>RMB'000 | 2013<br>RMB'000<br>(Restated) |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Additions to and deposits paid for property, plant and equipment | | **(1,066,728)** | (847,107) |
| Purchase of intangible assets | | **(36,184)** | (11,941) |
| Additions to and deposits paid for prepaid land lease payments | | **(19,399)** | (168,699) |
| Proceeds on disposal of property, plant and equipment, land use rights and intangible assets | | **185,460** | 130,616 |
| Advance to related parties | | **(5,823)** | (31,970) |
| Advance to independent third parties | | **(38,400)** | — |
| Advance to non-controlling shareholders | | **—** | (14,250) |
| Collection of advance to non-controlling shareholders | | **2,432** | — |
| Collection of advance to related parties | | **7,350** | 3,012 |
| Acquisition of subsidiaries | | **(365,438)** | (489,544) |
| Proceeds on disposal of a subsidiary | 34 | **4,692** | 3,166 |
| Interest received | | **20,291** | 17,482 |
| Dividend received from joint ventures | | **3,133** | 9,324 |
| Dividend received from associates | | **2,237** | 2,091 |
| Investment in a joint venture | | **(8,000)** | (26,400) |
| Proceeds from partial disposal of a joint venture | | **3,440** | — |
| Deposits paid for acquisition of an entity | | **—** | (35,380) |
| Collection of deposits paid for acquisition of an entity | | **1,400** | — |
| NET CASH USED IN INVESTING ACTIVITIES | | **(1,309,537)** | (1,459,600) |

# Consolidated Statement of Cash Flows

For the year ended December 31, 2014

| | 2014<br>*RMB'000* | 2013<br>*RMB'000*<br>(Restated) |
|---|---|---|
| FINANCING ACTIVITIES | | |
| New bank borrowings raised | **15,441,986** | 9,850,153 |
| Repayment of bank borrowings | **(14,662,649)** | (9,649,997) |
| Proceeds on issue of convertible bonds | **960,087** | — |
| Proceeds on issue of medium-term note | **—** | 1,160,000 |
| Transaction costs arising from issue of medium-term note | **(2,819)** | (5,108) |
| Capital injection by non-controlling shareholders | **39,195** | 41,218 |
| Acquisition of non-controlling interests of subsidiaries | **(75,195)** | (71,055) |
| Advance from non-controlling shareholders | **32,953** | 91,730 |
| Interest paid | **(423,672)** | (245,446) |
| Placement of time deposits pledged for borrowings | **(100,000)** | — |
| Withdrawal of time deposits pledged for borrowings | **100,000** | — |
| Placement of deposits to entities controlled by suppliers for borrowings | **(51,775)** | (31,200) |
| Dividends paid as distribution | **(177,603)** | (140,602) |
| Dividends paid to non-controlling shareholders | **(36,758)** | (55,696) |
| Dividends paid to Shanghai Yongda Group Company Limited ("Yongda CLS") | **—** | (4,047) |
| Proceeds from partial disposal of subsidiaries without losing control | **2,119** | — |
| NET CASH FROM FINANCING ACTIVITIES | **1,045,869** | 939,950 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | **455,809** | (476,858) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH | **1,418,408** | 1,895,266 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH | **1,874,217** | 1,418,408 |

## 1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company is a public limited company incorporated in the Cayman Islands on November 7, 2011 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's registered office is located at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands and its principal place of business in Hong Kong is Unit 5708, 57/F, The Center, 99 Queen's Road Central, Hong Kong.

The Company is an investment holding company. The subsidiaries of the Company are principally engaged in the sale of automobiles and provision of after-sales services primarily through its 4S (sales, spare parts, service and survey) dealerships, automobile rental services, provision finance leasing service and distribution of automobile financial products and automobile insurance products in the PRC. The Company and its subsidiaries are collectively referred to as the "Group" hereafter.

The consolidated financial statements are presented in Renminbi (the "RMB"), which is the same as the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2014.

**Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities***

The Group has applied the amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* for the first time in the current year. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

**Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities***

The Group has applied the amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement".

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements. The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no impact on the amounts recognised in the Group's consolidated financial statements.

**Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets***

The Group has applied the amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 *Fair Value Measurements*.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

**Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting***

The Group has applied the amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

**IFRIC 21 *Levies***

The Group has applied IFRIC 21 *Levies* for the first time in the current year. IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

**IFRIC 21 *Levies*** (continued)

IFRIC 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

The Group has not early applied the following new and revised standards that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 9 | Financial Instruments[1] |
| IFRS 14 | Regulatory Deferral Accounts[2] |
| IFRS 15 | Revenue from Contracts with Customers[3] |
| Amendments to IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[5] |
| Amendments to IAS 1 | Disclosure Initiative[5] |
| Amendments to IAS 16 and IAS 38 | Classification of Acceptable methods of Depreciation and Amortisation[5] |
| Amendments to IAS 19 | Defined Benefit Plans: Employee Contributions[4] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2010–2012[6] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2011–2013 Cycle[4] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012–2014 Cycle[5] |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants[5] |
| Amendments to IAS 27 | Equity Method in Separate Financial Statements[5] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5] |

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for first annual IFRS financial statements beginning on or after 1 January 2016

3 Effective for annual periods beginning on or after 1 January 2017

4 Effective for annual periods beginning on or after 1 July 2014

5 Effective for annual periods beginning on or after 1 January 2016

6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

**IFRS 9 Financial Instruments**

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

**IFRS 9 Financial Instruments** (continued)

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors do not anticipate that the application of IFRS 9 will have a material effect on the Group's consolidated financial statements.

**IFRS 15 Revenue from Contracts with Customers**

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

**IFRS 15 Revenue from Contracts with Customers** (continued)

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors do not anticipate that the application of IFRS 15 will have a material impact on the Group's consolidated financial statements.

**Annual Improvements to IFRSs 2010–2012 Cycle**

The *Annual Improvements to IFRSs 2010–2012 Cycle* include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognized in profit and loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after July 1, 2014.

The amendments to IFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

**Annual Improvements to IFRSs 2010–2012 Cycle** (continued)

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to IFRSs 2010–2012 Cycle* will have a material effect on the Group's consolidated financial statements.

**Annual Improvements to IFRSs 2011–2013 Cycle**

The *Annual Improvements to IFRSs 2011–2013 Cycle* include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

— the property meets the definition of investment property in terms of IAS 40; and

— the transaction meets the definition of a business combination under IFRS 3.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to IFRSs 2011–2013 Cycle* will have a material effect on the Group's consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost convention and in accordance with the accounting policies set out below which are in conformity with IFRSs.

In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

***Changes in the Group's ownership interests in existing subsidiaries***

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Business combinations** (continued)

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate or a joint venture is described below.

**Investments in associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments in associates and joint ventures** (continued)

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition** (continued)

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognized when services are provided.

The Group's policy for the recognition of revenue from finance leases is described in the accounting policy for leasing below.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Amounts due from lessees under finance leases of passenger vehicles are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

***The Group as lessee***

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

**Vendor rebates**

Incentive rebates provided by vendors are recognized on an accrual basis based on the expected entitlement earned up to the reporting date pursuant to each relevant supplier contract. Incentive rebates relating to vehicles purchased and sold are deducted from cost of sales, while incentive rebates relating to vehicles purchased but still held as inventories at the reporting date are deducted from the carrying value of such vehicles so that the cost of inventories is recorded net of applicable rebates.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 eligible for capitalization.

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

**Government grants**

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

**Retirement benefit costs**

Payments to state-managed retirement benefit schemes are recognized as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, and interests in associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Taxation** (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

**Leasehold land and building**

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets

***Intangible assets acquired separately***

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

***Intangible assets acquired in a business combination***

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

### Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are calculated using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest income is recognized on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties, cash in transit, pledged bank deposits and bank balances and cash) are measured at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest and principal payments; or

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

***Financial assets*** (continued)

*Impairment of financial assets* (continued)

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

- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

***Financial liabilities and equity instruments***

*Classification as debt or equity*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

*Compound instruments*

The component parts of the compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

***Financial liabilities and equity instruments*** (continued)

*Compound instruments* (continued)

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over the period of the convertible bonds using the effective interest method.

*Other financial liabilities*

Other financial liabilities including trade and other payables, amounts due to related parties, borrowings and medium term note are subsequently measured at amortized cost, using the effective interest method.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

*Derecognition*

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Share-based payment transactions**

***Equity-settled share-based payment transactions***

*Share options granted to the directors and employees of the Company*

The fair values of services received in exchange for awards of share options determined by reference to the grant-date fair value of those share options is recognized as expense over the vesting period on a straight-line basis with a corresponding increase in share options reserve.

At the end of the reporting period, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the original revision of the estimates of the number of share options during the vesting period, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve (for share options).

At the time when the share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount of share options previously recognized in share options reserve will be transferred to retained profits.

At the time when the terms of share options are modified during the vesting period, the incremental fair value granted, which represents the excess of fair value of the share options immediately after modification over those of immediately before modification, is expensed over the remaining vesting period of the share options, in addition to the amount based on the grant date fair value of the original share options. At the time when the terms of share options are modified after the vesting period, the incremental fair value granted is recognized immediately in profit or loss.

At the time when the share options are cancelled during the vesting period, the Group accounts for the cancellation as an acceleration of vesting, and recognizes immediately the amount that otherwise would have been recognized for services received over the remainder of the vesting period. The amount previously recognized in share options reserve will be transferred to retained profits.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are 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.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Estimated rebate receivables and impairment of rebate receivables, prepayments and deposits

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

In addition, prepayments and deposits are required to be paid to automobile manufacturers before making purchase. In the event when the economic benefits expected to be received under these rebate receivables from automobile manufacturers are less than expected; or the financial conditions of these automobile manufacturers deteriorate, the Group would impair the relevant rebate receivables, prepayments and deposits made to these automobile manufacturers. The Group does not require collateral or other security against its rebates receivables from automobile manufacturers. The Group performs ongoing evaluation of recoverability of these rebate receivables due to a change of estimated assessment results from automobile manufacturers, if appropriate, and their financial conditions. When the balances are not expected to be settled as originally planned, the Group would impair the rebate receivables, with difference between the carrying amount and present value of estimated future cash flows discounted at the original effective interest rate of the balances, and/or prepayments and deposits for non-recoverable amount. As at December 31, 2014 and 2013, the carrying amounts of rebate receivables are approximately RMB1,664,046,000 and RMB1,356,531,000, respectively. As at December 31, 2014 and 2013, the carrying amounts of prepayments and deposits to automobile manufacturers are approximately RMB841,737,000 and RMB1,386,586,000, respectively.

### Estimated impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash inflows from the outstanding trade and other receivables. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2014 and 2013, the carrying amounts of trade receivables of the Group are approximately RMB203,013,000 and RMB275,305,000, respectively.

### Estimated useful lives and impairment of property, plant, and equipment

The Group's management determines the estimated useful lives and the depreciation or amortization method in determining the related depreciation or amortization charges for its property, plant and equipment. This estimate is based on the management's experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable. Management will increase the depreciation or amortization charge where useful lives are expected to be shorter than expected, or will write off or write down obsolete assets that have been abandoned or impaired. When the actual useful lives or recoverable amounts of property, plant and equipment differ from the original estimates, adjustment will be made and recognized in the period in which such event takes place. As at December 31, 2014 and 2013, the carrying amounts of property, plant and equipment are approximately RMB3,210,162,000 and RMB2,228,386,000, respectively.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

**Estimated useful lives of intangible assets acquired through business combination**

The Group's management determines the estimated useful lives and the amortization method in determining the related amortization charges for the intangible assets acquired through business combination. The estimation is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions, with consideration of market condition. Management will increase the amortisation charges when useful lives become shorter than previously estimated. As at December 31, 2014 and 2013, the carrying amounts of intangible assets acquired in business combination are approximately RMB397,025,000 and RMB237,043,000, respectively.

**Income taxes**

As at December 31, 2014 and 2013, a deferred tax asset of approximately RMB74,519,000 and RMB30,907,000, respectively, in relation to unused tax losses has been recognized in the Group's consolidated statements of financial position. The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

In addition, a significant portion of the Group's income tax liabilities at the end of each reporting period arose from the estimated rebate receivables as described above. As a result, when the actual rebates received by the Group differ from the estimated amount, adjustment to the income tax liabilities will be made and recognized in the period in which such event takes place.

**Impairment assessment on goodwill and intangible assets acquired through business combination**

Determining whether goodwill and intangible assets acquired through business combinations are impaired requires an estimation of the value in use of the cash generating units (i.e. entities acquired by the Group) to which the relevant goodwill and intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating units and suitable discount rates in order to calculate their present values. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2014 and 2013, the carrying amount of goodwill of the Group was approximately RMB286,624,000 and RMB104,927,000, respectively. Details of the recoverable amount calculations are disclosed in note 17. As at December 31, 2014 and 2013, the carrying amounts of intangible assets acquired in business combination are approximately RMB397,025,000 and RMB237,043,000, respectively.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes borrowings disclosed in Note 28, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors review the capital structure on an ongoing basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, capital injection, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

## 6. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **5,680,282** | 4,233,481 |
| **Financial liabilities** | | |
| Amortized cost | **10,485,817** | 7,986,336 |

### b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from related parties, cash in transit, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to related parties, medium-term note, convertible bonds, other liabilities and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Market risk***

*Currency risk*

The primary economic environment in which the Company and most of its principal subsidiaries operate is the PRC and their functional currency is RMB. However, certain financial assets (principally bank balances) and financial liabilities are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign currency exposure by closely monitoring the movement of foreign currency rates.

The carrying amounts of the monetary assets and monetary liabilities denominated in foreign currencies of the group entities at the end of each reporting period are as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| **Assets** | | |
| United States Dollars ("US$") | **2,864** | 4,894 |
| Hong Kong Dollars ("HK$") | **269** | 506 |
| **Liabilities** | | |
| US$ | **738,097** | 304,479 |

## 6. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and policies (continued)

***Market risk*** (continued)

*Currency risk* (continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against foreign currencies of the group entities. A sensitivity rate of 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in exchange rates of foreign currencies of the group entities. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies of the group entities and adjusts their translation at the end of each reporting period for a 5% change in related currency rates.

