MEIDONG AUTO

China MeiDong Auto Holdings Limited
中國美東汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1268

ANNUAL REPORT 2014

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ye Fan *(Chairman)*
Ye Tao *(Chief Executive Officer)*
Liu Xuehua

Independent Non-Executive Directors

Li Lin
Pan Lu
Jip Ki Chi

Authorised Representatives

Ye Tao
Yu Man To, Gerald

Company Secretary

Yu Man To, Gerald
B.BUS, MBA, FCPA, FCPA (Aust)

AUDIT COMMITTEE

Jip Ki Chi *(Chairman)*
Li Lin
Pan Lu

REMUNERATION COMMITTEE

Pan Lu *(Chairman)*
Ye Tao
Jip Ki Chi

NOMINATION COMMITTEE

Ye Tao *(Chairman)*
Pan Lu
Jip Ki Chi

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

13th Floor, Block A1
Tian An Technology Industry Building
Huangjin Road
Nancheng, Dongguan
Guangdong, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2404
24th Floor, World-Wide House
19 Des Voeux Road, Central
Hong Kong

Corporate Information

AUDITOR

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

COMPLIANCE ADVISOR

CCB International Capital Limited
12th Floor, CCB Tower
3 Connaught Road Central
Central, Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

China CITIC Bank
Industrial Bank Co. Ltd.

STOCK CODE

1268

COMPANY'S WEBSITE

www.meidongauto.com

Chairman’s Statement

Dear Shareholders,

On behalf of the board (the “Board”) of directors (“Directors” and each a “Director”) of China MeiDong Auto Holdings Limited (“MeiDong Auto” or the “Company”), I am pleased to present the annual report of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2014.

The year 2014 was extremely challenging for the domestic automobile dealers of the automobile market in China.

During the year, car output in China amounted to 23.7229 million units, representing a year-on-year growth of 7.3%. Car sales increased 6.9% year-on-year to 23.4919 million units, which witnessed a significant slowdown in momentum. However, the sales volume of passenger vehicles reached 19.7006 million units, representing a year-on-year growth of 9.89%, among which the sales of basic passenger vehicles (sedans), sport utility vehicles (SUV) and multi-purpose vehicles (MPV) amounted to 12.3767 million units, 4.0779 million units and 1.9143 million units, respectively, representing year-on-year growths of 3.06%, 36.44% and 46.79%, respectively. The contribution of SUV and MPV improved significantly and the automobile consumption structure was further enhanced.

During the year, the discrepancy between the objective of high growth rate at the beginning of the year and the steady but low growth of sales was mainly reflected in the high inventory level and the increased pressure on operation. According to the statistics published by the China Automobile Dealers Association, the inventory alert index of dealers exceeded the benchmark (50%) for eight months in 2014, which has exerted great pressure on capital and increased the cost of inventory of the dealers. As a result, 70% of dealers were operating at loss.

During the year, the PRC government intensified its anti-corruption and decentralization measures and promulgated a series of new polices for promoting the regulated, healthy and orderly development of the automobile industry. It also commenced antimonopoly investigation in the industry, with a view to create a more transparent, fair and competitive market environment for automobile dealers and enhance the bargaining power of automobile dealers over manufacturers. This has not only intensified the market competition among dealers and exposed them to a more stringent regulatory and market environment, but also presented new challenges to the dealers in terms of daily operation and management.

Chairman's Statement

In the face of the great challenges in the market, MeiDong Auto has withstood these challenges by strengthening and fully leveraging on its own advantages in management and outlets, through which the Company continued to realize growths in both business scale and profits, optimized its business structure and improved operating efficiency. Meanwhile, the profitability and risk resilience of the Group was also further enhanced. In 2014, the Group achieved an annual income of RMB3,854.8 million, representing a year-on-year growth of 10.8%; the profit amounted to RMB114.7 million, representing a year-on-year growth of 4.1%.

In 2014, the Group persisted in enhancing the data-driven management system, in particular the sales and inventory management and production efficiency of after-sales workshops so as to facilitate our rapid response to any market changes. Accordingly, the new cars inventory and after-sales efficiency still maintained the leading position in the industry.

Looking ahead, we believe that rational consumption will be popular in China's automobile market along with the general slowdown and steady development of the Chinese economy. Automobile manufacturers will become more prudent in planning their annual goals against the backdrop of declining auto sales growth, high inventory level of dealers and worsening business conditions in 2014. Under the government policies promulgated for the industry during 2014 and those expected to be launched in 2015, a fairer and more standardized market competition environment would be created. However, automobile dealers are offered boundless development opportunities arising from the continuous urbanization, automobile consumption structure upgrading and the huge potential of automobile aftermarket in China. MeiDong Auto will leverage on its own strengths and fully grasp the development opportunities. In 2015, we will further strengthen the management and operating efficiency of each store unit, and meanwhile, expedite the new shops opening and expansion of outlets in order to further boost the business scale of the Group. Within the chain of automobile industry, we will also explore sectors other than traditional automobile dealership such as automobile battery manufacturer, automobile financing and modification.

The achievement of encouraging past results and the establishment of future success by MeiDong Auto were attributable to the relentless efforts and loyal contributions of the Company's management and employees alike as well as the supports and encouragements from shareholders and business partners. On behalf of the Board, I would like to express our sincere gratitude to all the employees of the Group for their loyal services and contributions and to shareholders and business partners for their supports and encouragements.

Chairman
Ye Fan

CEO Report

Looking back into 2014, the automobile market in China witnessed a slowdown of new car sales growth, change in the automobile consumption structure, high level of inventory at dealers and roll-out of new policies in the industry.

Slowdown of new car sales growth: According to the statistics published by the Ministry of Industry and Information Technology, new car sales in China amounted to 23.4919 million units in 2014, representing a year-on-year growth of 6.9%, which is significantly lower than the 13.87% recorded in 2013.

Change in the automobile consumption structure: In China, the growth in sales of passenger vehicles, especially sport utility vehicles (SUV) and multi-purpose vehicles (MPV), was higher than the overall automobile sales growth, reflecting further enhancement of the automobile consumption structure. The annual sales volume of passenger vehicles was 19.7006 million units, representing a year-on-year growth of 9.89%; among which, 4.0779 million units and 1.9143 million units were SUVs and MPVs, representing a year-on-year growth of 36.44% and 46.79%, respectively.

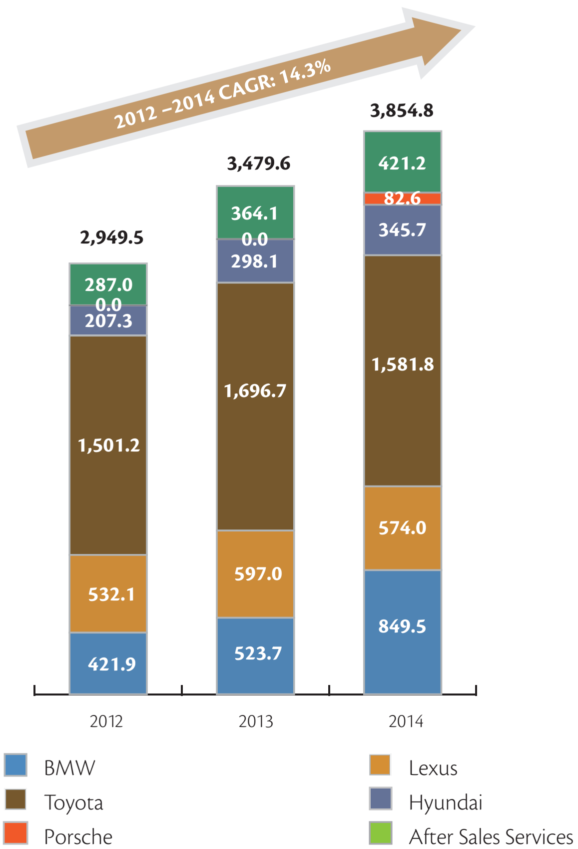
High level of inventory at dealers: According to the information published by the China Automobile Dealers Association, about 40% of dealers had an average monthly inventory level of over two months in 2014.

Roll-out of new policies on the industry: In 2014, over 10 policies or regulations of various different aspects for the industry have been issued by various government authorities (including Ministry of Finance, Ministry of Commerce, Ministry of Industry and Information Technology, Ministry of Public Security, National Development and Reform Commission, State Administration for Industry & Commerce and Ministry of Transport of the PRC). These policies or regulations covers aspects such as subsidies on scrap vehicles, management on automobile fuel consumption, inspection of motor vehicles, management of the automobile maintenance industry, encouragement of the use of new energy vehicles, reform of public service vehicles, certification of second-hand automobiles and filings with the administration for industry and commerce authorized by brand distributors. Anti-monopoly investigation on the automobile industry has also commenced. The introduction of these new policies and the commencement of anti-monopoly investigation in the automobile industry will be beneficial to the healthy and orderly development of the dealership industry in the long term, and will drive the need for higher level of standardized operation and management of the distributors.

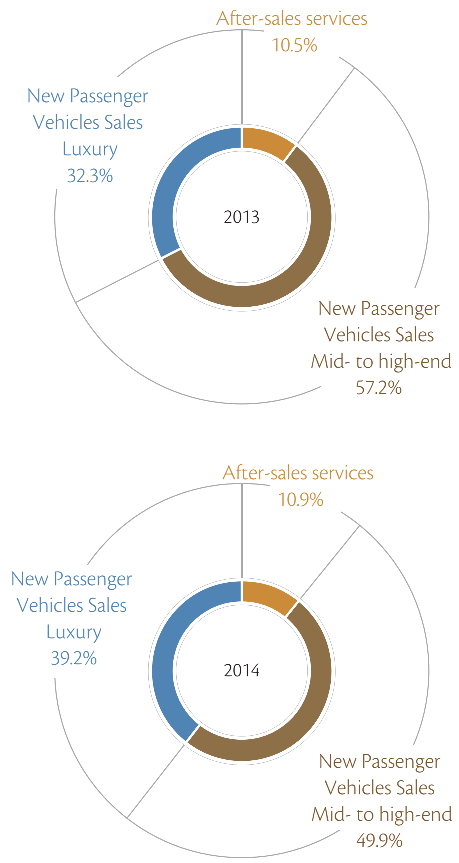
On the other hand, new car purchase restriction became a key driver for sales growth in first- and second-tier cities in China resolutions in panic-stricken purchases in 2014. As compared to these first- and second-tier cities, with urbanization, and the continuous expansion of the automobile enterprise and distributor network, the automobile consumption in the third- and fourth-tier cities in China will remain in the fast growing stage.

CEO Report

Revenue
(RMB million)

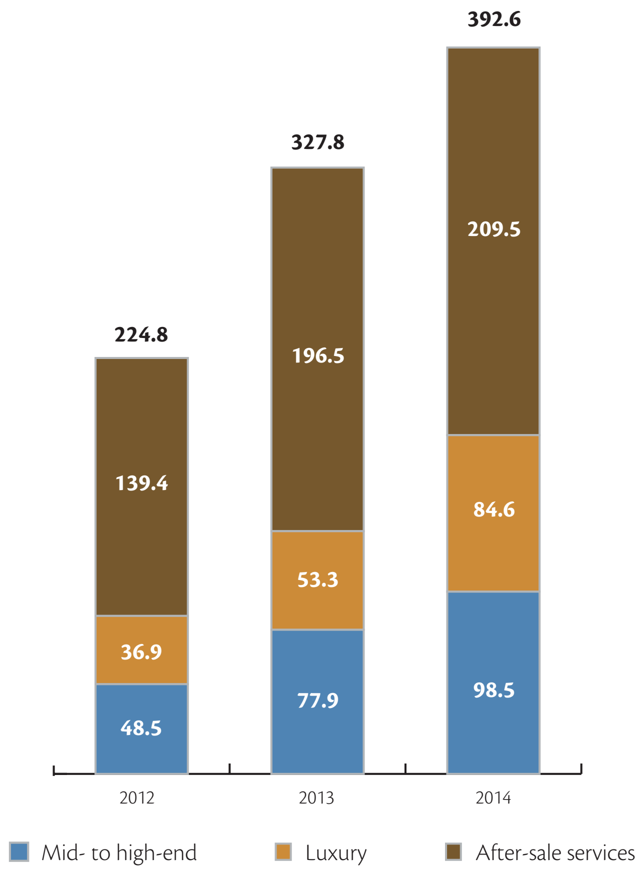


Revenue Mix

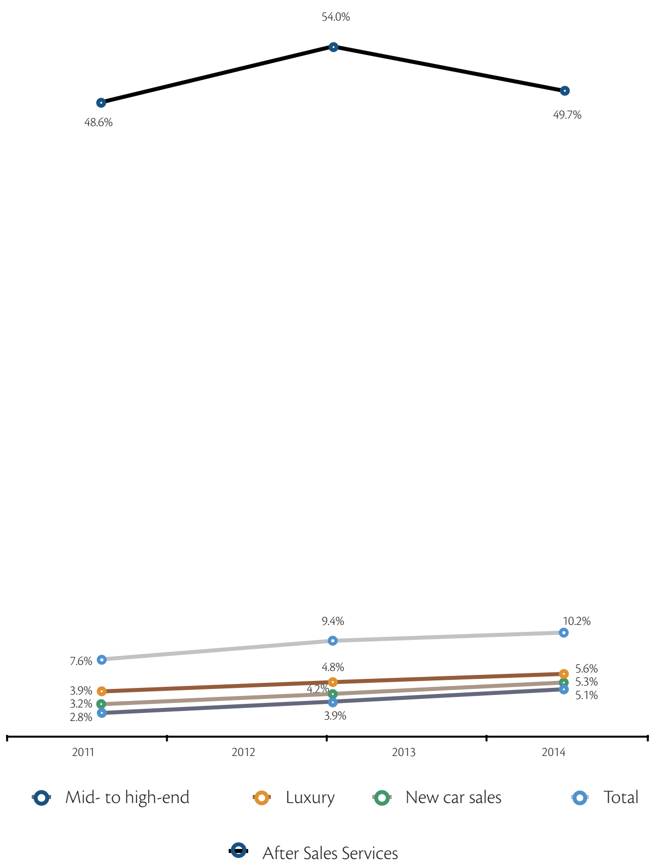


CEO Report

Gross profit
(RMB million)



Gross Profit Margins



CEO Report

BUSINESS REVIEW

New Passenger Vehicle Sales

New passenger vehicle sales accounted for approximately 89.1% of total revenue for the year ended 31 December 2014, which also includes the sales of bundled accessories that are included in the sales of new passenger vehicles. The Group sold a total of 17,746 units of new passenger vehicles for the year ended 31 December 2014, representing an increase of approximately 4.6% from the 16,967 units sold during 2013.

New passenger vehicle sales enjoyed a healthy growth in 2014. Other than Toyota which decreased by 7.7% or 902 units when compared to 2013, other brands enjoyed healthy growths with BMW being the highest at 78.3%, Hyundai at 22.0% and Lexus at a modest 2.3%. Our first Porsche store which commenced trial operations in October 2014 sold 119 units for the year ended 31 December 2014.

The overall gross profit margin for new vehicle sales increased from 4.2% for the year ended 31 December 2013 to 5.3% for the year ended 31 December 2014 with mid-to-high-end brands increasing from 3.9% to 5.1% and luxury brands (including Porsche) increasing from 4.8% to 5.6%. The increase in the gross profit margin is primarily due to: (1) increases in ASP; (2) the release of new models by automobile manufacturers such as the Toyota RAV 4 and Toyota Vios in the second half of 2013 and Toyota Corolla in 2014; (3) higher increase in sales for the higher margin BMW than Lexus; (4) continued effort by our management to improve margins while controlling rate of inventory turns; and (5) sales from the much higher margin Porsche store.

After Sales Services

After sales services accounted for approximately 10.9% of our total revenue for the year ended 31 December 2014. After sales services principally consists of sales of spare parts and the provision of repair and maintenance services, and to a lesser extent, the provision of certain other automobile-related services such as fees from vehicle registration services and commission income from mortgage loan application services. The Group serviced a total of 206,014 after sales services for the year ended 31 December 2014, representing an unit increase of approximately 11.6% from the 184,590 units serviced during 2013.

Increase in the number of services performed was higher for the luxury brands than for the mid-to-high-end brands as the new stores opened in 2013 and 2014 were luxury brand stores. In addition, the mid-to-high-end brand stores are in general more mature compared to the luxury brand stores.

With the exception of BMW, all brands enjoyed a slight increase in the ASP for services. The ASP for BMW decreased is mainly due to the lower efficiency in terms of labour deployment for the new stores that opened in 2014. The overall ASP (including service fees received from license registration services and commission received from the brokerage of financial services) increased by 3.6% for the year ended 31 December 2014 compared to that for the year ended 31 December 2013. The gross profit margin had remained quite stable for all brands for the year ended 31 December 2014 when compared with last year.

CEO Report

New Store Openings

In 2014, four stores were opened taking the number of operating 4S dealership stores to 19 (17 subsidiary stores, one joint venture store that is operated by us and an associate store). One new Toyota store (Fenggang) was opened in the city of Dongguan, Guangdong Province, two new BMW stores, one in the city of Changde in the Hunan Province and one in the city of Chengde in the Hebei Province and a Porsche store in Shunde. With our internally trained management team, an aligned corporate culture and an internally generated KPI data capture and management approach, not to mention hard work and dedication, with the exception of the Porsche store which commenced trial operations in October 2014, these stores set another milestone for the Group as all three stores broke single month profitability within three months of their respective commencement of operations.

New Projects

Currently, we have fourteen projects on hand to open 4S dealership stores as follows:

	Brand	City	Province
(1)	BMW	Beijing	Beijing
(2)	BMW	Chengdu	Sichuan
(3)	BMW	Huanggang	Hubei
(4)	BMW	Jingdezhen	Jiangxi
(5)	BMW	Xianning	Hubei
(6)	BMW	Xiaogan	Hubei
(7)	BMW	Yongzhou	Hunan
(8)	BMW	Yueyang	Hunan
(9)	BMW	Zhangjiajie	Hunan
(10)	Lexus	Liuzhou	Guangxi
(11)	Lexus	Longyan	Fujian
(12)	Lexus	Zhangzhou	Fujian
(13)	Porsche	Shantou	Guangdong
(14)	Toyota	Zhongtong	Guangdong

Due to the slowing down of the industry in 2014, we have reassessed the feasibility of each store individually either by reducing the size of such stores or by retrofitting the existing available facilities instead of constructing new stores, however this would still be subject to the confirmation from the manufacturers on a store-by-store basis. The Group estimates that the costs of the 14 projects can be reduced significantly.

Since the Group is able to control the loss making period for new store opened within a quarter, this reduction in costs for opening new stores is a good opportunity for the positive development of the Group in the current prevailing slowing-down environment of the industry. Accordingly, it is the Group's strategy to grasp this opportunity to speed up the pace of construction and opening of as many new stores as possible in 2015.

CEO Report

STAFF TRAINING AND DEVELOPMENT

As at 31 December 2014, the Group had a total of 1,806 employees, the majority of whom are situated in China. In addition to offering competitive remuneration packages to employee discretionary bonuses and share options may also be granted to eligible employees based on individual performance.

The Group continues to improve its training courses, enhance personnel training and cultivation and perfect the personnel promotion system with the combination of KPI evaluation system. The new personnel of about 30 for management posts throughout the year were trained for and transferred to the Group with rate of brain drain less than 5%, forming a personnel pool of over 100 strong.

The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics, decides the emoluments of the Directors. No Director, or any of his associates, and executive, is involved in dealing his own remuneration.

On 20 January 2014, share options to subscribe for 11,400,000 shares of the Company were granted under the share option scheme adopted by the Company on 13 November 2013 to two Directors and eligible employees (the "Grant"). The Grant represents approximately 1.14% of the issued share capital of the Company as at the date of this report.

NEW CORPORATE IDENTITY

The Group has on 31 March 2015 adopted a new set of corporate identity starting with the introduction of the Group's new corporate logo.

STATUS UPDATE FOR RECTIFICATION OF PROPERTIES TITLE DEFECTS

As disclosed in the prospectus of the Company dated 22 November 2013, the Company will provide timely updates on the status of rectifications for properties with title defects with respect to owned and leased properties as follows:

Properties Owned by the Group with Title Defects

Lanzhou Meidong

As stated in the Prospectus, if the relevant title defects of the owned property occupied by Lanzhou Meidong could not be rectified by 31 December 2014, Lanzhou Meidong would dispose of the relevant property and find an alternative site with no title defects to relocate the Lanzhou Meidong dealership store thereon upon consulting the relevant automobile manufacturer and the local government. As at 31 December 2014, the relevant title defects have not been rectified. However Lanzhou Meidong has not relocate the dealership store to an alternative site because:

(1) the local government has confirmed that the rectification is still in progress and expects that the rectification can be completed in 2015 and they do not think that there is a need for relocation; and

(2) the relevant automobile manufacturer would not issue a consent for the possible relocation.

CEO Report

Properties Leased by the Group

There have not been any updates regarding the rectification of leased properties with defective titles nor has the Company obtained any consent from the Stakeholders for the potential relocations. However, the Company will continue to negotiate with the Stakeholders on the potential relocations.

None of the properties with title defects are individually or collectively crucial to the Company's operation as each store is operated independently from each other.

We will continue to use our best effort and take all reasonable steps to request and assist the landlords to arrange for title rectification and we will continue our discussion with the other stakeholders to obtain their consent for the relocation of our dealership stores on properties with defective titles we are of the view that there will not be any material legal repercussion for the continual operation of our dealership stores on these property.

FINANCIAL REVIEW

Turnover and Cost of Sales

For the year ended 31 December 2014, the Group recorded a turnover of RMB3,854,807,000, representing an increase of 10.8% from RMB3,479,663,000 recorded in 2013. The increase in turnover is made up of: (i) a slight increase in sale of new passenger vehicles from existing stores; (ii) significant increase in sales of new passenger vehicles from the four new stores opened during the year; and (iii) increase in after sales services of approximately 15.7%. Cost of sales increased by 9.8% from RMB3,151,847,000 in 2013 to RMB3,462,182,000 for the year ended 31 December 2014. The increase in cost of sales is made up of: (i) the cost incurred from new passenger vehicle sales of the new stores opened in 2014; and (ii) increase in after sales services of approximately 26.3%.

Gross Profit

Gross profit increased from RMB327,816,000 for the year ended 31 December 2013 to RMB392,625,000 for the year ended 31 December 2014, representing an increase of approximately 19.8%. Gross profit margin also increased from 9.4% recorded in 2013 to 10.2% for the year ended 31 December 2014. The increase is mainly attributed by: (1) higher gross margin in new car sales with the release of the new Toyota RAV 4 and Toyota Vios in the second half of 2013 and Toyota Corolla in 2014; and (2) higher number of units sold in the higher margin luxury brands from the new stores opened including the much higher margin Porsche store in Shunde which opened in October 2014; but slightly off-set by the decrease in after-sales gross profit margin from 54.0% for the year ended 31 December 2013 to 49.7% for the year ended 31 December 2014. The decrease in the after-sales service margin is mainly due to the decrease in service fees received from license registration services and commission received from the brokerage of financial services ("Other After-Sales Services") while gross profit margins from maintenance and repair services remained quite stable at 45.3% for the year ended 31 December 2014 compared to the 45.7% in 2013. Gross profit breakdown of after-sales services is as follows:

Category	2014 RMB'000	2013 RMB'000	Variance
Maintenance and Repair Services	**167,100**	140,841	18.6%
Other After-Sales Services	**42,373**	55,737	(24.0%)
Total After-Sales Services Gross Profit	**209,473**	196,578	6.6%

Distribution Costs and Administrative Expenses

Distribution costs increased to RMB120,760,000 for the year ended 31 December 2014 from RMB95,830,000 recorded in 2013 representing an increase of approximately 26.0%. Administrative expenses increased to RMB98,936,000 for the year ended 31 December 2014 from RMB80,980,000 for the year ended 31 December 2013 representing an increase of approximately 22.2%. The increases in both distribution costs and administrative expenses mainly relate to the increase in depreciation charges, wages and salaries (including staff welfare and social insurance), operating leases, travelling and transportation, professional fees and employee share options expenses accounting for approximately 18.5%, 64%, 4.8%, 5.3%, 7.7% and 7.8% respectively. The increases had been set-off by the decrease in the expenses relating to the listing of the Company's shares in 2013 amounting to RMB12,579,000. These increases are mainly attributable to the new stores that opened in 2014 where there is a slight mismatch between revenue and expenses. As at 31 December 2014, the Group had seventeen operating subsidiaries and four stores under construction (the "Stores Under Construction"). The administrative expenses of the Stores Under Construction which could not be capitalized, such as rental charges, the salary and wages of the store's general manager, sales manager or after-sales manager that had been assigned/deployed for the Stores Under Construction, were charged to the income statement. As the Stores Under Construction commence operations, revenue generated by these stores will further absorb the distribution costs and administrative expenses as a percentage of revenue, which is a demonstration of the Group's ability to expand at a healthy pace without sacrificing profitability.

Finance Costs

Finance costs increased by 39.3% to RMB63,003,000 for the year ended 31 December 2014 from RMB45,238,000 recorded during 2013. The increase is mainly attributable by the increase in inventory level from: (i) the initial inventory and higher average selling price ("ASP") value from of the new luxury brand stores; and (ii) slower than expected sales resulting in an oversupply of inventory for the year ended 31 December 2014. As a result, finance cost as a percentage of turnover increased from 1.3% for the year ended 31 December 2013 to 1.6% for the year ended 31 December 2014.

CEO Report

Other Revenue and Net Income

Other income decreased slightly from RMB33,759,000 for the year ended 31 December 2013 to RMB29,283,000 for the year ended 31 December 2014, representing a decrease of approximately 13.3%. The decrease is attributable by: (1) interest income from Dadong Group of RMB8,324,000 received for the year ended 31 December 2013 to nil for the year ended 31 December 2014, for the outstanding balance of non-recurring advances that certain subsidiaries granted to Guangdong Dadong Automotive Group Co., Ltd.* (廣東大東汽車集團有限公司) ("Dadong Group"). No interest was charged for advances granted to Dadong Group prior to 2013, as Dadong Group was the holding company of our subsidiaries in the People's Republic of China (the "PRC") prior to reorganization of the Group for the listing on the main board of the Stock Exchange (details of the reorganization can be found in the Prospectus dated 5 December 2013); and (2) off-set by the increase in interest income from bank deposits mainly from the proceeds from the initial public offering in 2013 from RMB2,341,000 to RMB9,016,000 for the year ended 31 December 2014.

Associated Company and Joint Venture Company

Share of results of associated company and share of results of joint venture increased by approximately 72.0% from RMB9,831,000 for the year ended 31 December 2013 to RMB16,906,000 for the year ended 31 December 2014. The increase is mainly attributable by the higher profit achieved by the two stores.

Taxation

Taxation increased slightly from RMB39,164,000 for the year ended 31 December 2013 to RMB41,367,000 for the year ended 31 December 2014, representing an increase of approximately 5.6%. The effective tax rate remained stable from 26.2% for the year ended 31 December 2013 to 26.5% for the year ended 31 December 2014. The Group's PRC subsidiaries are subject to a statutory tax rate of 25%.

Absorption Rate

Absorption rate is an indicator we use to measure our dealership-level services operations, which represents the recovery rate of a dealership's operating costs solely from the after-sales services. The absorption rate is calculated as follows:

$$\text{Absorption Rate} = \frac{\text{After-sales services gross profit}}{\text{Distribution Costs + Administrative Expenses}}$$

An absorption rate of 100%, or close to 100%, indicates that the dealership's operating costs can essentially be supported by after sales services alone. For the year ended 31 December 2014, our absorption rate for the Group was at 95.3%, representing a slight decrease from 111.2% for the year ended 31 December 2013. The decrease is mainly attributable by the decrease in gross profit (Please refer to the explanation under the paragraph "Gross Profit" above).

CEO Report

Use of Proceeds From Listing of the Company's Shares

On 5 December 2013, the Company's ordinary shares were successfully listed on the Stock Exchange at a price of HK$1.8 per share with net proceeds from the listing (after deducting commission and other expenses relating to the listing) amounted to approximately RMB316,607,000. The designated use of the net proceeds from the listing was allocated for opening new 4S dealership stores (50%), acquisition of other 4S dealership stores (30%), new lines of business such as used vehicles or IT system upgrades (10%), and as general working capital (10%). As at 31 December 2014, the use of proceeds is as follows:

Purpose	Per Prospectus	Utilized	Remaining
New Dealership Stores	RMB158,303,500	RMB128,303,500	RMB30,000,000
Acquisition	RMB94,982,100	Nil	RMB94,982,100
New Businesses	RMB31,660,700	RMB5,000,000	RMB26,660,700
Working Capital	RMB31,660,700	RMB31,660,700	Nil
Total	RMB316,607,000	RMB164,964,200	RMB151,642,800

Financial Resources and Position

As at 31 December 2014, the Group's borrowings amounted to RMB729,610,000, representing a decrease of approximately 9.3% from RMB804,732,000 as at 31 December 2013. With the exception of RMB120,476,000 that matures after one year but within two years, all other loans are short term in nature. As at 31 December 2014, the Group had a current ratio of 1.1 times and a gearing ratio of (loans and borrowings less cash and cash equivalents and bank deposits divided by equity attributable to equity shareholders of the Company) of 31.9%. As at 31 December 2014, total banking facilities available to the Group amounted to RMB2,686,766,000 of which approximately RMB1,273,906,000 have been utilized.

Cash and cash equivalents and bank deposits amounted to RMB555,931,000 as at 31 December 2014, of which RMB283,348,000 has been pledged for securing banking facilities granted to the Group. Cash and cash equivalents are mostly denominated in Renminbi and Hong Kong Dollars. As the Group's businesses are conducted in the PRC, therefore the Group does not expect to be exposed to any material foreign exchange risks.

As at 31 December 2014, assets pledged by the Group amounted to RMB320,591,000 to secure loans and borrowings of the Group.

CEO Report

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity and financing agreements with banks and automobile manufacturer's captive finance companies. The Group has adequate financial resources to meet all contractual obligations and operating requirements.

Contingent Liabilities

As at 31 December 2014, one subsidiary of the Group has issued financial guarantees to a financial institution in respect of financial facilities granted to a related party of the Group amounting to RMB20,000,000 and the financial facility utilised by the related party amounted to RMB14,962,000 as at 31 December 2014 (see note 30(e) to the consolidated financial statements).

As at 31 December 2014, the directors do not consider it probable that a claim will be made under the above guarantee.

Final Dividend

In view of the stable after-sales services business, the Board recommended the payment of a final cash dividend for the year ended 31 December 2014 of RMB0.03 per share (2013: RMB0.03 per share).

PROSPECTS

2014 was a year full of challenges but a year for Meidong Auto to demonstrate its strength and to build its confidence. Leveraging on our advanced data driven management system, excellent operating capability of each store, consistent effort in network planning in third- and fourth-tier cities in Central and Southern China, a balanced brand mix together with our efficient and loyal management team, we continued to make significant progress in a challenging business environment in 2014.

Looking forward, we are confident in the traditional dealership market (including new car sales and after-sales services) in China, especially the automobile market in third- and fourth-tier cities in China, which is also the focused region of the Group. We also have high expectation for other related business such as, second-hand automobiles, automobile accessories and automobile finance related after sales market. Meanwhile, we will closely monitor the new trends and modes, such as the internet and automobile e-commerce channels.

We will further enhance our single store operation efficiency and increase customer and employees satisfaction by continuing to strengthen the operation and management capacities of the Group and the single stores. We will accelerate the growth of our dealership network by adhering to our strategy of expanding into the third- and fourth-tier cities. We will also take full advantage of internet and mobile platform to enhance customers' experience with car purchases and services and by improving our marketing efficiency. We will strive to participate in ventures and expansion in the automobile after-sales market with a view to continue to enrich our products and services.

Ye Tao
Chief Executive Officer

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Ye Fan *(Chairman)*

Mr. Ye Fan, aged 43, is founder of the Group. He is the younger brother of Mr. Ye Tao, and is the Chairman and an executive Director of the Company. He is primarily responsible for supervising the operations of the Group, planning its business and marketing strategies and overseeing the external relationship with banks, government and other business partners. Mr. Ye Fan was awarded a Bachelor degree in Inorganic Non-metallic Materials (無機非金屬材料) from South China University of Technology (華南理工大學) in July 1993. He is a non-permanent Hong Kong resident.