A positive number below indicates an increase in post-tax profit where foreign currencies of the group entities strengthen 5% against RMB, whereas a negative number indicates a decrease in post-tax profit. For a 5% weakening of foreign currencies of the group entities against RMB, there would be an equal and opposite impact on the post-tax profit.

| | Foreign currencies of the Group entities impact | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Decrease in post-tax profit for the year | **(27,590)** | (11,216) |

*Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, medium-term note and other borrowings. The directors consider the Group's exposure of the bank deposits to fair value interest rate risk is not significant as interest-bearing bank deposits are with a short maturity period.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances, pledged bank deposits and borrowings. It is the Group's policy to keep a portion of its financial assets and liabilities at floating rate of interests so as to minimize the fair value interest rate risk. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the People's Bank of China benchmark rates and London Interbank Offered Rate ("LIBOR").

The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Group's exposure on an ongoing basis and will consider hedging the interest rate should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the Group's variable-rate bank balances, pledged bank deposits and borrowings. The analysis is prepared assuming the variable-rate financial assets and liabilities outstanding at the end of the reporting period were outstanding for the whole year. A 5 basis-point (2013: 5 basis-point) increase or decrease in deposit interest rates and a 10 basis-point (2013: 10 basis-point) increase or decrease in lending interest rates are the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rates.

## 6. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and policies (continued)

***Market risk*** (continued)

*Interest rate risk* (continued)

Sensitivity analysis (continued)

If the deposit interest rate had been 5 basis points (2013: 5 basis points) higher/lower, the lending interest rate had been 10 basis points (2013: 10 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended December 31, 2014 and 2013 would have been decreased/increased by approximately RMB975,000 and RMB1,048,000, respectively.

***Credit risk***

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations is arising from the carrying amounts of the respective recognized financial assets as stated in the consolidated statements of financial position at the end of each reporting period.

The Group's credit risk primarily relates to the Group's trade and other receivables (including rebate receivables from suppliers), amounts due from related parties, bank balances and cash and pledged bank deposits.

The Group's trade receivables consist of a large number of customers located in the PRC which poses insignificant concentration of credit risk.

65% (2013: 96%) of the Group's amounts due from related parties is from a related party which is financially strong.

The Group's advances to non-controlling shareholders consist of several balances with different non-controlling shareholders in the PRC and there is no concentration of credit risk.

The Group has concentration of credit risk as about 85% (2013: 90%) of rebate receivables made to suppliers was due from the Group's five largest suppliers of passengers vehicles in the PRC as at December 31, 2014. In order to further minimize the credit risk, the management of the Group delegates teams to deal with these suppliers on expected delivery schedules of inventories, purchase volume, settlement timeline of outstanding balances with suppliers and the suppliers' financial position, etc. Teams also reconcile with these suppliers on outstanding balances, prepayments made and transactions recorded in relevant reporting period periodically to ensure trading information is properly recorded. In addition, the Group reviews the recoverable amount of each individual balance at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In view of the actions taken by the Group and the fact that the counterparties are the joint ventures of renowned automobile manufacturers with high credit quality, the Group considers that credit risk in the rebate receivables made to suppliers is significantly reduced.

In addition, the credit risk in relation to the Group's bank balances and cash and pledged bank deposits is not significant because the counterparties are either state-owned banks in the PRC or banks with high credit ratings and quality.

***Liquidity risk***

In the management of liquidity risk, the Group's management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of borrowings and ensures compliance with loan covenants, if any.

## 6. FINANCIAL INSTRUMENTS (continued)

### b. Financial risk management objectives and policies (continued)

***Liquidity risk*** (continued)

*Liquidity and interest risk tables*

The following tables detail the Group's remaining contractual maturity for their non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities and on the earliest date the Group can be required to pay, representing the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest rates are floating rates, the undiscounted amount is derived from the applicable interest rates at the end of each reporting period.

| | Weighted average interest rate % | Repayable on demand or within 3 months RMB'000 | 3 months to 1 year RMB'000 | 1 year to 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Total carrying amount RMB'000 |
|---|---|---|---|---|---|---|
| **At December 31, 2014** | | | | | | |
| Trade and other payables | – | 3,264,094 | – | – | 3,264,094 | 3,264,094 |
| Amounts due to related parties | – | 11,370 | – | – | 11,370 | 11,370 |
| Borrowings | 5.24% | 1,576,583 | 3,407,751 | 217,927 | 5,202,261 | 5,054,487 |
| Medium-term note | 6.40% | – | 56,711 | 1,214,649 | 1,271,360 | 1,153,682 |
| Convertible bonds | 1.50% | 1,292 | 7,500 | 1,022,500 | 1,031,292 | 883,669 |
| Other liabilities | – | – | – | 118,515 | 118,515 | 118,515 |
| | | 4,853,339 | 3,471,962 | 2,573,591 | 10,898,829 | 10,485,817 |

| | Weighted average interest rate % | Repayable on demand or within 3 months RMB'000 | 3 months to 1 year RMB'000 | 1 year to 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Total carrying amount RMB'000 |
|---|---|---|---|---|---|---|
| **At December 31, 2013** | | | | | | |
| Trade and other payables | – | 2,862,418 | – | – | 2,862,418 | 2,862,418 |
| Amounts due to related parties | – | 20,694 | – | – | 20,694 | 20,694 |
| Borrowings | 6.83% | 1,457,699 | 2,523,522 | 54,775 | 4,035,996 | 3,938,591 |
| Medium-term note | 6.40% | – | 74,240 | 1,308,480 | 1,382,720 | 1,149,892 |
| Other liabilities | – | – | – | 14,741 | 14,741 | 14,741 |
| | | 4,340,811 | 2,597,762 | 1,377,996 | 8,316,569 | 7,986,336 |

## 6. FINANCIAL INSTRUMENTS (continued)

### c. Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

## 7. REVENUE AND SEGMENT INFORMATION

Information reported to the executive directors, being the Group's chief operating decision maker who reviews the segment revenues and results when making decisions about allocating resources and assessing performance, focuses on the products and services delivered or provided. For passenger vehicle sales and services, the executive directors review the financial information of each outlet, hence each outlet constitutes a separate operating segment. However, the outlets possess similar economic characteristics, and are similar in terms of products and services, customers, methods used to distribute products and provide services, and regulatory environment. Therefore, all outlets are aggregated into one reportable segment, namely "passenger vehicle sales and services", for segment reporting purposes.

The Group's reportable segments are as follows:

- Passenger vehicle sales and services – (i) sale of passenger vehicles; (ii) provision of after-sales services, including primarily repair and maintenance services, certain auxiliary automobile sales related services and provision of other automobile-related services, such as vehicle inspection, title transfer and registration and pre-owned vehicle agency;

- Automobile rental services; and

- Finance leasing services.

## 7. REVENUE AND SEGMENT INFORMATION (continued)

**Segment revenues and results**

| | Passenger vehicle sales and services RMB'000 | Automobile rental services RMB'000 | Finance leasing services RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| ***For the year ended December 31, 2014*** | | | | |
| Segment revenue | **32,611,476** | **273,904** | **52,595** | **32,937,975** |
| Segment cost *(note)* | **30,044,652** | **199,217** | **14,887** | **30,258,756** |
| Segment profit | **2,566,824** | **74,687** | **37,708** | **2,679,219** |
| Other income and other gains and losses | | | | **374,787** |
| Distribution and selling expenses | | | | **(1,287,515)** |
| Administrative expenses | | | | **(647,759)** |
| Finance costs | | | | **(422,329)** |
| Share of profits of joint ventures | | | | **8,181** |
| Share of profits of associates | | | | **651** |
| Profit before tax | | | | **705,235** |

Note: The segment cost of finance leasing service is mainly composed of finance costs.

| | Passenger vehicle sales and services RMB'000 | Automobile rental services RMB'000 | Finance leasing services RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| ***For the year ended December 31, 2013*** | | | | |
| Segment revenue | 25,826,711 | 266,167 | 3,648 | 26,096,526 |
| *Segment cost* | 23,652,448 | 176,923 | 538 | 23,829,909 |
| Segment profit | 2,174,263 | 89,244 | 3,110 | 2,266,617 |
| Other income and other gains and losses | | | | 251,800 |
| Distribution and selling expenses | | | | (952,875) |
| Administrative expenses | | | | (484,512) |
| Finance costs | | | | (238,671) |
| Share of profits of joint ventures | | | | 9,567 |
| Share of profits of associates | | | | 651 |
| Profit before tax | | | | 852,577 |

## 7. REVENUE AND SEGMENT INFORMATION (continued)

**Segment revenues and results** (continued)

The accounting policies of the operating segments are same as those of the Group as described in note 3. Segment profit represents the profit earned by each segment without allocation of other income and other gains and losses, distribution and selling expenses, administrative expenses, finance costs, share of profits of joint ventures and share of profits of associates. This is the measure reported to the executive directors for the purposes of resource allocation and performance assessment. There were no inter-segment revenues during both years. No analysis of segment assets and liabilities are presented as it is not regularly reviewed by the board of the directors.

**Geographical information**

All of the Group's revenue is generated from passenger vehicle sales, and services and provision of automobile rental services and finance leasing services in the PRC and all of the Group's principal assets and liabilities for operation are located in the PRC.

**Information about major customers**

No single customer accounted for 10% or more of the Group's revenue for both years.

**Revenue from major products and services**

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Sale of passenger vehicles: | | |
| — Luxury and ultra-luxury brands *(note a)* | **23,831,466** | 18,391,643 |
| — Mid to high end brands *(note b)* | **5,242,622** | 4,851,421 |
| Subtotal | **29,074,088** | 23,243,064 |
| After-sales services | **3,537,388** | 2,583,647 |
| Automobile rental services | **273,904** | 266,167 |
| Finance leasing services | **52,595** | 3,648 |
| | **32,937,975** | 26,096,526 |

Notes:

a. Luxury and ultra-luxury brands include BMW, MINI, Audi, Porsche, Jaguar, Land Rover, Bentley, Infiniti, Lincoln, Cadillac, Volvo and Morgan.

b. Mid to high end brands include Buick, Chevrolet, Volkswagen, Ford, Skoda, Toyota, Honda and others.

## 8. OTHER INCOME/OTHER GAINS AND LOSSES

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Other income comprises: | | |
| Service income *(note a)* | **286,297** | 180,936 |
| Advertising support received from automobile manufacturers *(note b)* | **19,608** | 12,523 |
| Government grants *(note c)* | **25,198** | 23,147 |
| Interest income on bank deposits | **20,291** | 17,482 |
| | **351,394** | 234,088 |
| Other gains and losses comprise: | | |
| Loss on disposal of property, plant and equipment | **(1,705)** | (7,406) |
| Gain on bargain purchase | **—** | 20,195 |
| Net foreign exchange gains | **10,362** | — |
| Gain on disposal of interest in an associate *(Note 33)* | **8,195** | — |
| Gain (loss) on disposal of a subsidiary *(Note 34)* | **7,656** | (718) |
| Gain on subsequent adjustment to acquisition consideration | **3,311** | — |
| Gain on partial disposal of a joint venture | **67** | — |
| Others | **(4,493)** | 5,641 |
| | **23,393** | 17,712 |
| Total | **374,787** | 251,800 |

Notes:

a. Service income was primarily derived from distribution of automobile insurance products and automobile financial products.

b. Advertising support was received from automobile manufacturers in connection with their marketing campaigns.

c. Government grants represent unconditional grants received from local finance bureaus in compensation for expenses incurred by the Group.

## 9. FINANCE COSTS

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Interest on borrowings wholly repayable within five years: | | |
| — bank loans | **234,171** | 186,382 |
| — borrowings from related parties *(Note 36(III)(f))* | **—** | 457 |
| — other borrowings from entities controlled by suppliers | **14,752** | 7,514 |
| — reimbursement to suppliers *(note a)* | **100,602** | 54,299 |
| — medium-term note | **74,240** | 19,991 |
| — convertible bonds *(Note 30)* | **26,563** | — |
| Release of capitalized transaction cost in relation to issue of medium-term note *(Note 29)* | **3,790** | 1,264 |
| Less: interest capitalized *(note b)* | **(31,789)** | (31,236) |
| | **422,329** | 238,671 |

Note:

a. The Group is required to undertake part of the finance costs incurred by suppliers of the Group in relation to discounting bank acceptance notes issued by the Group to the suppliers for purchase of new passenger vehicles.

b. Borrowing costs capitalized during the year arose on the general borrowing pool and are calculated by applying a capitalization rate of 7.00% (2013: 6.56%) per annum to expenditure on qualifying assets.

## 10. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Staff costs, including directors' remuneration *(Note 12)*: | | |
| Salaries, wages and other benefits | **701,145** | 515,580 |
| Retirement benefits scheme contributions | **85,750** | 70,606 |
| Share-based payments expenses | **28,272** | — |
| Total staff costs | **815,167** | 586,186 |
| Auditors' remuneration: | | |
| — in respect of audit service for the Company | **6,000** | 6,000 |
| — in respect of the statutory audits for the subsidiaries of the Company | **2,526** | 1,820 |
| Total auditors' remuneration | **8,526** | 7,820 |
| Cost of inventories recognized as an expense | **30,164,505** | 23,712,326 |
| Depreciation of property, plant and equipment | **292,465** | 198,469 |
| Operating lease rentals | **153,748** | 123,666 |
| Release of prepaid lease payments | **12,895** | 9,395 |
| Amortization of intangibles assets | **7,219** | — |

## 11. INCOME TAX EXPENSE

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income tax ("EIT") | **221,569** | 215,578 |
| Overprovision of PRC EIT in prior years | **(2)** | (160) |
| | **211,567** | 215,418 |
| Deferred tax | | |
| Current year *(Note 22)* | **(55,812)** | (4,878) |
| | **165,755** | 210,540 |

## 11. INCOME TAX EXPENSE (CONTINUED)

The tax charge for the year can be reconciled to the profit before tax as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Profit before tax | **705,235** | 852,577 |
| Tax at the PRC EIT rate of 25% | **176,308** | 213,144 |
| Tax effect of expenses not deductible for tax purpose | **4,834** | 3,584 |
| Tax effect of income not taxable for tax purpose | **(10,906)** | (5,049) |
| Tax effect of share of results of associates and joint ventures | **(2,208)** | (2,555) |
| Tax effect of losses of offshore entities not recognized | **7,395** | 1,576 |
| Tax effect of income from offshore entities not taxable | | — |
| Utilization of tax losses previously not recognized of acquired subsidiaries | **(9,666)** | — |
| Overprovision of PRC EIT in prior years | **(2)** | (160) |
| Income tax expense for the year | **165,755** | 210,540 |

The Company and Sea of Wealth International Investment Company Limited, a subsidiary of the Company, are tax exempted companies incorporated in the Cayman Islands and British Virgin Islands, respectively.