As the founder of the Group, Mr. Ye Fan started his career in the automobile sector by joining an automobile distributor in Dongguan, the PRC as general manager from 1995 to 1998. In 1999, he set up Dongguan Jucheng Auto Technical Services Co., Ltd.* (東莞市聚成汽車技術服務有限公司) (a private company based in Dongguan, Guangdong which was principally engaged in the automobile distribution business) with a partner. In April 2003, Mr. Ye Fan set up Dongguan Guanfeng Auto Co., Ltd.* (東莞市冠豐汽車有限公司) ("Dongguan Guanfeng"), which is the first member of the Group. This 4S dealership store was opened in May 2004 and held 4S distributorship for Beijing Hyundai Motor Company* (北京現代汽車有限公司) vehicles. Before the establishment of Guangdong Dadong Auto Group Co., Ltd* (廣東大東汽車集團有限公司) ("Dadong Group") in 2007, he made investments in a few enterprises (including members of the Group) which were principally engaged in automobile distribution of various brands. Following the establishment of Dadong Group in 2007, which has been solely owned by Mr. Ye Fan, Dadong Group has been making investments in 4S dealership stores of various brands.

Since 2003, Mr. Ye Fan has been acting as a director of Dongguan Guanfeng and various PRC members of the Group and has been responsible for supervising their daily operations and planning their business strategies. Mr. Ye Fan is currently a director of each of the subsidiaries of the Company.

Biographical Details of Directors and Senior Management

Mr. Ye Tao *(Chief Executive Officer)*

Mr. Ye Tao, aged 48, is the elder brother of Mr. Ye Fan. He is an executive Director and the Chief Executive Officer of the Company. He is primarily responsible for overseeing the daily operations and management of the Group, planning its business and marketing strategies, supervising investor relationship and serving on the remuneration committee and the nomination committee. Mr. Ye Tao was awarded a Bachelor degree in Mechanics (力學) from Peking University (北京大學) in July 1989. He also obtained a Master of Science degree in Mechanical Engineering and a Master of Science degree in Management, both from Massachusetts Institute of Technology, in June 1996.

Before he joined the Group, Mr. Ye Tao worked for Objectiva Software Solutions (Beijing) Inc. (奧博傑天(北京)軟件公司) as the chief executive and legal representative overseeing the overall operations of the company and in Document Sciences Corporation as the general manager of Asian Operations overseeing the management and operations in the Asian region.

In 2008, Mr. Ye Tao was invited by Mr. Ye Fan to work in the Group as the chief executive officer. Since then, he has been working together with Mr. Ye Fan closely in the expansion of the Group's business.

Ms. Liu Xuehua

Ms. Liu Xuehua, aged 51, is an executive Director of the Company. Ms. Liu is the spouse of Mr. Yu Bin, one of the senior management members. She is primarily responsible for general administration of the Group, focusing principally on accounting, treasury, administrative and human resources management of the Group. She is the key person-in-charge of the formulation, implementation and enhancement of the internal control polices of the Group. Ms. Liu obtained a Bachelor degree in Administration Management from Peking University (北京大學), through long distance learning in July 2002. By profession, she is an accountant, and her qualification was conferred by the Ministry of Finance of the PRC in 1994.

Ms. Liu joined the Group in February 2008 as the chief financial officer and was then in charge of financial and treasury management matters of the Group.

Ms. Liu has over 13 years working experience in accounting and finance. Between October 2001 and February 2008, before she joined the Group, Ms. Liu worked in Objectiva Software Solutions (Beijing) Inc. (奧博傑天(北京)軟件公司) as financial controller, and was in charge of financial management of such company.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Lin

Mr. Li Lin, aged 73, was appointed as an independent non-executive Director of the Company with effect from November 2013. Mr. Li graduated from the Jilin University (吉林大學) (formerly Jilin University of Technology (吉林工業大學)) in July 1964 and studied in Chassis Engineering (底盤專業) at its automobile faculty.

Mr. Li worked as a civil servant of the PRC Government for over 20 years and his last office with the PRC Government is director at the bureau level (正局級司長) in the National Development and Reform Commission of the PRC (國家發展和改革委員會). From 2007 to 2012, he was an independent director in Zhejiang Asia-pacific Mechanical and Electronic Co., Ltd. ("Zhejiang APME") who shares are listed on Shenzhen Stock Exchange. He acts as a member at the board of directors and brings an independent judgment to the management of Zhejiang APME.

Mr. Pan Lu

Mr. Pan Lu, aged 55, was appointed as an independent non-executive Director of the Company with effect from November 2013. Mr. Pan started his full-time work in early 1980s. Mr. Pan is the founder of each of Dongguan Longcheng Real Estate Company (東莞市龍城房地產公司) and Dongguan Xinghui Real Estate Company (東莞市星輝房地產公司) which were established in 2005 and 2008 respectively. He is currently the chairman of each of such companies and is responsible for the companies' strategic development and coordination of social relationship. Mr. Pan completed a professional study programme in law in Beijing Broadcast Television University (北京廣播電視大學) in July 1988.

Mr. Jip Ki Chi

Mr. Jip Ki Chi, aged 44, was appointed as an independent non-executive Director of the Company with effect from November 2013. Mr. Jip is currently the chief financial officer and company secretary of Sage International Group Limited (Stock code: 8082.HK). Mr. Jip was awarded a Bachelor degree of Business in Accountancy from Queensland University of Technology, Australia in 1994, and a Master degree in Business Administration from the University of Adelaide, Australia in 2008. Mr. Jip is a Certified Practising Accountant of CPA Australia (CPA (Aust.)). He obtained his qualification as a fellow member of Hong Kong Institute of Certified Public Accountants in 2007 (FCPA). Mr. Jip has a wealth of experience in account, finance, management and company secretarial field and has worked as the chief financial officer and company secretary of Inventronics Holdings Limited and Zhong Da Mining Limited, the financial controller and company secretary of Hao Tian Resources Group Limited (Stock code 474.HK) and the financial controller of Wah Shing Group.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Yu Man To Gerald *(Chief Financial Officer and Company Secretary)*
Mr. Yu Man To Gerald, aged 48, is the Chief Financial Officer and Company Secretary of our Company who joined our Group in May 2013. He is mainly responsible for the overall company secretarial and finance matters of our Group. Mr. Yu holds a Bachelor degree in Business and a Master degree in Business Administration. Mr. Yu is a Certified Practising Accountant of CPA Australia (CPA (Aust.)) and a fellow member of the Hong Kong Institute of Certified Public Accountants (FCPA). Mr. Yu has a wealth of experience in accounting, finance, management and company secretarial field. Prior to joining the Company, Mr. Yu has worked as the chief financial officer and company secretary of Sound Global Limited (967.HK and E6E.SI), Wai Chun Mining Industry Group Company Limited (660.HK), Wai Chun Group Limited (1013.HK) and Towngas China Company Limited (1083.HK). Mr. Yu also worked as the company secretary of Sinolink Worldwide Holdings Limited. Mr. Yu was with Towngas China for almost nine years and was with an international accounting firm for over seven years prior to joining Towngas China.

Mr. Yu Bin
Mr. Yu Bin, aged 52, is our vice president of after-sales operations. Mr. Yu is the spouse of Ms. Liu Xuehua, one of our executive Directors. Currently, he is primarily responsible for the overall management of the after-sales services of our Group. Mr. Yu holds a Bachelor degree in Engineering of Vehicle Transportation. Mr. Yu joined our Group as the chief officer in after-sales operations in August 2011 and was then in charge of the management of the after-sales services of our Group. Mr. Yu has over 30 years working experience in vehicle repair and technical training. Before Mr. Yu joined our Group, he worked as the vehicle repair officer, training and education officer, technical training supervisor vehicle repair and production technology supervisor for Beijing Public Transport Holding (Group) Co., Ltd. Repair Branch.

Ms. Wang Feixue
Ms. Wang Feixue, aged 34, is our vice president of sales and marketing. Currently, she is primarily responsible for the overall management of the sales and marketing functions of our Group. Ms. Wang completed a two-year professional study programme in Chinese language and literature in Henan Broadcast Television University. Ms. Wang joined our Group as a sales consultant in July 2004 and was then in charge of sales of new vehicles. Ms. Wang left our Group in July 2006, then rejoined our Group as a corporate planning manager in July 2007. Before Ms. Wang rejoined our Group in July 2007, she worked for Dongguan Zhicheng Trading Company Limited as the sales manager, and was in charge of managing the sales department.

Biographical Details of Directors and Senior Management

Ms. Luo Liuyu

Ms. Luo Liuyu, aged 31, is our vice president of human resources and administration. Currently, she is primarily responsible for the overall human resources management and planning of our Group, including recruitment, job allocation, training, formulating remuneration and fringe benefit policies, etc. Ms. Luo completed a three-year professional study programme in Finance in Dongguan University of Technology. Ms. Luo joined our Group as a finance supervisor in September 2007 and was then in charge of the management of the finance department, including fund and assets management, internal auditing, costs control management and financial statements preparation. Before Ms. Luo joined our Group, she worked for Dongguan Zhicheng Trading Company Limited as accounting supervisor, taking charge of the daily operations of finance department and other accounting functions.

Ms. Chen Saijin

Ms. Chen Saijin, aged 34, is our vice president of purchasing and projects. Currently, she is primarily responsible for the overall procurement of our Group and supervising our internal control matters. Ms. Chen was granted a technical certificate in computer software profession by the Guangdong Labour and Social Security Bureau. Ms. Chen also completed a three-year professional study programme in Accounting in Renmin University of China (中國人民大學) through Internet learning. Ms. Chen joined our Group as an accounting officer in October 2004 and was then in charge of the accounting function of the finance department. Before Ms. Chen joined our Group, she worked for Dongguan Hongyan Vehicle Trading Company Limited as the deputy manager of finance department, taking charge of the auditing of costs and other finance matters.

Mr. Lo Bit Chee

Mr. Lo Bit Chee, aged 57, is our vice president of internal audit and information technology. Currently, he is primarily responsible for the overall management of the internal audit and information technology of our Group. Mr. Lo holds a Bachelor degree in Business Administration. Mr. Lo joined our Group as vice president of internal audit in January 2014 and was then appointed as vice president of information technology of our Group in March 2014. Mr. Lo has over 22 years working experience in PRC. Before Mr. Lo joined our Group, he worked as the administration director of a motor group in the PRC, Mr. Lo also has over 7 years internal audit experience in a large trading firm in Hong Kong.

Report of the Directors

The Board has pleasure in presenting the Report of the Directors and the audited consolidated financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in automobile dealership business authorized by the respective automobile manufacturers of particular brands in the People's Republic of China (the "PRC") including the sale of new passenger cars, spare parts, service and survey. Particulars of the subsidiaries are set out in note 15 to the consolidated financial statements.

RESULTS AND FINAL DIVIDEND

The results of the Group for the year ended 31 December 2014 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on page 47 to page 127 of this Annual Report.

The Directors have recommended the payment of a final cash dividend out of the share premium account under reserves of the Company of RMB0.03 per share (2013: RMB0.03 per share) to shareholders whose names are on the register of members of the Company on 2 June 2015. Subject to approval by shareholders at the annual general meeting of the Company (the "AGM") to be held on 22 May 2015 and compliance with the Companies Law of the Cayman Islands, the final dividend will be paid on or about 16 June 2015 and the register of members of the Company will be closed from 29 May 2015 to 2 June 2015, both days inclusive, during which period no transfer of shares will be registered.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2014 are set out in the consolidated statement of changes in equity set out on page 51 of this Annual Report.

The Company's reserves available for distribution to shareholders as at 31 December 2014 amounted to RMB268,271,000 (2013: RMB296,952,000), subject to the applicable statutory requirements under the laws of the Cayman Islands.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the five financial years ended 31 December 2014 is set out on page 128 of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant, equipment of the Group during the year ended 31 December 2014 are set out in note 12 to the consolidated financial statements.

Report of the Directors

TAX RELIEF

The Company is not aware of any tax relief available to shareholders by reason of their holdings in the Company's securities.

Under current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Company.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year ended 31 December 2014 are set out in note 26(a) to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2014 and up to the date of this Annual Report were as follows:

Executive Directors

Mr. Ye Fan *(Chairman)* (1)
Mr. Ye Tao *(Chief Executive Officer)* (1)
Ms. Liu Xuehua (2)

Independent Non-executive Directors

Mr. Li Lin (2)
Mr. Pan Lu (2)
Mr. Jip Ki Chi (2)

Notes:

1. Mr. Ye Fan and Mr. Ye Tao were appointed on 24 February 2012.

2. Ms. Liu Xuehua, Mr. Li Lin, Mr. Pan Lu and Mr. Jip Ki Chi were all appointed on 13 November 2013.

The biographical details of the Directors and senior management of the Company are set out on page 17 to page 21 of this Annual Report.

In accordance with Article 105 of the articles of association of the Company (the "Articles of Association"), Ms. Liu Xuehua and Mr. Li Lin shall retire from office by rotation at the AGM and, all of them being eligible, would offer themselves for re-election.

Report of the Directors

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all the independent non-executive Directors to be independent.

Directors' Service Contracts

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing with effect from 15 November 2013, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years from 15 November 2013, which can be terminated by either party giving not less than three months' notice in writing to the other party. Each of the independent non-executive Directors is subject to the provisions for retirement by rotation and re-election at the AGM in accordance with the Articles of Association.

Save as disclosed above, no Director proposed for re-election at the AGM has service agreement with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

Details of emoluments of the Directors are set out in note 8 to the consolidated financial statements.

Mr. Jip Ki Chi is entitled to a director's fee of HK$166,560 per annum. Each of Mr. Li Lin and Mr. Pan Lu is entitled to a director's fee of HK$100,000 per annum. Save for Director's fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

The Directors' fees are subject to shareholders' approval at the AGM. Other emoluments are determined by the Board with reference to the recommendations from the remuneration committee of the Company (the "Remuneration Committee") taking into account the directors' duties, responsibilities and performance and the results of the Group.

Interests in Contracts

Other than as disclosed in note 30 to the consolidated financial statements, there is no contract of significance to which the Company, its holding company, fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Competing Business

Save as disclosed in this Annual Report, none of the Directors or their respective associates (as defined in the Listing Rules) had any interests in any business (apart from the Group's business), which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the year and up to the date of this Annual Report.

Directors' Interests or Short Positions in Shares and Underlying Shares

As at 31 December 2014, the interests and short positions of the Directors and chief executive in the shares of the Company (the "Shares") and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required pursuant to: (a) divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") to be notified to the Company and the Stock Exchange, were as follows:

Long Positions or Short Positions in Shares and Underlying Shares

		Interest in shares				
Name of Director	Capacity	Personal interest shares	Family Interest	Total interest in shares	Interest in underlying Shares pursuant to share options	Approximate percentage of shareholding as at 31 December 2014
Mr. Ye Fan (1 and 2)	Settlor of trust	–	750,000,000	750,000,000	–	75.00%
Mr. Ye Tao	Beneficial Owner	–	–	–	2,000,000	0.20%
Ms. Liu Xuehua	Beneficial Owner	–	–	–	2,150,000	0.22%

Notes:

(1) Mr. Ye Fan is the settlor of the Ye Family Trust, a revocable discretionary family trust. The entire capital of Apex Holdings Enterprises Limited ("Apex Holdings") is an asset of such family trust, and Apex Holdings in turn holds the entire issued share capital of Apex Sail Limited ("Apex Sail"). Apex Sail directly hold 750 million Shares and by virtue of the SFO, Mr. Ye Fan is deemed to be interested in the Shares of Apex Sail. An aggregate of 164,706,000 Shares out of those Shares held by Apex Sail had been pledged in favor of Honorsky Group Limited on 17 November 2014 to secure a loan granted to the Company, details of which are set out in the announcement dated 17 November 2014.

(2) Subsequent to 31 December 2014, a further aggregate of 175,838,151 Shares out of those Shares held by Apex Sail had been pledged as security for the obligations of the Company under the bonds issued with the warrants on 9 March 2015, details of which are set out in the announcements dated 21 January 2015 and 9 March 2015.

Details of Directors' interests in share options granted by the Company are set out under the heading "Directors' Rights to Acquire Shares" below.