Grouprich International Investment Holdings Limited, a subsidiary of the Company, was incorporated in Hong Kong and had no assessable profits subject to Hong Kong Profits Tax since its incorporation.

Under the Law of the PRC on EIT and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%. The income tax rate of 25% is applicable to all of the Group's PRC subsidiaries.

## 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid to the chief executive and the directors of the Company for the year are as follows:

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Fees | **800** | 800 |
| Other emoluments | | |
| Salaries and other benefits | **3,312** | 3,307 |
| Contributions to retirement benefits scheme | **99** | 95 |
| Share-based payments | **352** | — |
| | **4,563** | 4,202 |

The emoluments of the chief executive and the directors on a named basis are as follows:

**For the year ended December 31, 2014**

| | Fees<br>*RMB'000* | Salaries and other benefits<br>*RMB'000* | Contributions to retirement benefits scheme<br>*RMB'000* | Share-based payments<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Cheung Tak On | – | 1,498 | 37 | – | 1,535 |
| Cai Yingjie | – | 913 | 37 | – | 950 |
| **Non-Executive Directors** | | | | | |
| Wang Zhigao | – | 901 | 25 | – | 926 |
| Wang Liqun | 200 | – | – | 88 | 288 |
| **Independent Non-Executive Directors** | | | | | |
| Wang Zhiqiang | 200 | – | – | 88 | 288 |
| Lu Wei | 200 | – | – | 88 | 288 |
| Chen Xianglin | 200 | – | – | 88 | 288 |
| | 800 | 3,312 | 99 | 352 | 4,563 |

## 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

**For the year ended December 31, 2013**

| | Fees | Salaries and other benefits | Contributions to retirement benefits scheme | Share-base payments | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Executive Directors** | | | | | |
| Cheung Tak On | — | 1,496 | 36 | — | 1,532 |
| Cai Yingjie | — | 912 | 36 | — | 948 |
| **Non-Executive Directors** | | | | | |
| Wang Zhigao | — | 899 | 23 | — | 922 |
| Wang Liqun | 200 | — | — | — | 200 |
| **Independent Non-Executive Directors** | | | | | |
| Wang Zhiqiang | 200 | — | — | — | 200 |
| Lu Wei | 200 | — | — | — | 200 |
| Chen Xianglin | 200 | — | — | — | 200 |
| | 800 | 3,307 | 95 | — | 4,202 |

Mr. Cai Yingjie is the Chief Executive and one of the directors of the Company and his emoluments disclosed above include those services rendered by him as the Chief Executive.

## 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

The five highest paid individuals of the Group for the year included three directors for the year ended December 31, 2013 and one director for the year ended December 31, 2014, respectively. The remuneration of the remaining two individuals for the years ended December 31, 2013 and the remuneration of the remaining four individuals for the year ended December 31, 2014 are as follows:

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Employees | | |
| Salaries and other benefits | **2,065** | 1,094 |
| Contributions to retirement benefits scheme | **147** | 72 |
| Share-based payments | **4,757** | — |
| | **6,969** | 1,166 |

Of the five highest paid individuals in the Group for the year ended December 31, 2014, one employee's emolument falls within the band of HK$3,000,001 to HK$3,500,000, one employee's emolument falls within the band of HK$2,000,001 to HK$2,500,000 whilst the remaining two employees' and one director's emoluments fall within the band of HK$1,500,001 to HK$2,000,000.

Of the five highest paid individuals in the Group for the year ended December 31, 2013, one director's emolument falls within the band of HK$1,500,001 to HK$2,000,000, two director's emolument falls within the band of HK$1,000,001 to HK$1,500,000 whilst the remaining two individuals fall within the band below HK$1,000,000.

During the year, no emoluments were paid by the Group to the Chief Executive, or any of the directors and the two highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 13. DIVIDENDS

During the year ended December 31, 2014, a final dividend of RMB0.12 per share in respect of the year ended December 31, 2013 was declared and paid out of share premium to the owners of the Company in Hong Kong dollars (the "HK$") based on the medium exchange rate between RMB and HK$ as announced by the People's Bank of China on 16 May 2014 (HK$1.00 to RMB0.79501). The aggregate amount of the final dividend declared and paid in the year ended December 31, 2014 amounted to RMB177,603,000.

During the year ended December 31, 2013, a final dividend of RMB0.095 per share in respect of the year ended December 31, 2012 was declared and paid out of share premium to the owners of the Company in HK$ based on the medium exchange rate between RMB and HK$ as announced by the People's Bank of China on May 28, 2013 (HK$1.00 to RMB0.79627). The aggregate amount of the final dividend declared and paid in the year ended December 31, 2013 amounted to approximately RMB140,602,000.

A final dividend of RMB0.10 per share in respect of the year ended December 31, 2014 has been proposed by the directors and is subject to approval by the shareholders in the upcoming annual general meeting.

## 14. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

| | **2014**<br>***RMB'000*** | 2013<br>*RMB'000* |
|---|---|---|
| **Earnings** | | |
| Profit for the year attributable to owners of the Company | **501,130** | 588,310 |

| | ***'000*** | *'000* |
|---|---|---|
| **Number of shares** | | |
| Number of ordinary shares for the purpose of basic earnings per share | **1,480,022** | 1,480,022 |

No conversion of the convertible bonds is assumed for the purpose of the calculation of diluted earnings per share because they are anti-dilutive.

Outstanding share options of the Company during the years ended December 31, 2014 and 2013 have not been included in the computation of diluted earnings per share as they did not have a dilutive effect on the Company's earnings per share for the years ended December 31, 2014 and 2013.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Leasehold improvements | Furniture, fixtures and equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| COST | | | | | | | |
| At December 31, 2012 | 535,119 | 181,985 | 269,956 | 129,628 | 651,578 | 186,095 | 1,954,361 |
| Additions | 98,112 | 31,542 | 33,075 | 26,366 | 261,138 | 461,978 | 912,211 |
| Acquired on acquisition of subsidiaries | 65,757 | 14,022 | – | 13,637 | 29,447 | 37,337 | 160,200 |
| Transfer | 355,181 | 23,775 | 64,764 | 23,745 | 47,717 | (515,182) | – |
| Disposals | – | (2,396) | – | (3,723) | (224,948) | – | (231,067) |
| Disposal of a subsidiary | – | (1,110) | (10,737) | (750) | (352) | – | (12,949) |
| At December 31, 2013 | **1,054,169** | **247,818** | **357,058** | **188,903** | **764,580** | **170,228** | **2,782,756** |
| Additions | **154,792** | **58,267** | **93,744** | **58,242** | **522,536** | **269,202** | **1,156,783** |
| Acquired on acquisition of subsidiaries *(Note 33)* | **142,213** | **23,710** | **95,585** | **9,447** | **19,779** | **14,638** | **305,372** |
| Transfer | **225,689** | **26,164** | **25,526** | **–** | **–** | **(277,379)** | **–** |
| Disposals | **(9,410)** | **(5,383)** | **(13,653)** | **(14,962)** | **(245,307)** | **–** | **(288,715)** |
| Disposal of a subsidiary *(Note 34)* | **–** | **(1,620)** | **–** | **(596)** | **(187)** | **–** | **(2,403)** |
| At December 31, 2014 | **1,567,453** | **348,956** | **558,260** | **241,034** | **1,061,401** | **176,689** | **3,953,793** |
| DEPRECIATION | | | | | | | |
| At December 31, 2012 | 62,860 | 77,107 | 65,777 | 63,441 | 181,813 | – | 450,998 |
| Provided for the year | 24,842 | 26,254 | 30,715 | 20,226 | 96,432 | – | 198,469 |
| Eliminated on disposals | – | (2,156) | – | (3,322) | (87,625) | – | (93,103) |
| Eliminated on disposal of a subsidiary | – | (482) | (1,004) | (390) | (118) | – | (1,994) |
| At December 31, 2013 | **87,702** | **100,723** | **95,488** | **79,955** | **190,502** | **–** | **554,370** |
| Provided for the year | **44,762** | **39,029** | **42,225** | **31,606** | **134,843** | **–** | **292,465** |
| Eliminated on disposals | **(16)** | **(2,797)** | **(8,729)** | **(4,137)** | **(86,194)** | **–** | **(101,873)** |
| Eliminated on disposal of a subsidiary *(Note 34)* | **–** | **(844)** | **–** | **(478)** | **(9)** | **–** | **(1,331)** |
| At December 31, 2014 | **132,448** | **136,111** | **128,984** | **106,946** | **239,142** | **–** | **743,631** |
| CARRYING VALUES | | | | | | | |
| At December 31, 2013 | 966,467 | 147,095 | 261,570 | 108,948 | 574,078 | 170,228 | 2,228,386 |
| At December 31, 2014 | **1,435,005** | **212,845** | **429,276** | **134,088** | **822,259** | **176,689** | **3,210,162** |

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

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis, taking into account their estimated residual values, at the following rates per annum where applicable:

| | |
|---|---|
| Buildings | Over the shorter of the remaining lease term of land on which buildings are located and useful life of buildings of 20-40 years |
| Plant and machinery | 11.88%–31.67% |
| Leasehold improvements | 10%–20% |
| Furniture, fixtures and equipment | 19% |
| Motor vehicles | 14%–19% |

As at December 31, 2014, buildings without building ownership certificates with carrying values of approximately RMB10,259,000 (2013: RMB20,034,000) were situated on land in the PRC which the Group is in the process of obtaining legal title. As at December 31, 2014, the deposits paid for acquisition of land use rights of approximately RMB8,543,000 (2013: RMB115,757,000) was recognized. The management of the Group does not anticipate any hurdles in obtaining the land use rights and relevant buildings ownership certificates.

The Group's buildings are situated on land in the PRC held by the Group under medium-term leases. Details of the Group's buildings and motor vehicles pledged to secure bank borrowings granted to the Group are set out in Note 28.

## 16. PREPAID LEASE PAYMENTS

| | RMB'000 |
|---|---|
| COST | |
| At December 31, 2012 | 303,316 |
| Additions | 22,562 |
| Acquired on acquisition of a subsidiary | 81,485 |
| At December 31, 2013 | **407,363** |
| Additions | **126,612** |
| Acquired on acquisition of subsidiaries *(Note 33)* | **96,290** |
| At December 31, 2014 | **630,265** |
| AMORTIZATON | |
| At December 31, 2012 | 13,951 |
| Provided for the year | 9,395 |
| At December 31, 2013 | **23,346** |
| Provided for the year | **12,895** |
| At December 31, 2014 | **36,241** |
| CARRYING VALUES | |
| At December 31, 2013 | 384,017 |
| At December 31, 2014 | **594,024** |

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Analyzed for reporting purpose as: | | |
| Current assets | **15,285** | 9,515 |
| Non-current assets | **578,739** | 374,502 |
| | **594,024** | 384,017 |

The carrying amount represents the prepayment of rentals for medium-term land use rights situated in the PRC.

Details of the Group's land use rights pledged to secure bank borrowings granted to the Group are set out in Note 28.

## 17. GOODWILL

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| COST | | |
| At the beginning of the year | **104,927** | — |
| Acquisitions of subsidiaries *(Note 33)* | **181,697** | 104,927 |
| | **286,624** | 104,927 |

In opinion of the Company's directors, the goodwill comprises the fair value of expected business synergies arising from acquisitions, which is not separately recognised.

Goodwill acquired through business combinations has been allocated to the Cash Generating Units of Shijiangzhuang Baohe Automobile Sales and Services Co., Ltd., Linyi Yubaohang Automobile Sales and Services Co., Ltd., Lishui Jiacheng Automobile Sales and Services Co., Ltd., Tianjin Zhongshun Jinbao Automobile Sales and Services Co., Ltd., Xishanghai Hongjie Automobile Sales and Services Co., Ltd., Xishanghai Shenjie Automobile Sales and Services Co., Ltd., Xishanghai Jiawo Automobile Sales and Services Co., Ltd., Nantong Oriental Yongda Automobile Sales and Services Co., Ltd. and Wuxi Baozun Automobile Sales and Services Co., Ltd. for impairment testing.

The recoverable amounts of the Cash Generating Units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Cash Generating Units. The growth rates are by reference to industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

During the year ended December 31, 2014, the Group performed impairment review for goodwill and intangible assets of the Cash Generating Units based on cash flow forecasts derived from the most recent financial budgets for the next five years approved by management using discount rates ranging from 13% to 14% which reflects current market assessments of the time value of money and the risks specific to the Cash Generating Units. The cash flows beyond the next five years are extrapolated using a growth rate of 3% per annum. The growth rates are by reference to industry growth forecasts.

## 18. INTANGIBLE ASSETS

| | Dealership agreements RMB'000 | Customer relationship RMB'000 | Vehicle license plates RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| COST | | | | |
| At December 31, 2012 | — | — | 26,709 | 26,709 |
| Additions | — | — | 11,941 | 11,941 |
| Acquisition of subsidiaries | 206,024 | 31,019 | — | 237,043 |
| Disposals | — | — | (58) | (58) |
| At December 31, 2013 | 206,024 | 31,019 | 38,592 | 275,635 |
| Additions | — | — | 36,184 | 36,184 |
| Acquisition of subsidiaries *(Note 33)* | 160,844 | 25,300 | — | 186,144 |
| Disposals | — | — | (323) | (323) |
| At December 31, 2014 | 366,868 | 56,319 | 74,453 | 497,640 |
| AMORTIZATION | | | | |
| At December 31, 2013 and 2012 | — | — | — | — |
| Provided for the year | 5,151 | 2,068 | — | 7,219 |
| At December 31, 2014 | **5,151** | **2,068** | **—** | **7,219** |
| CARRYING VALUES | | | | |
| At December 31, 2013 | **206,024** | **31,019** | **38,592** | **275,635** |
| At December 31, 2014 | **361,717** | **54,251** | **74,453** | **490,421** |

Dealership agreements and customer relationship are stated at cost less any impairment losses and are amortized on a straight-line basis over their estimated useful lives. The estimated useful lives of these intangible assets are as follows:

| | |
|---|---|
| Dealership agreements | 40 years |
| Customer relationship | 15 years |

Details of assessment of impairment of dealership agreements and customer relationship are set out in Note 33.

The vehicle licence plates were issued by the relevant authorities in Shanghai with no expiration dates. As such, the management considers such licence plates to have an indefinite useful life and they are carried at cost less any subsequent impairment losses, if any.

## 18. INTANGIBLE ASSETS (continued)

The licence plates will not be amortized until its useful life is determined to be finite. Instead, they will be tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired. The management of the Group determined that there was no impairment of licence plates as their market value exceeds their carrying amount as at the end of the reporting periods.

## 19. INTERESTS IN JOINT VENTURES

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Cost of unlisted investments in joint ventures | **61,498** | 56,938 |
| Share of post-acquisition profits, net of dividend received | **14,748** | 9,633 |
| | **76,246** | 66,571 |

As at December 31, 2014 and 2013, the Group had interests in the following joint ventures:

| Name of entity* | Form of entity | Country of registration | Principal place of operation | Class of capital | Proportion of nominal value of registered capital held by the Group 2014 % | 2013 % | Proportion of voting power held 2014 % | 2013 % | Principal activity |
|---|---|---|---|---|---|---|---|---|---|
| Shanghai Bashi Yongda Automobile Sales Co., Ltd. ("Shanghai Bashi Yongda") 上海巴士永達汽車銷售有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **50** | 50 | **50** | 50 | 4S dealership |
| Shanghai Yongda Changrong Automobile Sales and Services Co., Ltd. ("Shanghai Yongda Changrong") 上海永達長榮汽車銷售服務有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **50** | 50 | **50** | 50 | 4S dealership |
| Harbin Yongda International Automobile Plaza Co., Ltd. (Harbin Yongda) 哈爾濱永達國際汽車廣場有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **36** ***(note)*** | 40 | **36** | 40 | 4S dealership |

note: In October 2014, the Group disposed a 4% interest in Harbin Yongda of approximately RMB3,440,000 to a third party. The difference of approximately RMB67,000 between the consideration received and the interests of approximately RMB3,373,000 was recognized in other gains.

* The English names of the above entities established in the PRC are translated for identification purpose only.

## 19. INTERESTS IN JOINT VENTURES (continued)

The summarized financial information of the Group's joint ventures accounted for using the equity method are set out below:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Current assets | **149,572** | 162,294 |
| Non-current assets | **47,448** | 40,493 |
| Current liabilities | **109,462** | 135,218 |
| Non-current liabilities | **11,313** | 998 |
| Income recognized for the year | **484,443** | 439,755 |
| Expenses recognized for the year | **(476,262)** | (430,188) |

## 20. INTERESTS IN ASSOCIATES

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Cost of unlisted investments in associates | **18,518** | 28,318 |
| Share of post-acquisition (losses) profits and other comprehensive income, net of dividend received | **(3,412)** | (1,371) |
| | **15,106** | 26,947 |

## 20. INTERESTS IN ASSOCIATES (continued)

As at December 31, 2014, the Group had interests in the following associates:

| Name of entity* | Form of entity | Country of registration | Principal place of operation | Class of capital | Proportion of nominal value of registed capital held by the Group 2014 % | 2013 % | Proportion of voting power held 2014 % | 2013 % | Principal activity |
|---|---|---|---|---|---|---|---|---|---|
| Shanghai Yongda Fengdu Automobile Sales and Services Co., Ltd. ("Shanghai Yongda Fengdu Automobile") 上海永達風度汽車銷售服務有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **50** | 50 | **50** | 50 | 4S dealership |
| Nantong Oriental Yongda Jiachen Automobile Sales and Services Co., Ltd. ("Nantong Oriental Yongda") 南通東方永達佳晨汽車銷售服務有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **60** ***(note)*** | 49 | **60** | 49 | 4S dealership |
| Shanghai Oriental Yongda Automobile Sales Co., Ltd. ("Shanghai Oriental Yongda") 上海東方永達汽車銷售有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **49** | 49 | **49** | 49 | Sale of passenger vehicles |
| Shanghai Jinjiang Toyota Automobile Sales and Services Co., Ltd. 上海錦江豐田汽車銷售服務有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **49** | 49 | **49** | 49 | 4S dealership |

note: On April 9, 2014, the Group acquired 11% equity interests in Nantong Oriental Yongda from an independent third party for a consideration of RMB5,700,000 to expand the Group's dealership network. Immediately after acquisition, this company became an indirectly 60%-owned subsidiary of the Group. Details of the transaction are set out in Note 33(a).

* The English names of the above entities established in the PRC are translated for identification purpose only.

## 20. INTERESTS IN ASSOCIATES (continued)

The summarized financial statements of the Group's associates are set out below:

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Total assets | **177,193** | 221,595 |
| Total liabilities | **(138,878)** | (157,835) |
| Net assets | **38,315** | 63,760 |
| Group's share of net assets of associates | **15,106** | 26,947 |
| Revenue for the year/period before disposal | **316,329** | 590,267 |
| Profit and total comprehensive income for the year/period before disposal | **48** | 495 |
| Group's share of profit and total comprehensive income of associates for the year/period before disposal | **651** | 651 |

## 21. FINANCE LEASE RECEIVABLES

Certain motor vehicles of the Group are leased out under finance leases. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Analysed as: | | |
| Current | **357,144** | 55,681 |
| Non-current | **467,969** | 32,556 |
| | **825,113** | 88,237 |

## 21. FINANCE LEASE RECEIVABLES (continued)

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Finance lease receivables comprise: | | | | |
| Within one year | **398,319** | 55,769 | **357,144** | 55,681 |
| In more than one year but not more than two years | **193,321** | 21,989 | **150,091** | 19,220 |
| In more than two years but not more than five years | **372,290** | 15,317 | **317,878** | 13,336 |
| | **963,930** | 93,075 | **825,113** | 88,237 |
| Less: unearned finance income | **(138,817)** | (4,838) | **N/A** | N/A |
| Present value of minimum lease payment receivables | **825,113** | 88,237 | **825,113** | 88,237 |

Effective interest rates of the above finance leases were around 12% (2013: 8%) per annum.

At December 31, 2014, the Group received deposits from customers under finance leases. Among the customers' deposits received, approximately RMB101,603,000 (2013: RMB11,609,000) and RMB65,207,000 (2013: RMB10,275,000) (Note 27) were recognized as other non-current liabilities and current liabilities, respectively.

## 22. DEFERRED TAXATION

### (a) Deferred tax assets

The following are the major deferred tax assets recognized and movements thereon during the current and prior years:

| | Tax losses | Accrued expenses | Payroll and welfare payable | Others | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At December 31, 2012 | 24,274 | 1,880 | 9,690 | 3,983 | 39,827 |
| Credit (charge) to profit or loss | 2,843 | 2,335 | (962) | 662 | 4,878 |
| Acquired on acquisition of subsidiaries | 5,443 | – | 66 | 261 | 5,770 |
| Eliminated on disposals | (1,653) | – | – | (100) | (1,753) |
| At December 31, 2013 | 30,907 | 4,215 | 8,794 | 4,806 | 48,722 |
| Credit (charge) to profit or loss | 43,612 | 4,610 | 3,177 | 2,440 | 53,839 |
| Acquired on acquisition of subsidiaries *(Note 33)* | – | – | – | 47 | 47 |
| Eliminated on disposals | – | (27) | (24) | – | (51) |
| At December 31, 2014 | 74,519 | 8,798 | 11,947 | 7,293 | 102,557 |

## 22. DEFERRED TAXATION (continued)

### (a) Deferred tax assets (continued)

The deferred tax balances have reflected the tax rates that are expected to apply in the respective periods when the asset is realized or the liability is settled.

The Group's unused tax losses of approximately RMB298,076,000 and RMB123,628,000 as at December 31, 2014 and 2013, respectively have been recognized as deferred tax assets as at the end of the reporting periods.

### (b) Deferred tax liabilities

| | Fair value adjustment arising from acquisition of subsidiaries *RMB'000* |
|---|---|
| At December 31, 2012 | — |
| Deferred tax arising from acquisition of subsidiaries | 63,375 |
| At December 31, 2013 | 63,375 |
| Deferred tax arising from acquisition of subsidiaries *(Note 33)* | 46,543 |
| Recognised in profit or loss | (1,973) |
| At December 31, 2014 | **107,945** |

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB2,336,907,000 (2013: RMB1,884,378,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 23. INVENTORIES

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Motor vehicles | **3,905,713** | 3,146,318 |
| Spare parts and accessories | **418,454** | 301,520 |
| | **4,324,167** | 3,447,838 |

Certain of the Group's inventories with a carrying amount of approximately RMB689,368,000 and RMB790,186,000 as at December 31, 2014 and 2013, respectively, were pledged as security for the Group's short-term bank loans and other borrowings (Note 28).

Certain of the Group's inventories with a carrying amount of approximately RMB121,502,000 and RMB1,352,665,000 as at December 31, 2014 and 2013, respectively, were pledged as security for the Group's bills payable.

## 24. TRADE AND OTHER RECEIVABLES

The Group's credit policies towards its customers are as follows:

a. In general, deposits and advances are required and no credit period is allowed for sales of automobiles, while after-sales services are typically settled on a cash basis upon completion of the relevant services. However, for certain corporate customers for passenger vehicles sales and after-sales services, a credit period not exceeding 90 days is granted;

b. For automobile rental services, the Group typically allows a credit period of 30 to 60 days to its customers; and

c. For customers under finance leases, the Group receives deposits from customers in accordance with terms of lease agreements and grants credit period not exceeding 30 days.

## 24. TRADE AND OTHER RECEIVABLES (continued)

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| **Current** | | |
| Trade receivables | **203,013** | 275,305 |
| Other receivables comprise: | | |
| Payments and deposits to suppliers | **841,737** | 1,386,586 |
| Deposits to entities controlled by suppliers for borrowings | **122,400** | 70,625 |
| Payments and rental deposits on properties | **64,779** | 59,058 |
| Rebate receivables from suppliers | **1,664,046** | 1,356,531 |
| Insurance commission receivables | **33,610** | 22,080 |
| Staff advances | **10,555** | 7,640 |
| Value-Added Tax recoverable | **265,617** | 192,312 |
| Advances to non-controlling shareholders *(note 1)* | **25,118** | 14,250 |
| Advances to independent third parties *(note 1)* | **25,100** | — |
| Receivables on disposal of a subsidiary *(Note 34)* | **10,500** | — |
| Others | **86,711** | 59,242 |
| | **3,150,173** | 3,168,324 |
| | **3,353,186** | 3,443,629 |
| **Non-current** | | |
| Deposits paid for acquisition of a subsidiary *(note 2)* | **—** | 35,380 |

Notes:

(1) The balances are unsecured, interest-free and repayable on demand.

(2) In November 2013, the Group entered into a sale and purchase agreement with independent third parties to acquire the entire equity interests in an entity which mainly holds land leases in Shengzhou, Zhejiang Province. The Group paid deposits of approximately RMB35,380,000 during the year ended December 31, 2013. The transaction was completed during this year. Included in the deposits paid represented (i) consideration of the transaction of RMB9,100,000 and (ii) settlement of advances from former shareholders of the acquirees immediately before acquisition of RMB24,880,000. The remaining balance of approximately RMB1,400,000 was received during this year. Details of the transaction are set out in Note 33(b).

## 24. TRADE AND OTHER RECEIVABLES (continued)

The following is an ageing analysis of the Group's trade receivables presented based on the invoice date at the end of the reporting periods, which approximated the respective revenue recognition dates:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| 0 to 90 days | **203,013** | 275,305 |

None of the trade receivables are past due but not impaired as at the end of the reporting periods. The Group did not notice any deterioration in the credit quality of its trade receivables. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer.

## 25. CASH IN TRANSIT

Cash in transit represents sales settled by credit cards, which have yet to be credited to the Group by banks. The balance of cash in transit as at December 31, 2014 aged seven days (2013: seven days).

## 26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

As at December 31, 2014, the Group had a short-term principal-guaranteed deposit with carrying amount of approximately RMB10,000,000 (2013: RMB189,000,000) in a bank in the PRC. The yield rate of the deposit, related to the yield rates of the underlying investments, including government bonds, bank deposits and other kinds of financial instruments governed by monetary regulatory bodies in the PRC, was provided by the counterparty bank periodically. In accordance with the relevant agreements, the expected yield is variable ranging from 2.10% to 3.60% per annum. During the year ended December 31, 2014, the Group received a return of approximately RMB3,347,000 (2013: RMB1,620,000) which was recognized as interest income in the consolidated statement of profit or loss and other comprehensive income. The variable return element is an embedded derivative which should be accounted for separately. In the opinion of the directors of the Group, the fair value of such embedded derivative does not have a material impact on the results and financial position of the Group.

The Group pledged certain of its bank deposits to banks as security for bills payable and the pledged bank deposits carry variable-rate interest ranging from 0.50% to 2.80% (2013: 0.50% to 3.25%) per annum. The pledged bank deposits will be released upon the settlement of the relevant bills payable.