Report of the Directors

Directors' Rights to Acquire Shares

Pursuant to the Company's share option scheme adopted by the shareholders of the Company on 13 November 2013 (the "SOS"), the Company has granted to certain Directors options to subscribe Shares, details of which as at 31 December 2014 were as follows:

				At at 31 December 2014		
Name of Director	Date of Grant	Exercisable period	Number of Shares subject to the outstanding options as at 01.01.2014	Exercise price HK$	Number of Shares subject to outstanding options	Approximate percentage of shareholding
Mr. Ye Tao	20.01.2014	01.01.2015 – 12.11.2023	–	1.80	500,000	0.05%
	20.01.2014	01.01.2016 – 12.11.2023	–	1.80	500,000	0.05%
	20.01.2014	01.01.2017 – 12.11.2023	–	1.80	500,000	0.05%
	20.01.2014	01.01.2018 – 12.11.2023	–	1.80	500,000	0.05%
Ms. Liu Xuehua	20.01.2014	01.01.2015 – 12.11.2023	–	1.80	537,500	0.055%
	20.01.2014	01.01.2016 – 12.11.2023	–	1.80	537,500	0.055%
	20.01.2014	01.01.2017 – 12.11.2023	–	1.80	537,500	0.055%
	20.01.2014	01.01.2018 – 12.11.2023	–	1.80	537,500	0.055%

On 20 January 2014, share options to subscribe for 4,150,000 Shares were granted under the SOS to two Directors at an exercise price of HK$1.80 per share, details of which are as follows:

Mr. Ye Tao	2,000,000
Ms. Liu Xue hua	2,150,000

Notes:

(1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(2) During the period, no options held by the Directors had lapsed, cancelled or exercised.

(3) These options represent personal interests held by the Directors as beneficial owners.

Save as disclosed above, as at 31 December 2014, none of the Directors of the Company had any interests or short positions in the Shares or underlying shares of the Company or any of its associated corporations (within the meaning of part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangements to Purchase Shares or Debentures

Other than the SOS, at no time during the period was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the 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, was granted any right to subscribe for equity or debt securities of the Company, nor had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2014, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of the Directors, the following shareholders (other than the Directors or chief executives of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name of Shareholder	Capacity	Number of Shares Held	Approximate percentage of shareholding
Apex Sail	Beneficial owner	750,000,000	75.00%
Apex Holdings (1)	Interest in a controlled corporation	750,000,000	75.00%
Ms. Hu Huanran (2)	Interest of spouse	750,000,000	75.00%
Honorsky Group Limited (3)	Person having a security interest in shares	164,706,000	16.47%
Mr. Zhang Li Ming (3)	Beneficial owner	164,706,000	16.47%
Mr. Zhang Yan Bing (3)	Beneficial owner	164,706,000	16.47%
Mr. Zhang Yan Bo (3)	Beneficial owner	164,706,000	16.47%
FIL Limited	Investment manager	60,350,000	6.04%

Notes:

(1) Apex Sail is wholly owned by Apex Holdings. The entire issued share capital of Apex Holdings is wholly owned by Fiducia Suisse as the trustee of the Ye Family Trust. The Ye Family Trust is a revocable discretionary family trust founded by Mr. Ye Fan as the settlor. The Ye Brothers and certain of their family members are the discretionary objects of the Ye Family Trust.

(2) Mr. Ye Fan is the settlor of the Ye Family Trust. By virtue of the SFO, Mr. Ye Fan is deemed to be interested in the Shares of Apex Sail. Mr. Ye Fan's spouse, Ms. Hu Huanran, is deemed to be interested in such 750,000,000 Shares by virtue of the SFO.

(3) An aggregate of 164,706,000 Shares out of the Shares held by Apex Sail had been pledged in favor of Honorsky Group Limited (which is owned as to 60%, 20% and 20% by Mr. Zhang Li Ming, Mr. Zhang Yan Bing and Mr. Zhang Yan Bo respectively) to secure a loan granted to the Company, details of which are set out in the announcement dated 17 November 2014.

(4) Subsequent to 31 December 2014, a further aggregate of 175,838,151 Shares out of those Shares held by Apex Sail had been pledged as security for the obligations of the Company under the bonds issued with the warrants on 9 March 2015, details of which are set out in the announcements dated 21 January 2015 and 9 March 2015.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons (other than the Directors and chief executive of the Company) who had an interest or a short position in the Shares or underlying shares of the Company as recorded as at 31 December 2014 in the register to be kept by the Company under Section 336 of the SFO.

Report of the Directors

Short positions in Shares and underlying Shares in the Company

As at 31 December 2014, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares of the Company.

Other Persons

As at 31 December 2014, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executives and the substantial shareholders as disclosed above) in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

SHARE OPTION SCHEME

Pursuant to the SOS, the Company may, at their discretion, invite full-time or part-time employees of the Group, including Directors of the Company and its subsidiaries, and any suppliers, customers, consultants, agents and advisors, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for Shares. The exercise price of the share option will be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The SOS will remain in force for a period of 10 years commencing on 13 November 2013.

The share options under the SOS are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years after the date of grant.

The total number of Shares in respect of which options may be granted under the SOS is not permitted to exceed 10% of the Shares in issue on the date of the listing of the Company on 5 December 2013 (the "Listing Date") without prior approval from the Company's shareholders. No option may be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which may be granted under the SOS or any other share option schemes at the time it is proposed to grant the relevant options to that employee.

Options granted under the SOS must be taken up within 21 days of the date of grant, upon payment of HK$1.00 per grant.

Report of the Directors

On 20 January 2014, share options to subscribe for 11,400,000 Shares were granted under the SOS to two Directors and eligible employees (the "Grant"). The Grant represents approximately 1.14% of the issued share capital of the Company as at the date of this report. Details of the share options outstanding as at the date of this report are as follows:

Option Type	Date of Grant	Exercisable Period	Exercise Price
2014 Options	20.01.2014	01.01.2015 – 12.11.2023	HK$1.80
	20.01.2014	01.01.2016 – 12.11.2023	HK$1.80
	20.01.2014	01.01.2017 – 12.11.2023	HK$1.80
	20.01.2014	01.01.2018 – 12.11.2023	HK$1.80

The following table discloses movements in the share options of the Company during the period:

Name of Director	Option type	Date of Grant	Exercisable Period	Exercise price HK$	Number of Shares subject to the outstanding options as at 01.01.2014	Granted during the period	Lapsed during the period	Number of Shares subject to the outstanding options as at 31.12.2014	Weighted average closing price of Shares immediately before the date(s) on which the options were exercised HK$
Category [1]: Directors									
Mr. Ye Tao	2014 Options	20.01.2014	01.01.2015 – 12.11.2023	1.80	–	500,000	–	500,000	–
		20.01.2014	01.01.2016 – 12.11.2023	1.80	–	500,000	–	500,000	–
		20.01.2014	01.01.2017 – 12.11.2023	1.80	–	500,000	–	500,000	–
		20.01.2014	01.01.2018 – 12.11.2023	1.80	–	500,000	–	500,000	–
Ms. Liu Xuehua	2014 Options	20.01.2014	01.01.2015 – 12.11.2023	1.80	–	537,500	–	537,500	–
		20.01.2014	01.01.2016 – 12.11.2023	1.80	–	537,500	–	537,500	–
		20.01.2014	01.01.2017 – 12.11.2023	1.80	–	537,500	–	537,500	–
		20.01.2014	01.01.2018 – 12.11.2023	1.80	–	537,500	–	537,500	–
Total for Directors					–	4,150,000	–	4,150,000	–
Category [2]: Employees	2014 Options	20.01.2014	01.01.2015 – 12.11.2023	1.80	–	1,812,500	(40,000)	1,772,500	–
		20.01.2014	01.01.2016 – 12.11.2023	1.80	–	1,812,500	(40,000)	1,772,500	–
		20.01.2014	01.01.2017 – 12.11.2023	1.80	–	1,812,500	(40,000)	1,772,500	–
		20.01.2014	01.01.2018 – 12.11.2023	1.80	–	1,812,500	(40,000)	1,772,500	–
Total for Employees					–	7,250,000	(160,000)	7,090,000	
All Category					–	11,400,000	(160,000)	11,240,000	

Report of the Directors

Notes:

(1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(2) During the period, no options had been cancelled or exercised.

(3) The closing price of the Shares immediately before 20 January 2014, the date of grant of the 2014 Options, was HK$1.63.

(4) The fair value of the 2014 Options granted at the date of grant (20 January 2014) totaled approximately HK$8,505,000.

CONNECTED TRANSACTION

During the year, the Group had no transaction which need to be disclosed as connected transaction in accordance with the requirements of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in normal course of business are set out in note 30 to the consolidated financial statements.

NON-COMPETITION UNDERTAKINGS

Each of the controlling shareholders of the Company (the "Controlling Shareholders") has provided to the Company a written confirmation in respect of his/its compliance with the Non-Compete Undertakings dated 13 November 2013 (the "Non-Complete Undertakings") for the year ended 31 December 2014. The independent non-executive directors of the Company have also reviewed the status of compliance by each of the Controlling Shareholders with the undertakings in the Non-Compete Undertakings and have confirmed that, as far as he/it can ascertain, there is no breach of any of the undertakings in the Non-Compete Undertakings.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2014 are set out in note 22 to the consolidated financial statements.

DONATIONS

During the year, the Group made charitable and other donations amounting to RMB2,000.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for approximately 0.5% of the total turnover and sales to the largest customer accounted for approximately 0.3% of the total turnover. The five largest suppliers of the Group in aggregate accounted for about 91% of its operating costs for the year. Purchases from the largest supplier accounted for about 32% of its operating costs for the year. None of the Directors, their close associates, or any shareholder (who to the knowledge of the Directors owned more than 5% of the Company's Share capital) had any interest in the Group's five largest customers or suppliers.

PRE-EMPTIVE RIGHTS

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

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

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year ended 31 December 2014.

EMOLUMENT POLICY

As at 31 December 2014, the Group had a total of 1,806 employees, the majority of whom are situated in the PRC. In addition to offering competitive remuneration packages to employee, discretionary bonuses and share options may also be granted to eligible employees based on individual performance.

The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics, decides the emoluments of the Directors. No Director, or any of his close associates, and executive, is involved in dealing with his own remuneration.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the schemes is set out in note 24 to the consolidated financial statements and under the heading "Share Option Scheme" in this Report of Directors.

Report of the Directors

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the "Code") during the year ended 31 December 2014. Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" in this Annual Report.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2014 have been audited by KPMG, the Company's auditors. A resolution will be proposed at the AGM to re-appoint KPMG as the auditors of the Company.

On behalf of the Board
Ye Fan
Chairman

Hong Kong, 31 March 2015

Corporate Governance Report

The Directors and other members of the management team of the Company are dedicated to maintain high standards of corporate governance. They will continue to exercise leadership, enterprise, integrity and judgement so as to achieve continuing prosperity and to act in the best interests of the Company and its shareholders in a transparent and responsible manner. Strategic development with prudence and adherence to ethical principles form the core of the Company's corporate governance practices.

The Company continues to devote efforts on promoting good corporate governance so as to ensure its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules as its own code on corporate governance practices. The Company has taken various measures to cope with the latest development in the corporate governance regime.

The Company has complied with the code provisions as set out in the Code during the year ended 31 December 2014.

The Board continues to monitor and review the Company's corporate governance practices to ensure compliance.

BOARD OF DIRECTORS

Composition of the Board

As at the date of this Annual Report, the Board comprises six members as follows:

Executive Directors
Mr. Ye Fan *(Chairman)*
Mr. Ye Tao *(Chief Executive Officer)*
Ms. Liu Xuehua

Independent Non-executive Directors
Mr. Li Lin
Mr. Pan Lu
Mr. Jip Ki Chi

Corporate Governance Report

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are disclosed on pages 17 to 19 of this Annual Report.

The Company has arranged appropriate directors' and officers' liabilities insurance for Directors and officers of the Company. The insurance coverage is reviewed on an annual basis.

Each independent non-executive Director has confirmed, in accordance with the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules that he is independent of the Company and the Company also considers that all of them are independent.

Except for the family relationship between Mr. Ye Fan and Mr. Ye Tao as disclosed in the biographical details on pages 17 to 19 of this Annual Report, there is no relationship (including financial, business, family or other material/relevant relationship) between any members of the Board.

The list of Directors is 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.

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from 15 November 2013, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years from 15 November 2013, which can be terminated by either party giving not less than three months' notice in writing to the other party.

Pursuant to the Articles of Association, at least one-third of the Directors shall retire from office but are eligible for re-election by shareholders at each annual general meeting and each Director shall retire on a rotational basis at least once every three years.

During the year ended 31 December 2014, the Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules and the appointment of independent non-executive Directors representing at least one-third of the Board pursuant to Rule 3.10A of the Listing Rules.

Corporate Governance Report

Functions of the Board

The Board, headed by the chairman of the Board (the "Chairman"), is responsible for formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management.

The executive Directors are responsible for day-to-day management of the Company's operations, financial management and conducting meetings with senior management of the Group, at which operational issues and financial performance are evaluated.

The Company considers that internal control system and risk management function are essential, and the Board plays an important role in implementing and monitoring internal control system and risk management function.

Matters specifically decided by the Board and those reserved for the management, such as daily management, administration, operation of the Company and so forth, are reviewed by the Board on a periodic basis. The management shall report back to the Board.

In addition, the Directors may seek independent professional advice in appropriate circumstances at the Company's expenses.

The Articles of Association sets out the responsibilities and proceedings of the Board. The Board meets regularly, at least four times a year, to consider operational reports and policies of the Company. Significant operational policies are discussed and passed by the Board.

Corporate Governance Functions

The Board is responsible for performing corporate governance duties that include:

(a) developing and reviewing the Company's policies and practices on corporate governance;

(b) reviewing and monitoring the training and continuous professional development of the Directors and senior management;

(c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

(d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and the Directors; and

(e) reviewing the Company's compliance with Appendix 14 to the Listing Rules.

Corporate Governance Report

During the period under review, the Board approved the terms of reference of the Board (with respect to corporate governance duties), and the terms of reference of the nomination committee (the "Nomination Committee"), the audit committee (the "Audit Committee") and the Remuneration Committee and the shareholders communication policy of the Company (the "Shareholders Communication Policy").

Directors' Training and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and management to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, companies ordinance/act and corporate governance practices organized by professional bodies, independent auditors and/or chambers in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, the company secretary of the Company (the "Company Secretary") updates and provides written training materials on the latest developments of applicable laws, rules and regulations to the Directors.

Each of the Directors have attended training sessions arranged by our Company on the continuing obligations of listed companies and directors, disclosure obligations of listed companies and amendments to the Listing Rules and SFO in relation to "inside information".

In addition to the above-mentioned training sessions, some Directors and members of the senior management have also attended several presentations organized by our Company on the compliance of the Listing Rules and conducts of listed companies.

Board Meetings

Code provision A.1.1 of the 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. Due notices and board papers were given to all Directors prior to each meeting in accordance with the Articles of Association and the Code.

Corporate Governance Report

During the year ended 31 December 2014, five Board meetings were held. Details of individual attendance of each of the Directors are set out below:

	Attendance/ Number of Meetings
Executive Directors:	
Mr. Ye Fan *(Chairman)*	5/5
Mr. Ye Tao *(Chief Executive Officer)*	5/5
Ms. Liu Xuehua	5/5
Independent non-executive Directors:	
Mr. Li Lin	5/5
Mr. Pan Lu	5/5
Mr. Jip Ki Chi	5/5

Board Process

Directors are provided with relevant information to make informed decisions. The Board and each Director have separate and independent access to the Company's senior management for information and making enquires if necessary. In addition, Directors may seek independent professional advice in appropriate circumstances at the Company's expenses.

Every Director is entitled to have access to the advice and services of the Company Secretary with a view to ensure that the Board procedures, and all applicable rules and regulations, are complied with. All minutes are kept by the Company Secretary and are opened for inspections by any Director during normal office hours by giving reasonable advance notice.

If a substantial shareholder or a Director has a conflict of interest in a matter before the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter.