## 26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH (continued)

The Group's bank balances and cash denominated in RMB, HK$ and US$ carry variable-rate interest as follows:

| | 2014 | 2013 |
|---|---|---|
| | Interest rate per annum | |
| The Group | | |
| — RMB | **0.35%** | 0.35% |
| — HK$ | **0.01%** | 0.01% |
| — US$ | **0.001%** | 0.001% |

The Group's bank balances and cash and pledged bank deposits that are denominated in currencies other than RMB are set out below:

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| HK$ | **269** | 506 |
| US$ | **2,864** | 4,894 |
| | **3,133** | 5,400 |

## 27. TRADE AND OTHER PAYABLES/OTHER LIABILITIES

| | **2014** *RMB'000* | 2013 *RMB'000* |
|---|---|---|
| Trade payables | **284,811** | 139,649 |
| Bills payables | **2,365,812** | 2,288,444 |
| | **2,650,623** | 2,428,093 |
| **Other payables** | | |
| Other tax payables | **49,867** | 44,049 |
| Advances and deposits from customers | **1,621,283** | 724,914 |
| Payable for acquisition of property, plant and equipment | **165,321** | 92,641 |
| Rental payables | **48,854** | 35,560 |
| Salary and welfare payables | **50,760** | 35,699 |
| Accrued interest | **31,823** | 25,063 |
| Accrued audit fee | **4,000** | 3,800 |
| Other accrued expenses | **41,174** | 26,645 |
| Transaction costs payable for issue of medium-term note *(Note 29)* | **3,445** | 3,132 |
| Transaction costs payable for issue of convertible bonds *(Note 30)* | **16,912** | — |
| Consideration payables for acquisition of subsidiaries *(note)* | **48,979** | 44,338 |
| Consideration payable for acquisition of non-controlling interests of a subsidiary *(note)* | **—** | 60,000 |
| Advance from non-controlling shareholders *(note)* | **124,683** | 91,730 |
| Advance from former shareholders of acquired subsidiaries *(Note 33)* | **2,688** | — |
| Deposits received from customers under finance leases *(Note 21)* | **65,207** | 10,275 |
| Others | **60,385** | 41,141 |
| | **2,335,381** | 1,238,987 |
| | **4,986,004** | 3,667,080 |
| **Non-current** | | |
| **Other liabilities** | | |
| Deposits received from customers under finance leases *(Note 21)* | **101,603** | 11,609 |
| Transaction costs payable for issue of medium-term note *(Note 29)* | **—** | 3,132 |
| Transaction costs payable for issue of convertible bonds *(Note 30)* | **16,912** | — |
| | **118,515** | 14,741 |

Note: The balances are unsecured, interest-free and repayable within one year from the end of the reporting period.

Prepayments and deposits are in general required to be paid to suppliers before making purchases. The Group's trade payables mainly relate to purchase of spare parts and accessories. A credit period not exceeding 90 days is generally granted by certain suppliers to the Group for the purchase of spare parts and accessories. Bills payable primarily relates to the Group's use of bank acceptance notes to finance its purchase of passenger vehicles, with a credit period of one to three months.

## 27. TRADE AND OTHER PAYABLES/OTHER LIABILITIES (continued)

The following is an ageing analysis of the Group's trade and bills payables presented based on invoice date at the end of the reporting period:

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| 0 to 90 days | **2,650,623** | 2,428,093 |

## 28. BORROWINGS

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Bank loans | **4,355,153** | 3,412,488 |
| Other borrowings from entities controlled by suppliers | **699,334** | 526,103 |
| | **5,054,487** | 3,938,591 |
| Secured borrowings, by the Group's assets | **815,077** | 1,089,715 |
| Unsecured borrowings | **4,239,410** | 2,848,876 |
| | **5,054,487** | 3,938,591 |
| Guaranteed borrowings, by an independent third party | **20,000** | 60,000 |
| Unguaranteed borrowings | **5,034,487** | 3,878,591 |
| | **5,054,487** | 3,938,591 |
| Fixed-rate borrowings | **2,076,326** | 1,349,742 |
| Variable-rate borrowings | **2,978,161** | 2,588,849 |
| | **5,054,487** | 3,938,591 |
| Carrying amount repayable: | | |
| Within one year | **4,855,730** | 3,887,420 |
| More than one year, but not exceeding two years | **164,535** | 44,949 |
| More than two years, but not exceeding five years | **22,972** | 6,222 |
| More than five years | **11,250** | — |
| | **5,054,487** | 3,938,591 |
| Less: amounts due within one year shown under current liabilities | **(4,855,730)** | (3,887,420) |
| Amounts shown under non-current liabilities | **198,757** | 51,171 |

## 28. BORROWINGS (continued)

The ranges of effective interest rates on the Group's bank and other borrowings are as follows:

| | 2014 | 2013 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate borrowings | **5.60% to 9.36%** | 5.60% to 9.00% |
| Variable-rate borrowings | **5.60% to 7.50%** | 2.09% to 9.00% |

The Group's variable-rate bank borrowings carry interest at the People's Bank of China benchmark rate plus a premium/LIBOR plus a margin.

At the end of the reporting periods, other borrowings (i) are of a term less than one year; (ii) are interest-free for the first two months after drawdown; (iii) carry interest at the People's Bank of China benchmark rate plus a premium as the borrowings are extended beyond the initial interest-free period.

As at December 31, 2014, the Group had borrowings of US$120,624,000 (2013: US$49,940,000), equivalent to RMB738 million (2013: RMB304 million), denominated in US$ which is a foreign currency of the relevant group entity.

During the years ended December 31, 2014 and 2013, the Group entered into various borrowing agreements with banks and financial institutions to finance its business operations and expansion. Such borrowings were secured against the Group's assets with carrying amounts as follows:

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| Land use rights | **152,924** | 7,718 |
| Property, plant and equipment (buildings and motor vehicles) | **140,184** | 132,619 |
| Inventories | **689,368** | 790,186 |
| Pledged bank deposits | **—** | 23,744 |
| Total | **982,476** | 954,267 |

## 29. MEDIUM-TERM NOTE

On September 22, 2013, Shanghai Yongda Investment Holdings Group Co., Ltd., a wholly-owned subsidiary of the Company, issued a medium-term note of an aggregate registered amount of RMB1.16 billion with a term of three years from the date of issuance.

The medium-term note is unsecured and carries interest at a rate of 6.4% per annum. The interest is payable annually. The medium-term note was issued to domestic institutional investors in the PRC which are independent third parties.

## 29. MEDIUM-TERM NOTE (continued)

At December 31, 2014, unpaid unamortized transaction costs of approximately nil (2013: RMB3,132,000) and RMB3,445,000 (2013: RMB3,132,000) (Note 27) are recognized as non-current liabilities and current liabilities respectively. The Group paid transaction costs of approximately RMB2,819,000 (2013: RMB5,108,000) during the year ended December 31, 2014.

Movement of the medium-term note during the year ended December 31, 2014 was as follows:

| | *RMB'000* |
|---|---|
| Issue on September 22, 2013 | 1,160,000 |
| Less: capitalized transaction cost in relation to issuance | (11,372) |
| Add: interest expense *(Note 9)* | 1,264 |
| At December 31, 2013 | 1,149,892 |
| Add: interest expense *(Note 9)* | 3,790 |
| At December 31, 2014 | **1,153,682** |

During the year ended December 31, 2014, interest expenses of approximately RMB74,240,000 (2013: Nil) was paid, As at December 31, 2014, unpaid interest expenses of approximately RMB19,991,000 (2013: RMB19,991,000) was accrued in other payables.

## 30. CONVERTIBLE BONDS

The Company issued USD settled convertible bonds (the "Bonds") at a par value in an aggregate principal amount of RMB1,000,000,000 with interest rate of 1.50% per annum on July 18, 2014.

The principal terms of the bonds

(1) Denomination of the bonds — The Bonds are denominated in RMB and settled in USD.

(2) Maturity date — Five years from the date of issuance, which is July 18, 2019 ("Maturity Date")

(3) Interest — The Bonds bear interest at 1.50% per annum and is payable in US dollars at the US Dollar equivalent of each interest amount semiannually. The first interest payment date will be 18 January 2015.

(4) Letter of Credit — Payments of principal and premium in respect of the Bonds has the benefit of an irrevocable standby letter of credit (the "Letter of Credit") issued by DBS Bank Ltd., Hong Kong Branch which, subject to certain exceptions, expires on August 17, 2017.

## 30. CONVERTIBLE BONDS (continued)

(5) Conversion —

a) Conversion price — The price is HK$7.958 per each new share to be issued upon conversion of the bonds ("Conversion Share"), subject to anti-dilutive adjustment in accordance with the terms of the bonds, including subdivision, reclassification or consolidation of shares of the Company, capitalisation of profits or reserves, capital distribution, issuance of options or rights, and certain other events.

b) Conversion period — The Bondholder has the right to convert the bonds into shares at any time on or after August 28, 2014 up to the close of business on the tenth day prior to the Maturity Date or if such bonds shall have been called or put for redemption at any time before the Maturity Date, then up to the close of business on a date no later than ten days (both days inclusive) prior to the date fixed for redemption, which is discussed below.

c) Number of Conversion Shares issuable — 158,259,610 Conversion Shares will be issued upon full conversion of the bonds based on the initial conversion price of HK$7.958 (translated at the fixed exchange rate of HK$1 = RMB0.79401 as pre-determined).

(6) Redemption —

a) At the option of the Company:

(I) Redemption at maturity — The Company will redeem the bonds outstanding at principal amount on the Maturity Date.

(II) Redemption for tax reasons — The Company will redeem all and not only some of the Bonds at their principal amount, at its option, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders on the date specified in the Tax Redemption Notice.

(III) Redemption at the Option — The Company may redeem all and not only some of the Bonds on the date specified in the Option Redemption Notice at the US Dollar Equivalent of the Early Redemption Amount as such date plus accrued and unpaid interest to such date at any time after July 18, 2017, provided that the closing price of a Share at least 130% of the Conversion Price then in effect immediately prior to the date upon which notice of such redemption is given. If at least 90% in principal amount of the Bonds originally issued has already been converted, redeemed or purchased and cancelled, the Issuer may redeem all and not only some of such outstanding Bonds.

## 30. CONVERTIBLE BONDS (continued)

(6) Redemption — (continued)

b) At the option of the Bondholder:

(I) Redemption on change of control — Upon the occurrence of a Change of Control, the Bondholder will have the right, at such holder's option, to require the Company to redeem all or some only of such holder's bonds on the Change of Control put date at their principal amount of the bonds.

(II) Redemption at the option — The holders of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of the Bonds of such holder on the Optional Put Date (on July 18, 2017) at 100.767% of their principal amount.

The convertible bonds issued on July 18, 2014 are a compound instrument that included a liability component, an equity component and an embedded derivative in respect of the early redemption feature of the convertible bonds. The embedded derivative in respect of the early redemption feature of the convertible bonds is deemed to be clearly and closely related to the host contract and therefore, does not need to be separately recorded. The fair value of the liability component of the convertible bonds was approximately RMB864 million and the equity component was approximately RMB62 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

| | *RMB'000* |
|---|---|
| Principal amount | 1,000,000 |
| Transaction cost | (73,737) |
| Liability component at the date of issue | (863,773) |
| Equity component | 62,490 |

At December 31, 2014, unpaid transaction costs of approximately RMB16,912,000 and RMB16,912,000 (Note 27) are recognized as non-current liabilities and current liabilities respectively. The Group paid transaction costs of approximately RMB39,913,000 during the year ended December 31, 2014.

Subsequent to the initial recognition, the liability component of the convertible bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the convertible bonds was 6.83% per annum. The movement of the liability component of the convertible bonds for the year ended December 31, 2014 is set out below:

## 30. CONVERTIBLE BONDS (continued)

| | *RMB'000* |
|---|---|
| Liability component at the date of issue | **863,773** |
| Interest charged *(Note 9)* | **26,563** |
| Liability component at December 31, 2014 | **890,336** |
| Less: interest payables due within one year shown under current liabilities | **(6,667)** |
| Liability component shown under non-current liabilities | **883,669** |

The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the bonds mature.

## 31. SHARE CAPITAL

| | Number of shares<br>*'000* | Amount<br>*HK$'000* |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| Authorized: | | |
| At December 31, 2012, 2013 and 2014 | 2,500,000 | 25,000 |

| | Number of shares<br>*'000* | Amount<br>*HK$'000* | Shown in financial statements as<br>*RMB'000* |
|---|---|---|---|
| Issued and fully paid: | | | |
| At December 31, 2012, 2013 and 2014 | **1,480,022** | **14,800** | **12,065** |

## 32. SHARE-BASED COMPENSATION

### (a) Share Option Scheme

The Company's share option scheme was adopted by the Company on October 10, 2013 (the "Share Option Scheme") for the primary purpose of giving the grantees an opportunity to have a personal stake in the Company and motivating the grantees to optimise their performance and efficiency, and retaining the grantees whose contributions are important to the Group's long-term growth and profitability. Under the Share Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 5% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted must be taken up within 28 days from the date of grant, upon payment of RMB1.00. Subject to the vesting as detailed below, options may be exercised at any time from the grant date of the share options to the fifth anniversary of the date of grant. The exercise price of the shares in the Company shall be a price determined by the board of directors of the Company with reference to future earnings potential of the Company and notified to the eligible grantees.

On December 30, 2013, the Company granted a batch of 30,000,000 share options to the directors of the Company and employees of the Group. Details are set out as follows:

(1) All options granted are at an exercise price of HK$6.95 per share.

(2) The share options will be vested in three tranches, i.e. the first 1/3 from the first anniversary after the date of grant, the second 1/3 from the second anniversary after the date of grant and the remaining from the third anniversary after the date of grant.

(3) The share options will lapse automatically and not be exercisable (to the extent not already exercised) at the earlier of the end of their exercisable periods or when the grantees cease to be employees of the Group.

The estimated fair value of the share options granted on December 30, 2013 was RMB39,624,000. The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model are as follows:

| | December 30, 2013 |
|---|---|
| Share price | HK$6.95 |
| Exercise price | HK$6.95 |
| Expected volatility | 36.54% |
| Expected life | 3.5 years |
| Risk-free interest rate | 1.00% |

## 32. SHARE-BASED COMPENSATION (continued)

### (a) Share Option Scheme (continued)

The risk-free rate was based on the market yield rate of Hong Kong Government Bond with a maturity of three to five years. Expected volatility was determined by using the historical volatility of entities with the business in which the Group is engaged and historical pattern of share prices of the Company. The suboptimal exercise multiple used in the model represents the estimated ratio of the future share price over the exercise price when the grantees will exercise the options based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations. Changes in variables and assumptions may result in changes in the fair values of the share options.

Set out below are details of movements of the outstanding options granted under the Share Option Scheme during the year ended December 31, 2014:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2014 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2014 |
| Director: | | | | | |
| Ms. Wang Liqun | 200,000 | – | – | – | 200,000 |
| Mr. Wang Zhiqiang | 200,000 | – | – | – | 200,000 |
| Mr. Lu Wei | 200,000 | – | – | – | 200,000 |
| Mr. Chen Xianglin | 200,000 | – | – | – | 200,000 |
| Employees | 29,200,000 | – | – | (300,000) | 28,900,000 |
| | 30,000,000 | – | – | (300,000) | 29,700,000 |
| Exercisable at the end of the year | – | | | | 9,900,000 |
| Weighted average exercise price (HK$) | 6.95 | – | – | 6.95 | 6.95 |

At December 31, 2014, the number of shares in respect of which options under the Share Option Scheme remained outstanding was 29,700,000 (2013: 30,000,000), representing 2.01% (2013: 2.03%) of the shares of the Company in issue at that date.

Amount of RMB13,272,000 (2013: Nil) was recognized for the year ended December 31, 2014 in relation to share options granted by the Company under the Share Option Scheme.

## 32. SHARE-BASED COMPENSATION (continued)

### (b) Employee Pre-IPO Incentive Scheme

The Company's employee pre-IPO incentive scheme was adopted by the Company on April 3, 2012 (the "Employee Pre-IPO Incentive Scheme") for the primary purpose of recognition of the contributions of the beneficiaries under the Employee Pre-IPO Incentive Scheme and to incentivize them. Under the Employee Pre-IPO Incentive Scheme, the board of directors of the Company may make cash awards to eligible employees, including directors (other than independent non-executive directors) of the Company and its subsidiaries. Only the dividend payments on the shares held by HSBC Trustee (Hong Kong) Limited ("HSBC HK Trustee") via special purpose vehicle under the Employee Pre-IPO Incentive Scheme will be distributed to the beneficiaries, and the Scheme Shares themselves will not be vested in the beneficiaries of the Employee Pre-IPO Incentive Scheme.

On August 30, 2013, the Board resolved to amend the Employee Pre-IPO Incentive Scheme (the "Amended Scheme") to the effect that, in addition to the previously allowed cash awards, awards of restricted share could be granted to eligible persons ("Grantee") pursuant to the terms of the Amended Scheme. The scope of the eligible persons under the Amended Scheme was amended to include any director, including independent non-executive directors. No Grantee shall be entitled to any dividend, income or any other right for which the record date is prior to the date on which the restricted shares are completed and actually transferred into the Grantee's account. The unvested restricted shares do not carry any right to vote at general meetings of the Company.

During the year ended December 31, 2014, awards of approximately 7,030,000 restricted shares and cash awards of approximately HK$3,821,000 have been made pursuant to the Amended Scheme. Details are set out as follows:

| | Number of shares<br>*'000* | Vesting period | Fair value<br>*RMB'000* |
|---|---|---|---|
| 1st batch | 3,860 | 10–15 years | 21,894 |
| 2nd batch | 3,170 | 1–10 years | 17,194 |

Amount of approximately RMB15,000,000 (2013: N/A) was recognized for the year ended December 31, 2014 in relation to such awards made by the Company under the Amended Scheme.

## 33. ACQUISITION OF SUBSIDIARIES

(a) In April 2014, the Group acquired 100% equity interests in Tianjin Zhongshun Jinbao Automobile Sales and Service Co., Ltd. ("Tianjin Jinbao") and Tianjin Yingyue Automobile Sales and Service Co., Ltd. ("Tianjin Yingyue") from an independent third party for cash consideration of RMB143 million in aggregate, to expand the Group's dealership network. Tianjin Jinbao operates BMW 4S dealerships and Tianjin Yingyue operates MINI 4S dealerships. These companies are located in Tianjin, the PRC. In September 2014, the Group acquired 100% equity interests in Wuxi Baozun Automobiles Sales and Services Co., Ltd. ("Wuxi Baozun") from independent third parties for cash consideration of RMB85.8 million in aggregate, to expand the Group's dealership network. Wuxi Baozun operates BMW 4S dealerships in Wuxi, the PRC. All these companies together are defined as "BMW".

In April 2014, the Group acquired 100% equity interests in Shanghai Xishanghai Hongjie Automobile Sales and Service Co., Ltd. ("Xishanghai Hongjie"), Shanghai Xishanghai Shenjie Automobile Sales and Service Co., Ltd. ("Xishanghai Shenjie") and Shanghai Xishanghai Jiawo Automobile Sales and Service Co., Ltd. ("Xishanghai Jiawo") from an independent third party for the cash consideration of RMB65.7 million, RMB27.5 million and RMB25.5 million, respectively, to expand the Group's dealership network. Xishanghai Hongjie operates Audi 4S dealership in Shanghai, and Xishanghai Shenjie and Xishanghai Jiawo operate Volvo 4S dealerships in Shanghai. These companies are together defined as "Xishanghai".

On April 9, 2014, the Group acquired 11% equity interests in Nantong Oriental Yongda from an independent third party for a consideration of RMB5,700,000 to expand the Group's dealership network. Immediately before acquisition, Nantong Oriental Yongda was an associate of the Group. Immediately after acquisition, Nantong Oriental Yongda became an indirectly 60%-owned subsidiary of the Company. The acquisition was accounted for using the acquisition method and a gain on disposal of interest in an associate of approximately RMB8,195,000 was recognized in profit or loss during the year ended December 31, 2014. Nantong Oriental Yongda operates a Porsche dealership in Nantong, the PRC.

## 33. ACQUISITION OF SUBSIDIARIES (continued)

(a) (continued)

Aggregate assets acquired and liabilities assumed of entities operating in different 4S dealerships on the respective acquisition dates are as follows:

| | BMW<br>*RMB'000* | Xishanghai<br>*RMB'000* | Nantong Oriental Yongda<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|
| Property, plant and equipment | 53,518 | 104,188 | 95,700 | 253,406 |
| Prepaid lease payments | 30,753 | — | — | 30,753 |
| Intangible assets | 120,560 | 24,400 | 22,300 | 167,200 |
| Deferred tax assets | — | — | 47 | 47 |
| Inventories | 172,611 | 76,612 | 14,125 | 263,348 |
| Trade and other receivables *(note 1)* | 145,347 | 50,354 | 13,965 | 209,666 |
| Pledged bank deposits | 42,620 | 27,983 | — | 70,603 |
| Bank balances | 66,526 | 46,450 | 1,827 | 114,803 |
| Trade and other payables *(note 2)* | (168,866) | (248,048) | (104,379) | (521,293) |
| Income tax liabilities | (40) | — | (357) | (397) |
| Borrowings | (308,559) | (28,000) | — | (336,559) |
| Deferred tax liabilities | (34,868) | (6,100) | (5,575) | (46,543) |
| Net assets acquired | 119,542 | 47,839 | 37,653 | 205,034 |
| Less: non-controlling interests | — | — | (15,061) | (15,061) |
| Less: interest in an associate | — | — | (10,255) | (10,255) |
| Goodwill *(note 3) (Note 17)* | 109,299 | 70,840 | 1,558 | 181,697 |
| Gain on disposal of interest in an associate *(Note 8)* | — | — | (8,195) | (8,195) |
| Consideration transferred | 228,841 | 118,679 | 5,700 | 353,220 |
| Satisfied by: | | | | |
| Cash | | | | 308,038 |
| Consideration payable | | | | 45,182 |
| | | | | 353,220 |

| | Total<br>*RMB'000* |
|---|---|
| Net cash outflow arising on acquisition | |
| Bank balances acquired | 114,803 |
| Consideration paid | (308,038) |
| | (193,235) |

Acquisition-related costs recognized as an expense in the current period were insignificant.

## 33. ACQUISITION OF SUBSIDIARIES (continued)

### (a) (continued)

notes:

(1) The fair value of the trade and other receivables at the respective dates of acquisition amounted to RMB209,666,000, which is equal to the gross contractual amounts. Included in the amount were advances to former shareholders of the acquirees amounted to RMB68,342,000 immediately before the acquisition. The balance was settled by these former shareholders to the Group during the year ended December 31, 2014.

(2) Included in the amount were advances from former shareholders of the acquirees amounted to RMB184,098,000 immediately before the acquisition. The balance of RMB181,410,000 was settled by the Group to the then former shareholders during the year ended December 31, 2014. At December 31, 2014, the unsettled amount of approximately RMB2,688,000 was recorded as advance from former shareholders of acquired subsidiaries.

(3) Goodwill of approximately RMB181,697,000 arose upon acquisition of Tianjin Jinbao, Xishanghai Hongjie, Xishanghai Shenjie, Xishanghai Jiawo, Nantong Oriental Yongda and Wuxi Baozun, each constitute a cash generating unit (collectively, the "Cash Generating Units").

Goodwill arose in the acquisition of the Cash Generating Units because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies and market penetration in the relevant provinces in the PRC. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Management of the Group determined that there are no impairment indicators of the Cash Generating Units containing goodwill and intangible assets during the year ended December 31, 2014.

The non-controlling interests in Nantong Oriental Yongda recognized at the acquisition date was measured by reference to the proportionate share of recognized amounts of net assets of Nantong Oriental Yongda amounted to approximately RMB15,061,000.

Included in the profit for the year ended December 31, 2014 is RMB66,473,000 attributable to the subsidiaries acquired since the respective dates of acquisition. Revenue for the period includes RMB1,591,602,000 generated from these subsidiaries.

Had all the acquisitions of these entities been effected at the beginning of the year, the total amount of revenue of the Group for the year ended December 31, 2014 would have been RMB33,732 million and the amount of the profit for the year end December 31, 2014 would have been RMB551 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1. 2014, nor is it intended to be a projection of future results.

## 33. ACQUISITION OF SUBSIDIARIES (continued)

**(a)** (continued)

In determining the "pro-forma" revenue and profit of the Group had these entities been acquired at the beginning of the current year, the directors have:

- calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognized in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

**(b)** In November 2013, the Group entered into a sale and purchase agreement with independent third parties to acquire 100% equity interests in Shengzhou Yongda Bencheng Automobile Sales and Services Co., Ltd. ("Shengzhou Yongda Bencheng") at a consideration of RMB9.1 million. The transaction was completed in June 2014. Shengzhou Yongda Bencheng was established in the PRC for the purpose of operating 4S dealership in Shengzhou, Zhejiang Province. At the date of the acquisition, Shengzhou Yongda Bencheng had not commenced operation and its major asset is a piece of land located in Shengzhou. The acquisition is therefore accounted for as an acquisition of assets through acquisition of a subsidiary.

In February 2014, the Group acquired 100% equity interests in Taixing Yongda Bencheng Automobile Sales and Services Co., Ltd. ("Taixing Yongda Bencheng") from independent third parties at a consideration of RMB4.95 million. Taixing Yongda Bencheng was established in the PRC for the purpose of operating 4S dealership in Taixing, Jiangsu Province. At the date of the acquisition, Taixing Yongda Bencheng had not commenced operation and its major assets are leasehold improvements located in Taixing. The acquisition is therefore accounted for as an acquisition of assets through acquisition of a subsidiary.

In March 2014, the Group acquired 51% equity interests in Guiyang Yinghua Lexus Automobile Sales and Services Co., Ltd. ("Guiyang Yinghua Lexus") at a consideration of RMB18.3 million. In April 2014, the Group acquired 51% equity interests in Nanning Yinshi Lexus Automobile Sales and Services Co., Ltd. ("Nanning Yinshi Lexus"), 51% equity interests in Jinan Baoxianghang Automobile Sales and Services Co., Ltd. ("Jinan Baoxiang") and 51% equity interests in Shijiazhuang Chengbaohang Automobile Sales and Services Co., Ltd. ("Shijiazhuang Chengbaohang") from an independent third party at a consideration of RMB3 million, RMB5 million and RMB5 million, respectively. Guiyang Yinghua Lexus, Nanning Yinshi Lexus, Jinan Baoxiang and Shijiazhuang Chengbaohang were established in the PRC for the purpose of operating 4S dealership in Lexus and BMW. At the date of the acquisition, these entities had not commenced operation but had obtained the dealership authorization from the suppliers. The acquisitions are therefore accounted for as an acquisition of assets through acquisition of subsidiaries.

## 33. ACQUISITION OF SUBSIDIARIES (continued)

**(b)** (continued)

In October 2014, Shenzhen Yongda Southern Investment Co., Ltd., a subsidiary that 70% equity interests is held by the Group, acquired 84% equity interests in Shenzhen Southern Zhongyue Automobiles Sales and Services Co., Ltd. ("Shenzhen Southern Zhongyue") and 100% equity interests in Hunan Southern Zhongyue Automobiles Sales and Services Co., Ltd. ("Hunan Southern Zhongyue") from an independent third party and the Group acquired 100% equity interests in Yancheng Yuebao Trade Co., Ltd. ("Yancheng Yuebao") and 100% equity interests in Yancheng Yuegao Trade Co., Ltd. ("Yancheng Yuegao") from an independent third party at a consideration of RMB52,325,000 in aggregate. Shenzhen Southern Zhongyue and Hunan Southern Zhongyue were established in PRC for the purpose of rendering after-sales services. At the date of acquisition, these entities had not commenced operation but their major assets are leasehold improvements located in Shenzhen, Guangdong Province, PRC and Changsha, Hunan Province, PRC. Yancheng Yuebao and Yancheng Yuegao were established in the PRC for the purpose of operating 4S dealership in Yancheng, Jiangsu Province. At the date of the acquisition, Yancheng Yuebao and Yancheng Yuegao had not commenced operation and their major assets are pieces of land located in Yancheng. The acquisitions are therefore accounted for as an acquisition of assets through acquisition of subsidiaries.