Corporate Governance Report

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same person. The Chairman is Mr. Ye Fan and the chief executive officer of the Company (the "Chief Executive Officer") is Mr. Ye Tao. The roles of Chairman and Chief Executive Officer are separate. Such division of responsibilities has been clearly established. It allows a balance of power between the Board and the management of the Group, and ensures the independence and accountability of each of the Board and management of the Group. The Chairman oversees the Board so that it acts in the best interests of the Group. With the support of the executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive adequate, clear, complete and reliable information in a timely manner. The Chairman has overall responsibility for providing leadership, vision and direction regarding business development of the Group and ensuring that good corporate governance practices and procedures are established.

The Chief Executive Officer, who is assisted by other executive Directors, is responsible for the day-to-day business management and operations of the Group for formulating and successfully implementing policies and maintaining an effective executive support team. The Chief Executive Officer is accountable to the Board for keeping the Chairman and all the Directors fully informed of all major business developments and issues.

Responsibilities of the Directors

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- attending regular Board meetings focusing on business strategy, operational issues and financial performance;
- active participation on the boards of subsidiaries and associated companies;
- approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- consideration of misuse of corporate assets and abuse in related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to meet their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

BOARD COMMITTEES

The Company has set up a number of committees of the Board, including the Remuneration Committee, the Audit Committee and the Nomination Committee, with specific terms of reference relating to their authority and duties, which strengthen the Board's functions and enhance its expertise.

Remuneration Committee

The Remuneration Committee comprises one executive Director, Mr. Ye Tao and two independent non-executive Directors, namely Mr. Pan Lu and Mr. Jip Ki Chi. Mr. Pan Lu is the chairman of the Remuneration Committee.

The Remuneration Committee was established in November 2013 and written terms of reference of the Remuneration Committee have been adopted by the Board and are posted on the websites of the Company and Hong Kong Exchanges and Clearing Limited ("HKEx").

The Remuneration Committee's responsibilities include but not limited to the review and consideration of the Company's remuneration policy for the Directors and senior management, the recommendations to the Board on the remuneration packages of individual executive Director and senior management including benefits in kind, pension rights and compensation payments, and recommendations relating to remunerations of independent non-executive Directors.

The Remuneration Committee held two meetings during the year ended 31 December 2014 with individual attendance as follows:

Members of the Remuneration Committee	Attendance/ Number of Meetings
Mr. Pan Lu *(Chairman)*	2/2
Mr. Ye Tao	2/2
Mr. Jip Ki Chi	2/2

The Group remunerates its employees based on their individual performance, job nature and responsibilities. The Group also provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment to maximize their potential and contribution to the Group.

Corporate Governance Report

Audit Committee

The Audit Committee comprises Mr. Li Lin, Mr. Pan Lu, and Mr. Jip Ki Chi, all of whom are independent non-executive Directors. Mr. Jip Ki Chi is the chairman of the Audit Committee.

The Audit Committee was established in November 2013 and written terms of reference, which describe the authority and duties of the Audit Committee have been adopted and posted on the websites of the Company and HKEx, and are regularly reviewed and updated by the Board.

The Audit Committee reports directly to the Board and reviews financial statements and internal control, and to protect the interests of the Company's shareholders.

The Audit Committee meets regularly with the Company's external auditor to discuss various accounting issues, and reviews the effectiveness of internal controls.

The Audit Committee held two meetings during the year ended 31 December 2014 with individual attendance as follow:

Members of the Audit Committee	Attendance/ Number of Meetings
Mr. Jip Ki Chi *(Chairman)*	2/2
Mr. Li Lin	2/2
Mr. Pan Lu	2/2

A meeting of the Audit Committee was held on 31 March 2015 to review the Group's consolidated financial statements for the year ended 31 December 2014, in conjunction with the Group's internal auditors and KPMG, the Group's external auditor.

Nomination Committee

The Nomination Committee comprises one executive Director, Mr. Ye Tao and two independent non-executive Directors, Mr. Pan Lu, and Mr. Jip Ki Chi. Mr. Ye Tao is the chairman of the Nomination Committee.

The Nomination Committee was established in November 2013 and written terms of reference of the Nomination Committee have been adopted by the Board and are posted on the websites of the Company and HKEx.

The Nomination Committee's responsibilities include but not limited to formulating policy and making recommendation to the Board on nominations and appointments of Directors and Board succession.

The Nomination Committee is also responsible for reviewing the structure, size and composition of the Board, assessing independence of the independent non-executive Directors and making recommendations on any proposed changes to the Board.

The Nomination Committee held one meeting during the year ended 31 December 2014 with individual attendance as follow:

Members of the Nomination Committee	Attendance/ Number of Meetings
Mr. Ye Tao *(Chairman)*	1/1
Mr. Pan Lu	1/1
Mr. Jip Ki Chi	1/1

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2014.

EXTERNAL AUDITOR

The external auditor of the Company (the "Auditor") is KPMG. KPMG provided services in respect of the audit of Company's financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the year ended 31 December 2014. KPMG also reviewed the 2014 unaudited interim financial information of the Group prepared in accordance with Hong Kong Accounting Standards 34 "Interim Financial Reporting" issued by the HKICPA.

During the year ended 31 December 2014, total fees charged by KPMG in respect of audit services amounted to RMB2,800,000, including interim review of the financial statement of the Company for the six months ended 30 June 2014.

Corporate Governance Report

Non-audit service fees charged by KPMG during the year ended 31 December 2014 are as follows:

Description of non-audit services performed

	RMB
Tax services	6,300
	6,300

The statement of the Auditor regarding their reporting responsibilities for the financial statements is set out in the Independent Auditor's Report on pages 45 to 46 of this Annual Report.

DIRECTORS' RESPONSIBILITIES IN PREPARING FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards.

GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

EFFECTIVENESS OF INTERNAL CONTROL SYSTEM

The Board is responsible for the Company's internal control system and for reviewing its effectiveness. The Group's internal audit department and senior management conduct reviews of the effectiveness of the internal control system of the Company and its subsidiaries. The Audit Committee reviews the findings and recommendations of the internal audit department and the senior management in their meetings held at least twice a year and reports to the Board on such review.

In respect of the year ended 31 December 2014, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's internal control system, covering financial, operational and compliance controls and risk management functions, which included the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget.

Corporate Governance Report

The Board believes that there are no material internal controls deficiencies that may affect the shareholders of the Company and an effective system is in place to safeguard the assets of the Group. The Group will continue to enhance the system to cope with the changes in the business environment.

COMPANY SECRETARY

The Company Secretary is Mr. Yu Man To, Gerald. The Company Secretary has duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules.

CONSTITUTIONAL DOCUMENTS

There were no changes to the memorandum of association and Articles of Association of the Company from the Listing Date.

A copy of the memorandum of association and Articles of Association of the Company is posted on the websites of the Company and HKEx.

COMMUNICATION WITH SHAREHOLDERS

The Directors are aware of the importance of maintaining good relations and communications with the Company's shareholders. The Board established a Shareholders Communication Policy setting out the principles of the Company in relation to shareholders' communications, with the objective of ensuring that its communication with the shareholders are timely and accurate.

The Company uses a range of communication tools, such as the annual general meeting (the "AGM"), the annual reports, various notices, announcements and circulars, to ensure its shareholders are kept well informed of the Group's key business imperatives.

The Company has maintained a website at www.meidongauto.com which serves as a forum for corporate communications with its shareholders and the general public. All corporate communications required under the Listing Rules are displayed and archived since the Listing Date on the Company's website and there are established procedures to ensure timely update in compliance with the Listing Rules.

At the AGM, separate resolutions will be proposed by the Chairman in respect of each issue itemized on the agenda, including the re-election of the Directors. The Chairman, the chairman of each of the Remuneration Committee, the Audit Committee and the Nomination Committee and members of senior management, together with representative(s) from the Auditor will attend the AGM to answer questions from the Company's shareholders.

The notice of the AGM will be distributed to all shareholders at least 20 clear business days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules.

Corporate Governance Report

In 2014, an annual general meeting was held on 9 May 2014, details of individual attendance of each of the Directors are as follows:

	Attendance/ Number of Meetings
Executive Directors:	
Mr. Ye Fan *(Chairman)*	1/1
Mr. Ye Tao *(Chief Executive Officer)*	1/1
Ms. Liu Xuehua	1/1
Independent non-executive Directors:	
Mr. Li Lin	1/1
Mr. Pan Lu	1/1
Mr. Jip Ki Chi	1/1

SHAREHOLDERS' RIGHTS

Convening an Extraordinary General Meeting by Shareholders and Putting Forward Proposals

Under the Articles of Association, an extraordinary general meeting ("EGM") may be convened by the Board upon requisition by any one or more shareholders of the Company holding not less than one-tenth of the paid up capital of the Company which carries the right of voting at any general meetings. The shareholders shall make a written requisition to the Board or the Company Secretary at the head office of the Company in Hong Kong, specifying the shareholding information of the shareholders, their contact details and the proposal regarding any specifying transaction/business and its supporting documents.

If within 21 days of deposit of such written requisition, the Board does not proceed to convene such EGM, the requisitionist(s) himself/themselves may convene an EGM in the same manner as that in which such meeting may be convened by the Board, provided that such meeting so convened shall not be held after the expiration of two months from the date of deposit of such requisition.

Making Enquiries to the Board

Shareholders may send written enquiries, either by post or by facsimiles, together with his/her/its contact details, such as postal address or fax, addressing to the head office of the Company at 2404, 24th Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong or facsimile number (852) 2668 5798.

Independent Auditor's Report

Independent auditor's report to the shareholders of
China MeiDong Auto Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China MeiDong Auto Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 47 to 127, which comprise the consolidated and company balance sheets as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

31 March 2015

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014
(Expressed in RMB'000)

	Note	2014	2013
Turnover	4	**3,854,807**	3,479,663
Cost of sales		**(3,462,182)**	(3,151,847)
Gross profit		**392,625**	327,816
Other revenue and net income	5	**29,283**	33,759
Distribution costs		**(120,760)**	(95,830)
Administrative expenses		**(98,936)**	(80,980)
Profit from operations		**202,212**	184,765
Finance costs	6(a)	**(63,003)**	(45,238)
Share of profits of an associate	16	**3,789**	65
Share of profits of a joint venture	17	**13,117**	9,766
Profit before taxation	6	**156,115**	149,358
Income tax	7(a)	**(41,367)**	(39,164)
Profit and total comprehensive income for the year		**114,748**	110,194
Profit and total comprehensive income attributable to:			
Equity shareholders of the Company	10	**110,680**	105,956
Non-controlling interests		**4,068**	4,238
Profit and total comprehensive income for the year		**114,748**	110,194
Earnings per share	11		
Basic and diluted (RMB)		**0.11**	0.14

The notes on pages 53 to 127 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2014
(Expressed in RMB'000)

	Note	31 December 2014	31 December 2013
Non-current assets			
Property, plant and equipment	12	**437,039**	288,370
Lease prepayments	13	**102,511**	105,323
Intangible assets	14	**10,684**	11,438
Interest in an associate	16	**8,000**	4,211
Interest in a joint venture	17	**36,485**	23,368
Deferred tax assets	25(b)	**8,729**	9,860
		603,448	442,570
Current assets			
Inventories	18	**641,529**	457,920
Trade and other receivables	19	**308,806**	242,354
Bank deposits	20	**428,748**	181,590
Cash and cash equivalents	21	**127,183**	491,205
		1,506,266	1,373,069
Current liabilities			
Loans and borrowings	22	**609,134**	804,732
Trade and other payables	23	**802,317**	514,539
Income tax payables	25(a)	**8,862**	16,297
		1,420,313	1,335,568
Net current assets		**85,953**	37,501
Total assets less current liabilities		**689,401**	480,071

The notes on pages 53 to 127 form part of these financial statements.

Consolidated Balance Sheet (Continued)

At 31 December 2014
(Expressed in RMB'000)

	Note	**31 December 2014**	31 December 2013
Non-current liabilities			
Deferred tax liabilities	25(b)	**3,625**	2,859
Loans and borrowings	22	**120,476**	–
		124,101	2,859
NET ASSETS		**565,300**	477,212
EQUITY			
Share capital	26(c)	**78,620**	78,620
Reserves	26(d)	**465,672**	381,652
Total equity attributable to equity shareholders of the Company		**544,292**	460,272
Non-controlling interests		**21,008**	16,940
TOTAL EQUITY		**565,300**	477,212

Approved and authorised for issue by the board of directors on 31 March 2015.

Ye Fan
Directors

Ye Tao
Directors

The notes on pages 53 to 127 form part of these financial statements.

Balance Sheet

At 31 December 2014
(Expressed in RMB'000)

	Note	31 December 2014	31 December 2013
Non-current assets			
Interests in a subsidiary	15	**403,996**	335,572
Current assets			
Trade and other receivables	19	**1,108**	51,146
Cash and cash equivalents	21	**410**	–
		1,518	51,146
Current liabilities			
Trade and other payables	23	**3,147**	11,146
Net current (liabilities)/assets		**(1,629)**	40,000
Total assets less current liabilities		**402,367**	375,572
Non-current liabilities			
Loans and borrowings	22	**55,476**	–
NET ASSETS		**346,891**	375,572
EQUITY	26		
Share capital		**78,620**	78,620
Reserves		**268,271**	296,952
TOTAL EQUITY		**346,891**	375,572

Approved and authorised for issue by the board of directors on 31 March 2015.

Ye Fan
Directors

Ye Tao
Directors

The notes on pages 53 to 127 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014
(Expressed in RMB'000)

	Attributable to equity shareholders of the Company							
	Share capital RMB'000	Share premium RMB'000 (note 26(d)(i))	Capital reserves RMB'000 (note 26(d)(ii))	PRC statutory reserves RMB'000 (note 26(d)(iii))	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2013	259,010	–	1,935	18,382	171,004	450,331	8,640	458,971
Changes in equity for 2013:								
Capital injection	77,965	–	–	–	–	77,965	–	77,965
Profit and total comprehensive income for the year	–	–	–	–	105,956	105,956	4,238	110,194
Change in the Group's interests in a subsidiary	(7,500)	–	128	–	–	(7,372)	7,372	–
Appropriation to reserves	–	–	–	12,438	(12,438)	–	–	–
Deemed distribution	–	–	(18,530)	–	–	(18,530)	–	(18,530)
Dividends declared and paid to then equity holder	–	–	–	–	(166,609)	(166,609)	(3,310)	(169,919)
Capital injection in connection with the reorganisation	50,000	–	–	–	–	50,000	–	50,000
Deemed distributions arising from the reorganisation	(320,510)	–	(40,145)	–	–	(360,655)	–	(360,655)
Issue of ordinary shares by initial public offering, net of issuance costs	19,655	309,531	–	–	–	329,186	–	329,186
Balance at 31 December 2013 and 1 January 2014	**78,620**	**309,531**	**(56,612)**	**30,820**	**97,913**	**460,272**	**16,940**	**477,212**
Changes in equity for 2014:								
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**110,680**	**110,680**	**4,068**	**114,748**
Appropriation to reserves	**–**	**–**	**–**	**5,311**	**(5,311)**	**–**	**–**	**–**
Dividends declared and paid (note 26(b))	**–**	**(30,000)**	**–**	**–**	**–**	**(30,000)**	**–**	**(30,000)**
Equity settled share-based transactions (note 24)	**–**	**–**	**3,340**	**–**	**–**	**3,340**	**–**	**3,340**
Balance at 31 December 2014	**78,620**	**279,531**	**(53,272)**	**36,131**	**203,282**	**544,292**	**21,008**	**565,300**

The notes on pages 53 to 127 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2014
(Expressed in RMB'000)

	Note	2014	2013
Operating activities:			
Cash generated from operations	21(b)	**168,537**	101,570
Income tax paid	25(a)	**(46,905)**	(33,697)
Net cash generated from operating activities		**121,632**	67,873
Investing activities:			
Payment for the purchase of property, plant and equipment		**(181,029)**	(124,712)
Proceeds from disposal of property, plant and equipment and lease prepayment		**13,126**	12,084
Payment for purchase of lease prepayments		**–**	(1,736)
Advances to related parties		**(5,432)**	(196,919)
Repayment of advances to related parties		**114**	367,390
Interest received		**4,305**	10,665
Increase in deposits with a bank		**(145,400)**	–
Net cash (used in)/generated from investing activities		**(314,316)**	66,772
Financing activities:			
Proceeds from loans and borrowings		**2,702,866**	2,562,813
Repayment of loans and borrowings		**(2,777,988)**	(2,326,706)
Proceeds from issue of ordinary shares by initial public offering, net of issuance costs		**–**	334,320
Advances from related parties		**121,000**	52,955
Repayment of advances from related parties		**(121,865)**	(98,618)
Dividends declared and paid	26(b)	**(30,000)**	(43,739)
Capital injection from equity holders of the Company		**–**	127,965
Interest paid		**(65,351)**	(50,346)
Payment to then equity holders arising from the reorganization		**–**	(360,655)
Net cash (used in)/generated from financing activities		**(171,338)**	197,989
Net (decrease)/increase in cash and cash equivalents		**(364,022)**	332,634
Cash and cash equivalents at 1 January		**491,205**	158,571
Cash and cash equivalents at 31 December	21(a)	**127,183**	491,205

The notes on pages 53 to 127 form part of these financial statements.