The assets acquired and the associated liabilities assumed are as follows:

| | *RMB'000* |
|---|---|
| Deposits paid for acquisition of property, plant and equipment | 10,800 |
| Deposits paid for acquisition of land use rights | 1,000 |
| Property, plant and equipment | 51,966 |
| Prepaid lease payments | 65,537 |
| Intangible assets | 18,944 |
| Inventory | 425 |
| Other receivables | 35,080 |
| Bank balances | 40,670 |
| Other payables *(note 1)* | (109,165) |
| Net Assets acquired | 115,257 |
| Less: non-controlling interests | (17,582) |
| | 97,675 |
| Cash consideration and satisfied by: | |
| Consideration paid in 2013 *(note 2)* | 35,100 |
| Consideration paid in 2014 | 62,575 |
| | 97,675 |
| *Net cash outflow arising on acquisition* | |
| Bank balances acquired | 40,670 |
| Consideration transferred in 2014 | (62,575) |
| | (21,905) |

## 33. ACQUISITION OF SUBSIDIARIES (continued)

(b) (continued)

notes:

1) Included in the amount were advances from the Group to settle the liabilities of the former shareholders of the acquiree amounting to RMB24,880,000, which was paid by the Group in 2013.

2) In November 2013, the Group entered into a sale and purchase agreement with an independent third party to acquire pieces of land located in Yancheng. The Group paid deposits of approximately RMB26,000,000 during the year ended December 31, 2013 and recognized the deposits as deposits paid for acquisition of land use rights. In October 2014, the Group and the independent third party reached the memorandum to change the sale and purchase agreement to acquire the entire equity interests in an entity which owns those pieces of land located in Yancheng and the deposits paid for acquisition of land use rights were used as part of consideration. The transaction was completed during this year. In addition, the Group paid deposits of approximately RMB9,100,000 during the year ended December 31, 2013 as deposit paid for acquisition of a subsidiary.

Acquisition-related costs recognized as an expense in the current year were insignificant.

## 34. DISPOSAL OF A SUBSIDIARY

During the year ended December 31, 2014, the Group disposed of the entire equity interests in Handan Baohe Automobile Sales and Service Co., Ltd. ("Handan Baohe") at a consideration of approximately RMB15,500,000. The net assets at the date of disposal were as follows:

| | *RMB'000* |
|---|---|
| Properties, plant and equipment | 1,072 |
| Deferred tax assets | 51 |
| Inventories | 1,698 |
| Trade and other receivables | 5,645 |
| Bank balances and cash | 308 |
| Trade and other payables | (836) |
| Tax payables | (94) |
| Net assets disposed of | 7,844 |
| Consideration received | 5,000 |
| Consideration receivable *(note 24)* | 10,500 |
| Gain on disposal *(note 8)* | 7,656 |
| Net cash inflow arising on disposal: | |
| Cash | 5,000 |
| Less: bank balances and cash disposed of | (308) |
| | 4,692 |

The entity did not have material impacts on the Group's results and cash flows in the current year.

## 35. ACQUISITION OF NON-CONTROLLING INTERESTS

In 2014, the Group acquired an additional 10% interest in Nantong Baozen Automobile Sales and Services Co., Ltd. with a carrying amount of approximately RMB7,015,000, an additional 12% in Wuxi Yicheng Automobile Sales and Services Co., Ltd. with a carrying amount of approximately RMB1,171,000 and an additional 19% interest in Wuxi Yongda Oriental Automobile Sales and Services Co., Ltd. with a carrying amount of approximately RMB11,975,000 for cash consideration of approximately RMB5,000,000, RMB1,395,000 and RMB8,800,000, respectively, resulting to an aggregate consideration amount of approximately RMB15,195,000. The difference between the consideration paid and the non-controlling interests of approximately RMB20,161,000 acquired was approximately RMB4,966,000 which was recognized in the special reserve in the consolidated statement of changes in equity.

During the year ended December 31, 2014, approximately RMB60 million of the consideration that was unpaid as of December 31, 2013 had been paid by the Group.

## 36. RELATED PARTY DISCLOSURES

### I. Amounts due from related parties

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| **Associate held by the Group** | | |
| Shanghai Oriental Yongda Automobile Sales Co., Ltd. ("Shanghai Oriental Yongda") | **7,023** | 1,206 |
| **Joint ventures held by the Group** | | |
| Harbin Yongda | **24,620** | 31,970 |
| **Entities controlled by the shareholders** | | |
| Shanghai Yongda Fengdu Automobile Sales and Services Co., Ltd. ("Shanghai Yongda Fengdu Automobile") | **5,787** | — |
| Shanghai Yongda Shenbao Automobiles Sales and Services Co., Ltd. (Shanghai Yongda Shenbao") | **370** | — |
| Shanghai Yongda Advertisement Co., Ltd. | **38** | — |
| ShanghaiYongda Fengchi Second-Hand Automobile Managemnt Co., Ltd. ("Shanghai Yongda Fengchi Second-Hand") | **36** | — |
| | **37,874** | 33,176 |
| Analyzed as: | | |
| Trade-related *(note)* | **7,431** | 1,206 |
| Non trade-related | **30,443** | 31,970 |
| | **37,874** | 33,176 |

The above balances are interest-free, unsecured and expected to be received within one year.

Note: The Group offers at its discretion certain related parties a credit period up to 90 days.

## 36. RELATED PARTY DISCLOSURES (continued)

### II. Amounts due to related parties

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| **Non-controlling shareholders** *(note a)* | – | 9,591 |
| **Joint ventures held by the Group** | | |
| Shanghai Bashi Yongda | 1,682 | 1,415 |
| **Entity controlled by the shareholders** | | |
| Yongda CLS *(note b)* | 9,688 | 9,688 |
| | 11,370 | 20,694 |
| Analyzed as: | | |
| Trade-related *(note c)* | 1,682 | 1,415 |
| Non trade-related | 9,688 | 19,279 |
| | 11,370 | 20,694 |

The above non-traded balances are unsecured, interest-free and repayable on demand.

Notes:

a. The non-controlling shareholders have significant influence over the relevant subsidiaries of the Group and the dividend payable of approximately RMB9,591,000 as at December 31, 2013 was paid during the year ended December 31, 2014.

b. Included in the balance as at December 31, 2014 was a dividend payable of approximately RMB9,688,000 (2013: RMB9,688,000).

c. A credit period of not exceeding 90 days is given to the Group by the related parties.

### III. Related party transactions

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| **a) Sales of motor vehicles** | | |
| Shanghai Bashi Yongda | 824 | 4,102 |

## 36. RELATED PARTY DISCLOSURES (continued)

### III. Related party transactions (continued)

***Sales of motor vehicles via Shanghai Oriental Yongda***

The Group, through Shanghai Oriental Yongda's television shopping channel, sold motor vehicles to customers amounting to RMB793,040,000 and RMB791,077,000 for the years ended December 31, 2014 and 2013, respectively. A commission of approximately RMB5,385,000 and RMB5,458,000 was paid to Shanghai Oriental Yongda for the marketing and promotion activities it carried out for the Group for the years ended December 31, 2014 and 2013, respectively.

| | | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|---|
| **b)** | **Purchase of motor vehicles** | | |
| | Shanghai Bashi Yongda | **28,670** | 9,912 |
| | Shanghai Yongda Fengdu Automobile | **–** | 4,309 |
| | | **28,670** | 14,221 |
| **c)** | **Sales of spare parts** | | |
| | Shanghai Yongda Fengdu Automobile | **45** | 138 |
| | Shanghai Yongda Changrong | **88** | 71 |
| | | **133** | 209 |
| **d)** | **Purchase of spare parts** | | |
| | Shanghai Bashi Yongda | **24** | 418 |
| | Shanghai Yongda Changrong | **–** | 47 |
| | | **24** | 465 |

## 36. RELATED PARTY DISCLOSURES (continued)

### III. Related party transactions (continued)

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| **e) Purchase of property, plant and equipment from** | | |
| Shanghai Yongda Changrong | **745** | 175 |
| Shanghai Bashi Yongda | **–** | 7,548 |
| | **745** | 7,723 |
| **f) Interest expenses** | | |
| A non-controlling shareholder with significant influence over the relevant subsidiary | **–** | 457 |
| **g) Rental expenses paid to** | | |
| Yongda CLS, Shanghai Yongda Fengdu Automobile and Shanghai Yongda Transportation Equipment Co., Ltd. *(note)* | **10,339** | 8,499 |

note: The related party transaction constitutes continuing connected transaction for the Company within the meaning of the Listing Rules, the details of which are disclosed in the section headed "Connected and Continuing Connected Transactions" in this annual report.

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| **h) Dividends paid to** | | |
| Yongda CLS | **–** | 4,047 |
| **i) Compensation of key management personnel** | | |
| Short-term benefits | **4,112** | 4,107 |
| Post-employment benefits | **99** | 95 |
| Shared-based payments | **352** | – |
| | **4,563** | 4,202 |

The remuneration of directors is determined by the board and its remuneration committee having regard to the performance of individuals and market trends.

## 37. OPERATING LEASES

### The Group as lessee

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of the Group's outlets which fall due as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Within one year | **155,871** | 146,196 |
| In the second to fifth years inclusive | **478,115** | 421,383 |
| After five years | **904,600** | 693,190 |
| | **1,538,586** | 1,260,769 |

Operating lease payments represent rentals payable by the Group for certain properties and land. The leases in general run for an initial period of two to twenty years with an option to renew the leases when all the terms are renegotiated. Certain leases also contain an escalation clause.

### The Group as lessor

At the end of each reporting period, the Group had contracted with car renters for the following future minimum lease payments:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Within one year | **175,553** | 268,095 |
| In the second to fifth years inclusive | **81,188** | 83,324 |
| | **256,741** | 351,419 |

The Group provides automobile rental services for a term of no more than three years and for fixed rentals.

## 38. CAPITAL COMMITMENTS

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Capital expenditure in respect of acquisition of<br>— property, plant and equipment contracted for but not provided | **177,145** | 89,446 |

## 39. RETIREMENT BENEFITS SCHEME

The employees of the Group are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a certain percentage of the total monthly basic salaries of its current employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The total cost charged to the consolidated statements of comprehensive income of approximately RMB85,750,000 and RMB70,606,000 for the years ended December 31, 2014 and 2013, respectively, represent contributions payable to the scheme by the Group for the respective years.

## 40. COMPARATIVE INFORMATION

In the current year, the directors of the Company decided to change classification of certain line items in the consolidated statement of cash flows by reclassifying cash flows of withdrawal and placement of pledged bank deposits from investing activities to operating activities and reclassifying cash flows of placement of deposits to entities controlled by suppliers for borrowings from operating activities to financing activities since the pledged bank deposits are used as security for bills payables for the settlement of purchase of inventories and the deposits to entities controlled by suppliers are pledged for borrowings obtained. The directors of the Company believe that such presentation will better reflect the relevance of the financial information of the Group's activities and is in line with industry's practice. As a result, the comparative figures have been re-presented to reflect the new presentation.

The effect of reclassification in the condensed consolidated statement of cash flows for the year ended December 31, 2013 is as follows:

| | **Originally stated** | **Reclassification** | **Restated** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Audited)* | | *(Audited)* |
| OPERATING ACTIVITIES | | | |
| Decrease in trade and other receivables | (694,498) | 31,200 | (663,298) |
| Withdrawal of pledged bank deposits | — | 907,131 | 907,131 |
| Placement of pledged bank deposits | — | (965,221) | (965,221) |
| Cash flow from other operating activities | 764,180 | — | 764,180 |
| NET CASH USED IN OPERATING ACTIVITIES | 69,682 | (26,890) | 42,792 |
| INVESTING ACTIVITIES | | | |
| Withdrawal of pledged bank deposits | 907,131 | (907,131) | — |
| Placement of pledged bank deposits | (965,221) | 965,221 | — |
| Cash flow from other investing activities | (1,459,600) | — | (1,459,600) |
| NET CASH USED IN INVESTING ACTIVITIES | (1,517,690) | 58,090 | (1,459,600) |
| FINANCING ACTIVITIES | | | |
| Placement of deposits to entities controlled by suppliers for borrowings | — | (31,200) | (31,200) |
| Cash flow from other investing activities | 971,150 | — | 971,150 |
| NET CASH USED IN FINANCING ACTIVITIES | 971,150 | (31,200) | 939,950 |

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company as at December 31, 2014 is as follows:

| | NOTE | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| Investments in subsidiaries and amounts due from subsidiaries | | **2,921,422** | 1,688,469 |
| Other assets | | **23,869** | 13,746 |
| Total assets | | **2,945,291** | 1,702,215 |
| Total liabilities | | **(1,663,061)** | (304,663) |
| | | **1,282,230** | 1,397,552 |
| Capital and reserves | | | |
| Share capital | | **12,065** | 12,065 |
| Reserves | (a) | **1,270,165** | 1,385,487 |
| | | **1,282,230** | 1,397,552 |

Note (a):

| | Share Premium<br>RMB'000 | Share-based payments reserve<br>RMB'000 | Convertible bonds reserve<br>RMB'000 | (Accumulated losses)/ Retained profits<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|
| As at January 1, 2013 | 1,526,090 | — | — | 5,492 | 1,531,582 |
| Dividends recognized as distribution | (140,602) | — | — | — | (140,602) |
| Loss for the year | — | — | — | (5,493) | (5,493) |
| At December 31, 2013 | 1,385,488 | — | — | (1) | 1,385,487 |
| Loss for the year | — | — | — | (28,481) | (48,481) |
| Dividends recognized as distribution | (177,603) | — | — | — | (177,603) |
| Recognition of equity-settled share-based payments | — | 28,272 | — | — | 48,272 |
| Recognition of equity component of convertible bonds | — | — | 62,490 | — | 62,490 |
| At December 31, 2014 | 1,207,885 | 28,272 | 62,490 | (28,482) | 1,270,165 |

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at December 31, 2014 and 2013 are as follows:

| Name of subsidiaries # ^ | Place of incorporation/ establishment | Date of incorporation/ establishment | Issued and fully paid share/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31, 2014 % | 2013 % | Principal activities @ |
|---|---|---|---|---|---|---|
| **Directly held:** | | | | | | |
| Sea of Wealth International Investment Company Limited 富海國際投資有限公司 | The British Virgin Islands | November 15, 2011 | 1 share of US$1.00 each | **100** | 100 | Investment holding |
| **Indirectly held:** | | | | | | |
| Grouprich International Investment Holdings Limited 香港匯富國際投資集團有限公司 | Hong Kong | September 10, 2004 | 1,000,000 shares of HK$1.00 each | **100** | 100 | Investment holding |
| Shanghai Yongda Investment Holdings Group Co., Ltd. 上海永達投資控股集團有限公司 (formerly known as Shanghai Yongda Investment Co., Ltd. 上海永達投資有限公司) | PRC | September 25, 2003 | RMB1,382,000,000 | **100** | 100 | Investment holding |
| Shanghai Yongda Automobile Group Co., Ltd. 上海永達汽車集團有限公司 (formerly known as Shanghai Yongda Automobile International Investment Management Co., Ltd. 上海永達汽車國際投資管理有限公司) | PRC | September 15, 2003 | RMB910,000,000 | **100** | 100 | Investment holding |
| Shanghai Yongda Automobile Leasing Co., Ltd. 上海永達汽車租賃有限公司 | PRC | February 21, 2000 | RMB50,000,000 | **100** | 100 | Automobile rental services |
| Shanghai Baozen Automobile Sales and Services Co., Ltd. 上海寶誠汽車銷售服務有限公司 | PRC | January 6, 2004 | RMB80,000,000 | **100** | 100 | 4S dealership |
| Shanghai Baozen Zhonghuan Automobile Sales and Services Co., Ltd. 上海寶誠中環汽車銷售服務有限公司 | PRC | August 30, 2007 | RMB50,000,000 | **100** | 100 | 4S dealership |
| Taiyuan Baozen Automobile Sales and Services Co., Ltd. 太原寶誠汽車銷售服務有限公司 | PRC | October 23, 2007 | RMB15,000,000 | **60** | 60 | 4S dealership |
| Nantong Baozen Automobile Sales and Services Co., Ltd. 南通寶誠汽車銷售服務有限公司 | PRC | September 1, 2006 | RMB30,000,000 | **100** ***(note 4)*** | 90 | 4S dealership |
| Wuxi Yicheng Automobile Sales and Services Co., Ltd. 無錫翼誠汽車銷售服務有限公司 | PRC | October 13, 2011 | RMB10,000,000 | **94** ***(note 8)*** | 82 | 4S dealership |
| Wuxi Yongda Oriental Automobile Sales and Services Co., Ltd. ("Wuxi Yongda Oriental") 無錫永達東方汽車銷售服務有限公司 | PRC | April 15, 2011 | RMB50,000,000 | **70** ***(note 8)*** | 51 | 4S dealership |
| Shanghai Yongda Infiniti Automobile Sales and Services Co., Ltd. 上海永達英菲尼迪汽車銷售服務有限公司 | PRC | September 18, 2006 | RMB30,000,000 | **100** | 100 | 4S dealership |

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of subsidiaries # ^ | Place of incorporation/ establishment | Date of incorporation/ establishment | Issued and fully paid share/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31, 2014 % | 2013 % | Principal activities @ |
|---|---|---|---|---|---|---|
| Shanghai Yongda Infiniti Qibao Automobile Sales and Services Co., Ltd. 上海永達英菲尼迪七寶汽車銷售服務有限公司 | PRC | August 14, 2009 | RMB25,000,000 | 100 | 100 | 4S dealership |
| Shanghai Yongda Bashi Automobile Sales and Services Co., Ltd. 上海永達巴士汽車銷售服務有限公司 | PRC | March 11, 2008 | RMB20,000,000 | 100 | 100 | 4S dealership |
| Shanghai Yongda Toyota Automobile Sales and Services Co., Ltd. 上海永達豐田汽車銷售服務有限公司 | PRC | April 25, 2002 | RMB10,000,000 | 100 | 100 | 4S dealership |
| Shanghai Yongda Xingtian Automobile Sales and Services Co., Ltd. 上海永達星田汽車銷售服務有限公司 | PRC | February 9, 2006 | RMB10,000,000 | – *(note 7)* | 100 | 4S dealership |
| Shanghai Pudong Used Automobile Trading Management Co., Ltd. ("Shanghai Pudong Used Automobile") 上海市浦東舊機動車交易市場經營管理有限公司 | PRC | July 13, 1999 | RMB5,340,000 | 75 | 75 | Pre-owned vehicle business |
| Shanghai Zhongzheng Second-Hand Automobile Valuation Services Co., Ltd. 上海中正二手車評估服務有限公司 | PRC | September 22, 2005 | RMB1,560,000 | 80 | 80 | Pre-owned vehicle business |
| Shanghai Yongda Finance Leasing Co., Ltd. 上海永達融資租賃有限公司 | PRC | March 29, 2013 | RMB170,000,000 | 100 | 100 | Finance leasing service |
| Handan Baohe Automobile Sales and Services Co., Ltd. 邯鄲市寶和汽車銷售服務有限公司 | PRC | December 5, 2007 | RMB7,500,000 | – *(note 6)* | 100 | 4S dealership |
| Linyi Yubaohang Automobile Sales and Services Co., Ltd 臨沂宇寶行汽車銷售服務有限公司 | PRC | October 26, 2006 | RMB30,000,000 | 100 | 100 | 4S dealership |
| Lishui Jiacheng Automobile Sales and Services Co., Ltd 麗水市嘉誠汽車銷售有限公司 | PRC | May 17, 2010 | RMB80,000,000 | 100 | 100 | 4S dealership |
| Jiangyin Leichi Automobile Sales and Services Co., Ltd 江陰雷馳汽車銷售服務有限公司 | PRC | August 23, 2010 | RMB15,000,000 | 88 *(note 5)* | 100 | 4S dealership |
| Yancheng Yuebao Trading Co., Ltd. 鹽城悅寶貿易有限公司 | PRC | October 31, 2014 | RMB20,396,500 | 100% *(note 1)* | N/A | Operation to be commenced |
| Haerbin Baozen Automobile Sales and Services Co., Ltd 哈爾濱寶誠汽車銷售服務有限公司 | PRC | March 7, 2014 | RMB15,000,000 | 100% | N/A | 4S dealership |
| Tianjin Zhongshun Jinbao Automobile Sales and Services Co., Ltd 天津市中順津寶汽車服務有限公司 | PRC | March 31, 2014 | RMB45,000,000 | 100% *(note 1)* | N/A | 4S dealership |

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of subsidiaries # ^ | Place of incorporation/ establishment | Date of incorporation/ establishment | Issued and fully paid share/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31, 2014 % | 2013 % | Principal activities @ |
|---|---|---|---|---|---|---|
| Tianjin Yingyue Automobile Sales and Services Co., Ltd 天津英悦汽車銷售服務有限公司 | PRC | March 31, 2014 | RMB10,000,000 | 100% (note 1) | N/A | 4S dealership |
| Wuxi Baozen Automobile Sales and Services Co., Ltd 無錫寶尊汽車銷售服務有限公司 | PRC | August 31, 2014 | RMB20,000,000 | 100% (note 1) | N/A | 4S dealership |
| Shenzhen Yongda South Investing Co., Ltd 深圳永達南方投資有限公司 | PRC | June 09, 2014 | RMB35,000,000 | 70% (note 3) | N/A | Holding |
| Shenzhen South Zhongyue Automobile Sales and Services Co., Ltd 深圳市南方眾悦汽車銷售服務有限公司 | PRC | May 19, 2014 | RMB5,000,000 | 59% (note 1) | N/A | After-sales services |
| Hunan South Zhongyue Automobile and Services Co., Ltd 湖南南方眾悦汽車銷售服務有限公司 | PRC | May 21, 2014 | RMB5,000,000 | 70% (note 1) | N/A | After-sales services |
| Shanghai Yixiu Automobile Services Co., Ltd 上海宜修汽車服務有限公司 | PRC | April 30, 2014 | RMB1,000,000 | 100% (note 3) | N/A | After-sales services |
| Taixing Yongda Bencheng Automobile Sales and Services Co., Ltd 泰興永達本誠汽車銷售服務有限公司 | PRC | February 28, 2014 | RMB10,000,000 | 100% (note 1) | N/A | 4S dealership |
| Shengzhou Yongda Bencheng Automobile Sales and Services Co., Ltd 嵊州市永達本誠汽車銷售服務有限公司 | PRC | June 30, 2014 | RMB43,300,000 | 100% (note 1) | N/A | 4S dealership |
| Haerbin Yongda Hongfu Automobile Sales and Services Co., Ltd 哈爾濱永達宏福汽車銷售服務有限公司 | PRC | March 14, 2014 | RMB10,000,000 | 100% (note 3) | N/A | 4S dealership |
| Ningbo Yongda Funing Automobile Sales and Services Co., Ltd 寧波永達福寧汽車銷售服務有限公司 | PRC | February 28, 2014 | RMB10,000,000 | 100% (note 3) | N/A | 4S dealership |
| Yancheng Yuegao Trading Co., Ltd 鹽城悦高貿易有限公司 | PRC | November 30, 2014 | RMB14,186,600 | 100% (note 1) | N/A | 4S dealership |
| Nantong Oriental Yongda Jiachen Automobile Sales and Services Co., Ltd 南通東方永達佳晨汽車銷售服務有限公司 | PRC | November 16, 2011 | RMB40,000,000 | 60% (note 2) | 49% | 4S dealership |
| Shanghai West Shanghai Shenjie Automobile Sales and Services Co., Ltd 上海西上海申杰汽車銷售服務有限公司 | PRC | March 3, 2011 | RMB30,000,000 | 100% (note 1) | N/A | 4S dealership |
| Shanghai West Shanghai Jiawo Automobile Sales and Services Co., Ltd 上海西上海嘉沃汽車銷售服務有限公司 | PRC | March 1, 2011 | RMB30,000,000 | 100% (note 1) | N/A | 4S dealership |
| Rui'an Yongda Nanyang Lujie Automobile Sales and Services Co., Ltd 瑞安市永達南洋路捷汽車銷售服務有限公司 | PRC | March 5, 2013 | RMB30,000,000 | 70% (note 3) | 70% | 4S dealership |
| Kunshan Yongda Lujie Automobile Sales and Services Co., Ltd 昆山永達路捷汽車銷售服務有限公司 | PRC | March 15, 2013 | RMB40,000,000 | 100% (note 3) | 100% | 4S dealership |

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of subsidiaries # ^ | Place of incorporation/ establishment | Date of incorporation/ establishment | Issued and fully paid share/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31, 2014 % | 2013 % | Principal activities @ |
|---|---|---|---|---|---|---|
| Changshu Yongda Lujie Automobile Sales and Services Co., Ltd 常熟永達路捷汽車銷售服務有限公司 | PRC | June 8, 2013 | RMB15,000,000 | 100% *(note 3)* | 100% | 4S dealership |
| Shanghai West Shanghai Hongjie Automobile Sales and Services Co., Ltd 上海西上海弘杰汽車銷售服務有限公司 | PRC | July 5, 2011 | RMB60,000,000 | 100% *(note 1)* | 100% | 4S dealership |
| Shanghai Yongda Qiming Automobile Sales and Services Co., Ltd 上海永達啓明汽車銷售服務有限公司 | PRC | January 27, 2014 | RMB22,000,000 | 100% *(note 3)* | N | 4S dealership |

\# Except for Sea of Wealth and Grouprich International which are limited liability companies, all subsidiaries are domestic limited liability enterprises.

^ The English names of all subsidiaries established in the PRC are translated for identification purpose only.

@ 4S dealership represents an automobile dealership authorized by an automobile manufacturer to engage in the four businesses relating to sales, spare parts, service and survey.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

1. There companies were newly acquired in 2014.
2. The Group acquired additional 11% equity interests in this company during the year ended December 31, 2014. Immediately after acquisition, this company became an indirectly 60%-owned subsidiary of the Group.
3. These companies were newly set up during the year ended December 31, 2014.
4. The Group acquired all non-controlling interests in this company during the year ended December 31, 2014.
5. The Group partially disposed of interest in this company without losing control during the year ended December 31, 2014.
6. The Group disposed of all equity interests in this company in the year ended December 31, 2014. Details are set out in Note 34.
7. This company was liquidated during the year ended December 2014.
8. The Group partially acquired the equity interests in these two companies during the year ended December 31, 2014.

None of the subsidiaries had issued any debt securities at the end of the year, except for Shanghai Yongda Investment Holdings Group Co., Ltd. which issued a medium-term note with principal amount of RMB1.16 billion. Details of the medium-term note are set out in Note 29.

# Financial Summary

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

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **RESULTS** | | | | | |
| **REVENUE** | **32,937,975** | 26,096,526 | 21,711,998 | 20,304,119 | 15,017,931 |
| **Profit before tax** | **705,235** | 852,577 | 681,317 | 740,869 | 558,761 |
| Income tax expense | **(165,755)** | (210,540) | (165,850) | (177,703) | (140,195) |
| **Profit and total comprehensive income for the year** | **539,480** | 642,037 | 515,467 | 563,166 | 418,566 |
| **Attributable to:** | | | | | |
| Owners of the Company | **501,130** | 588,310 | 470,016 | 504,782 | 385,586 |
| Non-controlling interests | **38,350** | 53,727 | 45,451 | 58,384 | 32,980 |
| | **539,480** | 642,037 | 515,467 | 563,166 | 418,566 |
| **ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS** | | | | | |
| **TOTAL ASSETS** | **16,919,270** | 12,898,157 | 9,995,648 | 8,158,716 | 4,324,814 |
| **TOTAL LIABILITIES** | **(12,743,580)** | (9,206,701) | (6,677,049) | (6,420,649) | (3,128,574) |
| **NON-CONTROLLING INTERESTS** | **(331,799)** | (267,391) | (256,016) | (158,947) | (80,401) |
| | **3,843,891** | 3,424,065 | 3,062,583 | 1,579,120 | 1,115,839 |