Notes to the Financial Statements

1 GENERAL INFORMATION AND THE BASIS OF PRESENTATION

China MeiDong Auto Holdings Limited (the "Company") was incorporated in the Cayman Islands on 24 February 2012 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company and its subsidiaries (together, the "Group") are principally engaged in 4S dealership business in the People's Republic of China (the "PRC").

Pursuant to a group reorganisation completed in July 2013 (the "Reorganisation") to rationalise the Group's structure in preparation for the public offering (the "Offering") of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") as defined in the Company's prospectus dated 22 November 2013 (the "Prospectus"), the Company became the holding company of the Group. Details of the Reorganisation are set out in the Prospectus. The Company's shares were listed on the Stock Exchange on 5 December 2013 (the "Listing Date").

Prior to July 2013, the Group's 4S dealership businesses were primarily conducted through various domestic companies established in the PRC (the "PRC Operating Entities"), which were ultimately owned and controlled by Mr. Ye Fan (referred to as the "Controlling Shareholder"), through Guangdong Dadong Automotive Group Co., Ltd. ("Dadong Group"). Mr. Ye Fan and Dadong Group also held a 49% equity interest in Dongguan Anxin Toyota Auto Sales and Services Co., Ltd. ("Dongguan Anxin") and a 49% equity interest in Dongguan Meidong Automotive Service Co., Ltd. ("Dongguan Meidong"), respectively.

As part of the Reorganisation, Dadong Group and Mr. Ye Fan transferred their respective equity interests in the PRC Operating Entities, the 49% equity interest in Dongguan Anxin and the 49% equity interest in Dongguan Meidong to the Group, for total considerations of RMB310,655,000 as further described below.

Dongguan Meixin Business Consulting Co., Ltd. ("Dongguan Meixin") was established on 10 September 2012 by Dadong Group as an investment holding company in the PRC with a paid-in capital of RMB50,000,000. In March 2013 and as part of the Reorganisation, Dadong Group transferred its entire equity interests in Dongguan Meixin to China MeiDong Auto (HK) Limited ("MeiDong HK"), an indirectly wholly-owned subsidiary of the Company, at a consideration of RMB50,000,000, which was settled in cash in March 2013. In May 2013, Dadong Group and Mr. Ye Fan transferred their respective entire equity interests in the PRC Operating Entities and the 49% equity interest in Dongguan Anxin to Dongguan Meixin, at cash consideration of RMB288,027,000 and RMB5,880,000, respectively. In July 2013, Dadong Group transferred its 49% equity interest in Dongguan Meidong to Dongguan Meixin at a consideration of RMB16,748,000. The total considerations for the transfers of the entire equity interests in Dongguan Meixin, the PRC Operating Entities, 49% equity interest in Dongguan Anxin and 49% equity interest in Dongguan Meidong during the year totalling RMB360,655,000 have been recorded within equity as deemed distributions arising from the Reorganisation.

Notes to the Financial Statements

1 GENERAL INFORMATION AND THE BASIS OF PRESENTATION (continued)

As all the companies now comprising the Group (including the PRC Operating Entities) that took part in the Reorganisation were ultimately controlled by the same Controlling Shareholder both before and after the Reorganisation, there was a continuation of the risks and benefits to the Controlling Shareholder. Accordingly, the Reorganisation has been accounted for using the principles set out in Accounting Guideline 5 "Merger Accounting for Common Control Combinations". These financial statements have been prepared as if the Group had always been in existence and the net assets of the companies now comprising the Group are consolidated using the existing book values from the Controlling Shareholder's perspective.

All material intra-group transactions and balances have been eliminated on consolidation.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap.32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap.622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries and the Group's interests in an associate and a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

These consolidated financial statements are presented in Renminbi ("RMB") which is the Group's presentation currency, rounded to the nearest thousands, except for earnings per share information.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities
- Amendments to HKAS 32, Offsetting financial assets and financial liabilities
- Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets
- Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting
- HK(IFRIC) 21, Levies

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's financial statements as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's financial statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the Group's financial statements as the Group did not have impaired non-financial assets as at 31 December 2014.

Amendments to HKAS 39, Novation of derivatives and continuation of hedge Accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the Group's financial statements as the Group did not hold any derivatives.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's financial statements as the guidance is consistent with the Group's existing accounting policies.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see note 2(e)).

In the Company's balance sheet, an investment in subsidiary is stated at cost less impairment losses (see note 2(i)(ii)).

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(i)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of comprehensive income, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses (see note 2(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(u)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

–	Buildings	15-30 years
–	Leasehold improvements	over the shorter of the unexpired term of lease and 5 years
–	Plant and machinery	5-10 years
–	Passenger vehicles	4-5 years
–	Office equipment and furniture	3-5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(i)(ii)). Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(i)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Car dealership is amortised from the date of acquisition over its estimated useful life of 20 years.

(h) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Lease prepayments

Lease prepayments represent cost of land use right paid to the PRC governmental authorities or third parties.

Lease prepayments are stated at cost less accumulated amortisation and impairment losses (see note 2(i)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

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

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

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(i)(ii).

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(i) Impairment of investments in equity securities and other receivables (continued)

– For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– lease prepayments;

– intangible assets; and

– investment in a subsidiary in the Company's balance sheet.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated on specific identification or weighted average basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(o) Employee benefits

(i) Short-term employee benefits

Salaries and annual bonuses are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plan

Contributions to PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the binomial option-pricing model, taking into account the terms and condition upon which the option were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Services income

Revenue arising from after-sales services is recognised when the relevant service is rendered without further performance obligations.

(iii) Commission income

Commission income is recognised at the time when the services concerned are rendered to customers.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(s) 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 vehicle 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.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

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

(ii) has significant influence over the Group; or

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

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the group's accounting policies, management has made the following accounting judgements:

(i) Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Depreciation and amortisation

As described in note 2(f), property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. As described in note 2(g), intangible assets are amortised on a straight-line basis over the estimated useful lives. Management reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological and other changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(ii) Net realisable value of inventories

As described in note 2(j), net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of reporting period to ensure inventory is shown at the lower of cost and net realisable value.

(iii) Impairment of trade and other receivables

Management determines the impairment of trade and other receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Management reassesses the impairment of trade and other receivables at the end of reporting period.

Notes to the Financial Statements

4 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2014 **RMB'000**	2013 RMB'000
Sales of passenger vehicles	**3,433,618**	3,115,490
After-sales services	**421,189**	364,173
	3,854,807	3,479,663

(b) Segment reporting

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the sales of passenger vehicles and provision of after-sales services.

(i) Information about geographical area

All of the Group's revenue is derived from the sales of passenger vehicles and provision of after-sales services in mainland China and the principal non-current assets employed by the Group are located in mainland China. Accordingly, no analysis by geographical segments has been provided for the reporting period.

(ii) Information about major customers

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's revenues.

5 OTHER REVENUE AND NET INCOME

	2014 RMB'000	2013 RMB'000
Other revenue:		
Commission income	**19,124**	19,224
Bank interest income	**9,016**	2,341
Interest income from Dadong Group	**–**	8,324
	28,140	29,889
Other net income:		
Net (loss)/gain on disposal of property, plant and equipment and lease prepayment	**(14)**	1,242
Others	**1,157**	2,628
	1,143	3,870
	29,283	33,759

Notes to the Financial Statements

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		Note	2014 RMB'000	2013 RMB'000
(a)	**Finance costs:**			
	Interest on loans and borrowings wholly repayable within 5 years		**52,952**	44,228
	Other finance costs	(i)	**11,947**	6,599
	Less: interest expense capitalized	(ii)	**(1,896)**	(5,589)
			63,003	45,238
(b)	**Staff costs:**			
	Salaries, wages and other benefits		**134,769**	104,636
	Equity settled share-based payment expenses	(iii)	**3,340**	–
	Contributions to defined contribution retirement plans	(iv)	**6,181**	4,396
			144,290	109,032

(i) It mainly represents the interest expenses borne by the Group arising from discount of bills issued to automobile manufacturers.

(ii) The borrowing costs have been capitalised at a rate of 6% per annum for the year ended 31 December 2014 (2013: 7.07%).

(iii) The Group recognised an expense of RMB3,340,000 for the year ended 31 December 2014 in relation to share options granted to certain employees of the Group pursuant to a share option scheme (see note 24).

(iv) Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

6 PROFIT BEFORE TAXATION (continued)

		2014 RMB'000	2013 RMB'000
(c)	**Other items:**		
	Cost of inventories	**3,425,499**	3,119,896
	Depreciation	**26,886**	18,684
	Amortisation of lease prepayments	**2,812**	2,943
	Amortisation of intangible assets	**754**	754
	Operating lease charges	**16,182**	14,122
	Net foreign exchange loss	**540**	1,071
	Auditors' remuneration	**2,800**	1,600

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(a) Income tax in the consolidated statement of comprehensive income represents:

	2014 RMB'000	2013 RMB'000
Current tax:		
Provision for PRC income tax for the year (note 25(a))	**39,470**	38,902
Deferred tax:		
Reversal/(origination) of temporary differences (note 25(b))	**1,897**	262
	41,367	39,164

Notes to the Financial Statements

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

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

	2014 RMB'000	2013 RMB'000
Profit before taxation	**156,115**	149,358
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (i)	**40,680**	40,164
Non-deductible expenses	**1,184**	1,458
Non-taxable income on share of profits of an associate	**(947)**	(16)
Non-taxable income on share of profits of a joint venture	**(3,279)**	(2,442)
Tax effect of unused tax losses not recognized	**3,729**	–
Income tax	**41,367**	39,164

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

No provision for Hong Kong Profits Tax was made for the subsidiary located in Hong Kong as the subsidiary did not have assessable profits subject to Hong Kong Profits Tax during the reporting period. The payments of dividends by companies in Hong Kong are not subject to any Hong Kong withholding tax.

Under the Corporate Income Tax Law of the PRC (the "new CIT Law") which was passed by the Fifth Plenary Session of the Tenth National People's Congress, effective from 1 January 2008, the PRC's statutory income tax rate is 25%. The Group's PRC subsidiaries are subject to income tax at the statutory tax rate.

Notes to the Financial Statements

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap.622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap.32), is as follows:

Year ended 31 December 2014

	Note	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments (note ii) RMB'000	Total RMB'000
Executive directors								
Mr. Ye Fan		–	603	–	–	603	–	603
Mr. Ye Tao		–	2,404	–	–	2,404	610	3,014
Ms. Liu Xuehua	(i)	–	452	300	17	769	656	1,425
Non-executive directors								
Mr. Li Lin	(i)	78	–	–	–	78	–	78
Mr. Pan Lu	(i)	78	–	–	–	78	–	78
Mr. Jip Ki Chi	(i)	131	–	–	–	131	–	131
		287	3,459	300	17	4,063	1,266	5,329

Year ended 31 December 2013

	Note	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments RMB'000	Total RMB'000
Executive directors								
Mr. Ye Fan		–	140	–	–	140	–	140
Mr. Ye Tao		–	652	350	–	1,002	–	1,002
Ms. Liu Xuehua	(i)	–	241	200	17	458	–	458
Non-executive directors								
Mr. Li Lin	(i)	10	–	–	–	10	–	10
Mr. Pan Lu	(i)	10	–	–	–	10	–	10
Mr. Jip Ki Chi	(i)	16	–	–	–	16	–	16
		36	1,033	550	17	1,636	–	1,636

Notes to the Financial Statements

8 DIRECTORS' REMUNERATION (continued)

(i) Ms. Liu Xue Hua, Mr. Li Lin, Mr. Pan Lu and Mr. Jip Ki Chi were appointed on 13 November 2013.

(ii) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the group's accounting policies for share-based payment transactions as set out in note 2(o)(iii) and, in accordance with that policy, includes adjustments to reverse amounts accrued where grants of equity instruments are forfeited prior to vesting. The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 24.

No directors of the Company waived or agreed to waive any remuneration during the year.

During the year, there were no amounts paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2013: two) are directors whose emoluments is disclosed in note 8. The aggregate of the emoluments in respect of the other two (2013: three) individuals are as follows:

	2014 **RMB'000**	2013 RMB'000
Salaries, allowance and benefits in kind	**1,059**	844
Discretionary bonuses	**500**	603
Share-based payments	**322**	–
Contributions to retirement benefit schemes	**–**	3
	1,881	1,450

The above individuals' emoluments are within the band of Nil to HK$1,000,000.

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company for the year ended 31 December 2014 includes a loss of RMB2,021,000 (2013: RMB12,579,000) which has been dealt with in the financial statements of the Company.

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB110,680,000 (2013: RMB105,956,000) and the weighted average 1,000,000,000 ordinary shares in issue (2013: 770,833,333 shares) during the year ended 31 December 2014. The weighted average number of ordinary shares in issue during the year ended 31 December 2013 was based on the assumption that 750,000,000 ordinary shares were in issue as if these ordinary shares were outstanding throughout the year presented, calculated as follows:

Weighted average number of ordinary shares

	2014	2013
Issued ordinary shares at 1 January	**1,000,000,000**	750,000,000
Effect of shares issued on initial public offering	–	20,833,333
Weighted average number of ordinary shares at 31 December	**1,000,000,000**	770,833,333

The impact of share options to earnings per share was anti-dilutive for the year ended 31 December 2014.

As there were no dilutive potential ordinary shares during the year ended 31 December 2014 and 2013, the diluted earnings per share is equivalent to the basic earnings per share for both years.

Notes to the Financial Statements

12 FIXED ASSETS

The Group

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Passenger vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2013	121,345	12,693	18,694	31,431	20,658	29,561	234,382
Additions	9,418	2,687	7,227	21,661	6,310	87,347	134,650
Transfer	42,924	–	–	–	–	(42,924)	–
Disposals	(2,581)	(166)	(130)	(9,740)	(47)	(112)	(12,776)
At 31 December 2013 and 1 January 2014	171,106	15,214	25,791	43,352	26,921	73,872	356,256
Additions	1,715	2,040	22,496	42,666	9,172	110,606	188,695
Transfer	138,834	2,473	–	–	–	(141,307)	–
Disposals	–	–	(720)	(21,398)	(139)	–	(22,257)
At 31 December 2014	311,655	19,727	47,567	64,620	35,954	43,171	522,694
Accumulated depreciation:							
At 1 January 2013	16,263	10,094	6,081	9,048	12,329	–	53,815
Charge for the year	5,270	2,228	1,849	6,382	2,955	–	18,684
Written back on disposals	(1,247)	–	(115)	(3,205)	(46)	–	(4,613)
At 31 December 2013 and 1 January 2014	20,286	12,322	7,815	12,225	15,238	–	67,886
Charge for the year	7,647	1,774	3,840	10,219	3,406	–	26,886
Written back on disposals	–	–	(683)	(8,330)	(104)	–	(9,117)
At 31 December 2014	27,933	14,096	10,972	14,114	18,540	–	85,655
Net book value:							
At 31 December 2014	283,722	5,631	36,595	50,506	17,414	43,171	437,039
At 31 December 2013	150,820	2,892	17,976	31,127	11,683	73,872	288,370

12 FIXED ASSETS (continued)

The Group's property, plant and equipment are located in the PRC.

The Group has yet to obtain property ownership certificates of certain buildings with an aggregate net book value of RMB223,444,000 as at 31 December 2014 (2013: RMB106,289,000). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2014.

Fixed assets with net book value of RMB8,967,000 are pledged as security for bank loans (see note 22(b)(i)) as at 31 December 2014 (2013: nil).

13 LEASE PREPAYMENTS

	The Group	
	2014	2013
	RMB'000	RMB'000
Cost:		
At 1 January	**111,890**	114,684
Additions	**–**	663
Disposal	**–**	(3,457)
At 31 December	**111,890**	111,890
Accumulated amortisation:		
At 1 January	**(6,567)**	(4,402)
Charge for the year	**(2,812)**	(2,943)
Written back on disposals	**–**	778
At 31 December	**(9,379)**	(6,567)
Net book value:		
At 31 December	**102,511**	105,323

Lease prepayments represent cost of land use rights in respect of land located in the PRC with a lease period of 34-40 years when granted.

Lease prepayments with net book value of RMB61,899,000 are pledged as security for bank loans (see note 22(b)(i)) as at 31 December 2014 (2013: RMB41,675,000).

Notes to the Financial Statements

14 INTANGIBLE ASSETS

The Group

	Car dealership RMB'000
Cost:	
At 1 January 2013, 31 December 2013 and 2014	15,083
Accumulated amortisation:	
At 1 January 2013	(2,891)
Charge for the year	(754)
At 31 December 2013 and 1 January 2014	(3,645)
Charge for the year	(754)
At 31 December 2014	(4,399)
Net book value:	
At 31 December 2014	10,684
At 31 December 2013	11,438

The Group's identifiable intangible assets represent a car dealership in the PRC, arising from the relationship with the automobile manufacturer, with an estimated useful life of 20 years. The intangible assets were recognised as a result of the acquisition of Beijing Zhongye Toyota Auto Sales and Services Co., Ltd. ("Beijing Zhongye") in 2009. The fair value of the car dealership as at the acquisition date was determined by using the multiple-period excess earning method.

Notes to the Financial Statements

15 INTERESTS IN A SUBSIDIARY

	The Company 2014 RMB'000	2013 RMB'000
Unlisted shares, at cost	**1,899**	1
Amount due from MeiDong HK	**402,097**	335,571
	403,996	335,572

Amount due from MeiDong HK is unsecured, interest fee and has no fixed terms of repayment but is not expected to be recovered within one year from the balance sheet date.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
China MeiDong Auto International Limited ("MeiDong International") (中國美東汽車國際有限公司)	British Virgin Islands	100 shares of USD1 each	100%	100%	–	Investment holding
MeiDong HK (中國美東汽車(香港)有限公司)	Hong Kong	10,000 shares	100%	–	100%	Investment holding
Dongguan Meixin (東莞美信企業管理諮詢有限公司)	The PRC	RMB150,000,000	100%	–	100%	Investment holding
Beijing Zhongye (北京中業豐田汽車銷售服務有限公司)	The PRC	RMB20,000,000	100%	–	100%	Automobile dealership

Notes to the Financial Statements

15 INTERESTS IN A SUBSIDIARY (continued)

			Proportion of ownership interest			
Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Dongguan Guanfeng Auto Co., Ltd. (東莞市冠豐汽車有限公司)	The PRC	RMB10,000,000	70%	–	70%	Automobile dealership
Dongguan Dongbu Toyota Auto Sales and Services Co., Ltd. (東莞市東部豐田汽車銷售服務有限公司)	The PRC	RMB10,000,000	100%	–	100%	Automobile dealership
Dongguan Dongmei Toyota Auto Sales and Services Co., Ltd. (東莞東美豐田汽車銷售服務有限公司)	The PRC	RMB30,000,000	100%	–	100%	Automobile dealership
Dongguan Dongxin Auto Sales and Services Co., Ltd. (東莞市東鑫汽車銷售服務有限公司)	The PRC	RMB30,000,000	100%	–	100%	Automobile dealership
Xiamen Meidong Auto Sales and Services Co., Ltd. ("Xiamen Meidong") (廈門美東汽車銷售服務有限公司)	The PRC	RMB20,000,000	100%	–	100%	Automobile dealership
Zhuzhou Meibaohang Auto Sales and Services Co., Ltd. (株洲市美寶行汽車銷售服務有限公司)	The PRC	RMB30,000,000	100%	–	100%	Automobile dealership
Quanzhou Meidong Toyota Auto Sales and Services Co., Ltd. (泉州美東豐田汽車銷售服務有限公司)	The PRC	RMB30,000,000	100%	–	100%	Automobile dealership

15 INTERESTS IN A SUBSIDIARY (continued)

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Lanzhou Meidong Lexus Auto Sales and Services Co., Ltd. (蘭州美東雷克薩斯汽車銷售服務有限公司)	The PRC	RMB30,000,000	100%	–	100%	Automobile dealership
Yiyang Dongxin Auto Sales and Services Co., Ltd. (益陽市東鑫汽車銷售服務有限公司)	The PRC	RMB20,000,000	100%	–	100%	Automobile dealership
Heyuan Guanfenghang Auto Co., Ltd. (河源市冠豐行汽車有限公司)	The PRC	RMB20,000,000	100%	–	100%	Automobile dealership
Hengyang Meibaohang Auto Sales and Services Co., Ltd. (衡陽市美寶行汽車銷售服務有限公司)	The PRC	RMB30,000,000	100%	–	100%	Automobile dealership
Chengde Meibaohang Auto Sales and Services Co., Ltd. ("Chengde Meibaohang") (承德美寶行汽車銷售服務有限公司)	The PRC	RMB10,000,000	70%	–	70%	Automobile dealership
Beijing Meibaohang Auto Sales and Services Co., Ltd. ("Beijing Meibaohang") (北京美寶行汽車銷售服務有限公司)	The PRC	RMB30,000,000	75%	–	75%	Automobile dealership
Foshan Dongbao Auto Sales and Services Co., Ltd. (佛山東保汽車銷售服務有限公司)	The PRC	RMB30,000,000	100%	–	100%	Automobile dealership

Notes to the Financial Statements

15 INTERESTS IN A SUBSIDIARY (continued)

			Proportion of ownership interest			
Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Changsha Meidong Lexus Auto Sales and Services Co., Ltd. (長沙美東雷克薩斯汽車銷售服務有限公司)	The PRC	RMB30,000,000	100%	–	100%	Automobile dealership
Dongguan Dongyue Used Vehicles Co., Ltd. (東莞市東粵二手車有限公司)	The PRC	RMB5,000,000	100%	–	100%	Used vehicle trading
Changde Meibaohang Auto Sales and Services Co., Ltd. (常德市美寶行汽車銷售服務有限公司)	The PRC	RMB30,000,000	100%	–	100%	Automobile dealership
Shantou Dongbao Auto Sales and Services Co., Ltd. (汕頭市東保汽車銷售服務有限公司)	The PRC	RMB5,000,000	100%	–	100%	Automobile dealership
Longyan Meidong Lexus Auto Sales and Services Co., Ltd. (龍岩美東雷克薩斯汽車銷售服務有限公司)	The PRC	RMB30,000,000	100%	–	100%	Automobile dealership
Yueyang Meibaohang Auto Sales and Services Co., Ltd. (岳陽市美寶行汽車銷售服務有限公司)	The PRC	RMB10,000,000	100%	–	100%	Automobile dealership
Shanghai Dongyue International Trading Co., Ltd. (上海東粵國際貿易有限公司)	The PRC	RMB100,000/nil	100%	–	100%	Trading business

Note:

(i) Except for MeiDong International and MeiDong HK, the English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

Notes to the Financial Statements

16 INTEREST IN AN ASSOCIATE

	The Group 2014 RMB'000	2013 RMB'000
Share of net assets	**8,000**	4,211

The following contains the particulars for the associate during the year, which is an unlisted limited liability company established in the PRC whose quoted market price is not available:

				Proportion of ownership interest			
Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Dongguan Anxin	Incorporated	The PRC	RMB12,000,000	49%	–	49%	Automobile dealership

The above associate is accounted for using the equity method in the consolidated financial statements.

17 INTEREST IN A JOINT VENTURE

	The Group 2014 RMB'000	2013 RMB'000
Share of net assets	**36,485**	23,368

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

				Proportion of ownership interest			
Name of Joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Dongguan Meidong	Incorporated	The PRC	RMB20,000,000	49%	–	49%	Automobile dealership

Notes to the Financial Statements

17 INTEREST IN A JOINT VENTURE (continued)

Dongguan Meidong is structured as a separate vehicle and provides the Group rights to the net assets of the entity. Accordingly, the Group has classified the investment in Dongguan Meidong as a joint venture.

Dongguan Meidong, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

Summarised financial information of the joint venture and reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2014	2013
	RMB'000	RMB'000
Gross amounts of Dongguan Meidong's		
Current assets	**101,723**	130,763
Non-current assets	**19,955**	21,338
Current liabilities	**(47,218)**	(104,411)
Equity	**74,460**	47,690
Included in the above assets and liabilities:		
Cash and cash equivalents	**21,097**	45,273
Current financial liabilities (excluding trade and other payables and provisions)	**(14,255)**	(51,157)
Revenue	**560,113**	665,598
Profit and total comprehensive income	**26,770**	19,931
Deemed distribution to Dadong Group	**–**	18,530
Included in the above profit:		
Depreciation and amortisation	**(2,210)**	(1,930)
Interest income	**385**	452
Interest expense	**(2,835)**	(2,957)
Income tax expense	**(8,954)**	(6,769)
Reconciled to the Group's interest in Dongguan Meidong		
Gross amounts of Dongguan Meidong's net assets	**74,460**	47,690
Group's effective interest	**49%**	49%
Group's share of Dongguan Meidong's net assets and carrying amount in the consolidated financial statements	**36,485**	23,368

18 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2014	2013
	RMB'000	RMB'000
Motor vehicles	**609,640**	434,043
Others	**31,889**	23,877
	641,529	457,920

No inventory provision was made as at 31 December 2014 and 2013, and the inventories as at 31 December 2014 and 2013 were stated at cost.

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Carrying amount of inventories sold	**3,425,499**	3,119,896

Inventories with carrying amount of RMB320,433,000 have been pledged as security for the bills payable (see note 23(b)) as at 31 December 2014 (2013: RMB159,948,000).

Inventories with carrying amount of RMB148,456,000 have been pledged as security for loans and borrowings (see note 22(b)(i)) as at 31 December 2014 (2013: RMB170,934,000).

Notes to the Financial Statements

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**23,671**	26,506	**–**	–
Prepayments	**42,792**	85,256	**1,108**	–
Other receivables and deposits	**236,506**	129,785	**–**	–
Amounts due from third parties	**302,969**	241,547	**1,108**	–
Amounts due from related parties (note 30(c))	**5,837**	807	**–**	51,146
Trade and other receivables	**308,806**	242,354	**1,108**	51,146

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

Other receivables with carrying amount of RMB33,700,000 have been pledged as security for loans and borrowings (see note 22(b)(i)) as at 31 December 2014 (2013: RMB31,700,000).

Prepayments with carrying amount of RMB6,090,000 have been pledged as security for loans and borrowings (see note 22(b)(i)) as at 31 December 2014 (2013: RMB6,907,000).

Prepayments with carrying amount of RMB1,994,000 have been pledged as security for the bills payable (see note 23(b)) as at 31 December 2014 (2013: nil).

19 TRADE AND OTHER RECEIVABLES (continued)

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables) based on the invoice date that are neither individually nor collectively considered to be impaired is as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Within 1 month	**21,434**	26,093
1 to 2 months	**1,054**	67
2 to 3 months	**281**	170
Over 3 months	**902**	176
	23,671	26,506

Details on the Group's credit policy are set out in note 27.

20 BANK DEPOSITS

	The Group	
	2014	2013
	RMB'000	RMB'000
Restricted bank deposits	**283,348**	181,590
Unrestricted bank deposits with an initial term of over three months but within one year	**145,400**	–
	428,748	181,590

Notes to the Financial Statements

20 BANK DEPOSITS (continued)

As of the end of the reporting period, the restricted bank deposits are pledged in respect of:

	The Group	
	2014	2013
	RMB'000	RMB'000
Loans and borrowings (note 22)	**61,479**	–
Bills payable (note 23)	**221,869**	181,590
	283,348	181,590

The pledged bank deposits will be released upon the settlement of relevant loans and borrowings and bills payable.

21 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**127,183**	491,205	**410**	–

21 CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2014	2013
Profit before taxation		**156,115**	149,358
Adjustments for:			
– Depreciation	6(c)	**26,886**	18,684
– Amortisation of lease prepayments	6(c)	**2,812**	2,943
– Amortisation of intangible assets	6(c)	**754**	754
– Net loss/(gain) on disposal of property, plant and equipment and lease prepayment	5	**14**	(1,242)
– Finance costs	6(a)	**63,003**	45,238
– Share of profits of an associate		**(3,789)**	(65)
– Share of profits of a joint venture		**(13,117)**	(9,766)
– Interest income	5	**(9,016)**	(10,665)
– Equity settled share-based payment expenses	6(b)	**3,340**	–
Changes in working capital:			
Increase in inventories		**(183,609)**	(167,166)
Increase in trade and other receivables		**(56,423)**	(48,848)
Increase in pledged bank deposits		**(101,758)**	(80,924)
Increase in trade and other payables		**283,325**	203,269
Cash generated from operations		**168,537**	101,570

Notes to the Financial Statements

22 LOANS AND BORROWINGS

(a) At 31 December 2014, loans and borrowings were repayable as follows:

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand (i)	**609,134**	804,732	**–**	–
After 1 year but within 2 years (i)	**120,476**	–	**55,476**	–
	729,610	804,732	**55,476**	–

(i) Loans and borrowings of RMB120,476,000 repayable after 1 year but within 2 years were guaranteed by a related party as at 31 December 2014, of which HK$70,000,000 (equivalent to RMB55,476,000) borrowed by the Company was also secured by 164,706,000 ordinary shares of the Company held by Apex Sail Limited ("Apex Sail") (see note 30(d)).

Loans and borrowings of RMB124,000,000 repayable within 1 year or on demand were guaranteed by certain related parties as at 31 December 2013 (see note 30(d)).

22 LOANS AND BORROWINGS (continued)

(b) At 31 December 2014, loans and borrowings were secured as follows:

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unsecured bank loans	**190,033**	276,183	**–**	–
Unsecured loans from third parties	**–**	120,000	**–**	–
Unsecured loans from related parties (note 30(c))	**40,000**	–	**–**	–
Unsecured borrowings from other financial institutions	**3,850**	4,590	**–**	–
	233,883	400,773	**–**	–
Secured bank loans (i)	**261,525**	201,910	**–**	–
Secured borrowings from other financial institutions (i)	**178,726**	202,049	**–**	–
Secured borrowings from a third party (note 22(a)(i))	**55,476**	–	**55,476**	–
	495,727	403,959	**55,476**	–
	729,610	804,732	**55,476**	–

Notes to the Financial Statements

22 LOANS AND BORROWINGS (continued)

(b) At 31 December 2014, loans and borrowings were secured as follows: (continued)

(i) Loans and borrowings were secured by the following assets of the Group:

	The Group	
	2014	2013
	RMB'000	RMB'000
Inventories	**148,456**	170,934
Other receivables	**33,700**	31,700
Prepayments	**6,090**	6,907
Property, plant and equipments	**8,967**	–
Lease prepayments	**61,899**	41,675
Pledged bank deposits	**61,479**	–
	320,591	251,216

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**31,428**	27,248	**–**	–
Bills payable	**544,296**	339,758	**–**	–
	575,724	367,006	**–**	–
Receipts in advance	**167,771**	90,848	**–**	–
Other payables and accruals	**55,708**	54,921	**3,147**	11,146
Amounts due to third parties	**799,203**	512,775	**3,147**	11,146
Amounts due to related parties (note 30(c))	**3,114**	1,764	**–**	–
Trade and other payables	**802,317**	514,539	**3,147**	11,146

Notes to the Financial Statements

23 TRADE AND OTHER PAYABLES (continued)

(a) All trade and other payables are expected to be settled within one year.

(b) Bills payable were secured by the following assets of the Group:

	The Group	
	2014	2013
	RMB'000	RMB'000
Pledged bank deposits	**221,869**	181,590
Inventories	**320,433**	159,948
Prepayments	**1,994**	–
	544,296	341,538

(c) As of the end of the reporting period, the ageing analysis of trade payables and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Within 3 months	**572,783**	357,078
After 3 months but within 6 months	**2,941**	9,928
	575,724	367,006

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pursuant to a resolution of the board of directors of the Company passed on 20 January 2014, 11,400,000 share options were granted to certain eligible employees of the Group under the share option scheme adopted by the Company on 13 November 2013, to subscribe for 11,400,000 shares of the Company in aggregate with an exercise price of HK$1.8, among which 2,000,000 and 2,150,000 share options were granted to Mr. Ye Tao and Ms. Liu Xuehua, the executive directors of the Company, respectively (no share options were granted during the year ended 31 December 2013). Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company.

Notes to the Financial Statements

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) The term and conditions of the grants are as follows:

	Number of Instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– On 20 January 2014	4,150,000	25% on 1 January 2015	9.82 years
		25% on 1 January 2016	
		25% on 1 January 2017	
		25% on 1 January 2018	
Options granted to employees:			
– On 20 January 2014	7,250,000	25% on 1 January 2015	9.82 years
		25% on 1 January 2016	
		25% on 1 January 2017	
		25% on 1 January 2018	
Total share options granted	11,400,000		

(b) The number and exercise prices of share options are as follows:

	2014	
	Exercise price	Number of options
Outstanding at the beginning of the year	**–**	**–**
Granted during the year	**HK$1.8**	**11,400,000**
Exercised during the year	**–**	**–**
Forfeited during the year	**HK$1.8**	**(160,000)**
Outstanding at the end of the year	**HK$1.8**	**11,240,000**
Exercisable at the end of the year	**HK$1.8**	**–**

No options were exercised during the year ended 31 December 2014 (2013: nil).

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Fair value of share options and assumptions:

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measure based on a binomial option-pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option-pricing model.

Fair value of share options and assumptions	2014
Fair value at measurement date (expressed as weighted average fair value under binomial option-pricing model)	**HK$0.75**
Share price	**HK$1.63**
Exercise price	**HK$1.80**
Expected volatility (expressed as weighted average volatility used in the modelling under binomial option-pricing model)	**54.34%**
Option life (expressed as weighted average life used in the modelling under binomial option-pricing model)	**9.82 years**
Expected dividends	**2.02%**
Risk-free interest rate (based on HKMA Hong Kong Exchange Fund Notes)	**2.23%**

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on the historical earning per share and management's estimation of dividend payment. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

Notes to the Financial Statements

25 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	2014 RMB'000	2013 RMB'000
At the beginning of the year	16,297	11,092
Provision for current income tax for the year	39,470	38,902
Payment during the year	(46,905)	(33,697)
At the end of the year	8,862	16,297

(b) Deferred tax assets and liabilities recognised

(i) The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Fair value adjustment arising from a business combination RMB'000	Depreciation/ amortisation charges in excess of depreciation/ amortisation allowances RMB'000	Unused tax losses RMB'000	Accruals RMB'000	Capitalised interest RMB'000	Total RMB'000
Deferred tax (liabilities)/ assets arising from:						
At 1 January 2013	(3,048)	1,014	6,211	3,086	–	7,263
Credited/(charged) to profit or loss (note 7(a))	189	(552)	584	914	(1,397)	(262)
At 31 December 2013	(2,859)	462	6,795	4,000	(1,397)	7,001
At 1 January 2014	(2,859)	462	6,795	4,000	(1,397)	7,001
Credited/(charged) to profit or loss (note 7(a))	188	38	(1,452)	(197)	(474)	(1,897)
At 31 December 2014	(2,671)	500	5,343	3,803	(1,871)	5,104

25 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised (continued)

(i) (continued)

Deferred tax assets in respect of unused tax losses are related to subsidiaries that were established in recent years, which are progressing to their normal operating stage and are expected to derive profits in the foreseeable future. Accordingly, it is considered probable that sufficient taxable profits will be available to utilise their unused tax losses before they expire.

(ii) Reconciliation to consolidated balance sheet:

	The Group	
	2014	2013
	RMB'000	RMB'000
Representing:		
Net deferred tax assets	**8,729**	9,860
Net deferred tax liabilities	**(3,625)**	(2,859)
	5,104	7,001

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in note 2(p), the Group has not recognized deferred tax assets in respect of cumulative tax losses of RMB17,141,000 (2013: nil) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity before they expire. The PRC deductible tax losses in PRC expire within 5 years from the year when such losses were incurred. The tax losses incurred by MeiDong HK do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

The new CIT Law and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings of PRC enterprises accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. The Group has not recognised deferred tax liabilities as at 31 December 2014 in respect of undistributed earnings of RMB198,385,000 (2013: RMB89,620,000) as the Company controls the dividend policy of the subsidiaries and it has been determined that these profits will not be distributable in the foreseeable future.

Notes to the Financial Statements

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2013	–	–	–	–	–
Issue of shares upon reorganisation	58,965	–	–	–	58,965
Shares issued under initial public offering net of issuance costs	19,655	309,531	–	–	329,186
Total comprehensive income for the year	–	–	–	(12,579)	(12,579)
Balance at 31 December 2013	78,620	309,531	–	(12,579)	375,572
Balance at 1 January 2014	**78,620**	**309,531**	**–**	**(12,579)**	**375,572**
Total comprehensive income for the year	**–**	**–**	**–**	**(2,021)**	**(2,021)**
Dividend approved and paid in respect of the previous year (note 26(b))	**–**	**(30,000)**	**–**	**–**	**(30,000)**
Equity settled share-based transactions (note 24)	**–**	**–**	**3,340**	**–**	**3,340**
Balance at 31 December 2014	**78,620**	**279,531**	**3,340**	**(14,600)**	**346,891**

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2014 RMB'000	2013 RMB'000
Final dividend proposed after the balance sheet date of RMB0.03 per ordinary share (2013: RMB0.03 per ordinary share)	**30,000**	30,000

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2014 RMB'000	2013 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.03 per share (2013: nil)	**30,000**	–

(c) Share capital

The share capital of the Group as at 31 December 2014 represented the amount of issued and paid-up capital of the Company with details set out below:

Authorised:

			2014		2013	
	Note	**Par value HK$**	**Number of shares (thousand)**	**Nominal value of ordinary shares HK$'000**	Number of shares (thousand)	Nominal value of ordinary shares HK$'000
At 31 December	(i)	0.1	**20,000,000**	**2,000,000**	20,000,000	2,000,000

Notes to the Financial Statements

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

Ordinary shares, issued and fully paid:

	Par value HK$	Number of ordinary shares (thousand)	Nominal value of ordinary shares HK$('000)
At 1 January 2013		–	–
Issue of shares upon reorganisation	0.1	750,000	75,000
Shares issued under initial public offering	0.1	250,000	25,000
At 31 December 2013 and 1 January 2014		1,000,000	100,000
At 31 December 2014		1,000,000	100,000
RMB equivalent ('000)			78,620

(i) Authorised share capital

The Company was incorporated on 24 February 2012 with an authorised capital of HK$10,000,000 divided into 100,000,000 ordinary shares of HK$ 0.1 each. Pursuant to a resolution dated 16 October 2013 passed by its sole shareholder, Apex Sail Limited ("Apex Sail"), the authorized share capital of the Company was increased from HK$ 10,000,000 to HK$ 2,000,000,000 by the creation of 19,900,000,000 new share of HK$ 0.1 each.

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

(ii) Issued and fully paid share capital

The Company was incorporated on 24 February 2012 with 1,000,000 issued ordinary share of HK$100,000, as nil paid.

On 16 October 2013, the Company issued and allotted 749,000,000 shares of HK$0.1 each at par and nil paid, to Apex Sail.

The total outstanding subscription amount of HK$75,000,000 (equivalent to RMB58,965,000) on the 750,000,000 shares that were previously allotted and issued to Apex Sail (representing the 1,000,000 shares issued on 24 February 2012 and the aforementioned 749,000,000 shares) were subsequently paid up on 24 October 2013.

On 5 December 2013, the Company issued 250,000,000 new ordinary shares of HK$0.1 each by way of the Offering to Hong Kong and overseas investors. Consequently, HK$25,000,000 (equivalent to RMB19,655,000) was recorded in share capital.

(iii) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price	2014 Number	2013 Number
1 January 2015 to 12 November 2023	HK$1.8	**2,810,000**	–
1 January 2016 to 12 November 2023	HK$1.8	**2,810,000**	–
1 January 2017 to 12 November 2023	HK$1.8	**2,810,000**	–
1 January 2018 to 12 November 2023	HK$1.8	**2,810,000**	–
		11,240,000	–

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 24 to the financial statements.

Notes to the Financial Statements

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves

(i) Share premium

Share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the public offering on 5 December 2013. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the equity shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

On 5 December 2013, the Company issued 250,000,000 new ordinary shares of HK$0.1 each at a price of HK$1.8 per share by way of the Offering to Hong Kong and overseas investors. Net proceeds from the Offering amounted to RMB329,186,000 (after offsetting issuance costs of RMB24,604,000), out of which RMB19,655,000 and RMB309,531,000 were recorded in share capital and share premium, respectively.

(ii) Capital reserves

Capital reserve comprises the following:

– contributions by the Controlling Shareholder at the respective dates;

– balances arising from transactions with owners in their capacity as the equity owners; and

– the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(o)(iii).

(iii) PRC statutory reserves

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before distribution of a dividend to equity shareholders.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of equity shareholders, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Distributability of reserves

As at 31 December 2014, the aggregate amount of reserves available for distribution to equity shareholders of the Company, including share premium, capital reserve and accumulated losses, was RMB268,271,000 (2013: RMB296,952,000). After the end of the reporting period, the directors proposed a final dividend of RMB0.03 per ordinary share (2013: RMB0.03 per ordinary share), amounting to RMB30,000,000 (2013: RMB30,000,000) (note 26(b)). This dividend has not been recognized as a liability at the balance sheet date.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholder and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as loans and borrowings and bills payable plus unaccrued proposed dividends, less pledged bank deposits and cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2014, the Group's strategy, which was unchanged from 2013, was to maintain the adjusted net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

Notes to the Financial Statements

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(f) Capital management (continued)

The adjusted net debt-to-capital ratio at 31 December 2014 was as follows:

		The Group	
	Note	**2014 RMB'000**	2013 RMB'000
Current liabilities:			
Loans and borrowings	22	**609,134**	804,732
Bills payable	23	**544,296**	339,758
		1,153,430	1,144,490
Non-current liabilities:			
Loans and borrowings	22	**120,476**	–
Total debt		**1,273,906**	1,144,490
Add: Proposed dividends	26(b)	**30,000**	30,000
Less: Bank deposits	20	**(428,748)**	(181,590)
Cash and cash equivalents	21(a)	**(127,183)**	(491,205)
Adjusted net debt		**717,975**	501,695
Total equity		**565,300**	477,212
Less: Proposed dividends	26(b)	**(30,000)**	(30,000)
Adjusted capital		**535,300**	447,212
Adjusted net debt-to-capital ratio		**1.34**	1.12

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit risk in respect of trade receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent mortgage granted by major financial institutions to customers of the Group, which is normally settled within one month directly by major financial institutions. Normally, the Group does not obtain collateral from customers.

At the end of reporting period, the Group has certain concentration of credit risk as prepayments to vendors and other receivables due from vendors constitute a large portion of trade and other receivables. The receivables from the five largest debtors at 31 December 2014 represented 53% of the total trade and other receivables (2013: 32%), while 15% of the total trade and other receivables were due from the largest single debtor (2013: 11%).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Notes to the Financial Statements

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	The Group At 31 December 2014 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**Total RMB'000**	**Balance sheet carrying amount RMB'000**
Loans and borrowings	**639,067**	**133,754**	**772,821**	**729,610**
Trade and other payables	**802,317**	**–**	**802,317**	**802,317**
	1,441,384	**133,754**	**1,575,138**	**1,531,927**

	The Group At 31 December 2013 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Loans and borrowings	821,458	–	821,458	804,732
Trade and other payables	514,539	–	514,539	514,539
	1,335,997	–	1,335,997	1,319,271

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

	The Company At 31 December 2014 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**Total RMB'000**	**Balance sheet carrying amount RMB'000**
Loans and borrowings	**8,876**	**63,380**	**72,256**	**55,476**
Trade and other payables	**3,147**	**–**	**3,147**	**3,147**
	12,023	**63,380**	**75,403**	**58,623**

	The Company At 31 December 2013 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Trade and other payables	11,146	–	11,146	11,146

Notes to the Financial Statements

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

(i) Interest rate profile

Cash at bank, bank deposits and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk. Cash at bank and bank deposits are with fixed interest rates ranging from 0.35% to 3.20% per annum as at 31 December 2014 (2013: 0.35% to 0.50%).

The Group's interest-bearing borrowings and interest rates at the end of the reporting period are set out as follows:

	The Group			
	2014		2013	
	Interest Rate %	**RMB'000**	Interest Rate %	RMB'000
Fixed rate borrowings				
Bank loans	**5.88-7.80**	**238,468**	6.60-7.20	193,954
Borrowings from a third party	**16.00**	**55,476**	–	–
		293,944		193,954
Variable rate borrowings				
Bank loans	**5.04-6.60**	**213,090**	5.88-7.20	284,139
Borrowings from other financial institutions	**8.25-8.73**	**182,576**	8.25-8.89	206,639
		395,666		490,778
		689,610		684,732

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk (continued)

(i) Interest rate profile (continued)

	The Company			
	2014		2013	
	Interest Rate		Interest Rate	
	%	**RMB'000**	%	RMB'000
Fixed rate borrowings				
Borrowings from a third party	**16.00**	**55,476**	–	–

(ii) Sensitivity analysis

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rate at the reporting date would not affect profit or loss.

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis during the reporting period for 2013.

Notes to the Financial Statements

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis (continued)

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit after tax and retained profits for the year RMB'000
At 31 December 2014		
Basis points	**100**	**(2,967)**
Basis points	**(100)**	**2,967**
At 31 December 2013		
Basis points	100	(3,681)
Basis points	(100)	3,681

(d) Currency risk

The Group is exposed to currency risk primarily through financing activities which give rise to cash and cash equivalents and loans and borrowings that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to the risk is primarily Hong Kong dollars.

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(d) Currency risk (continued)

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and cash equivalents	**1,732**	47,256	**410**	–
Loans and borrowings	**(55,476)**	–	**(55,476)**	–
Net exposure arising from recognised assets and liabilities	**(53,744)**	47,256	**(55,066)**	–

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rate to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Renminbi and Hong Kong dollar would be materially unaffected by any changes in movement in value of the Renminbi against other currency.

The Group

	2014		2013	
	Increase/ (decrease) in foreign exchange rate	**(Decrease)/ increase in profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rate	(Decrease)/ increase in profit after tax and retained profits RMB'000
Hong Kong Dollars	**1%**	**(537)**	1%	473
	(1%)	**537**	(1%)	(473)

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2013.

Notes to the Financial Statements

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(e) Fair value measurement

At 31 December 2014 and 2013, all financial assets and liabilities were carried at amounts not materially different from their fair values.

28 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2014 not provided for in the consolidated financial statements were as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Contracted for	**45,901**	43,722
Authorised but not contracted for	**116,247**	353,721
	162,148	397,443

(b) At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Within 1 year	**12,063**	10,717
After 1 year but within 5 years	**46,337**	35,637
After 5 years	**119,414**	93,440
	177,814	139,794

The Group is the lessee in respect of a number of land and properties held under operating leases. The leases typically run for an initial period of 1 to 20 years, with an option to renew the leases when all the terms are renegotiated.

29 CONTINGENT LIABILITIES

As at 31 December 2014, one subsidiary of the Group has issued financial guarantees to a financial institution in respect of financial facilities granted to a related party of the Group amounting to RMB20,000,000 and the financial facility utilised by the related party amounted to RMB14,962,000 as at 31 December 2014 (see note 30(e)).

As at 31 December 2014, the directors do not consider it probable that a claim will be made under the above guarantee.

30 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2014, the directors are of the view that the following companies are related parties of the Group:

Name of party	Relationship
Ye Fan 葉帆	Controlling Shareholder
Ye Tao 葉濤	Close family member of the Controlling Shareholder
Liu Haiming 劉海銘	Non-controlling shareholder of a subsidiary
Wang Shenwu 王慎武	Non-controlling shareholder of subsidiaries
Dadong Group 廣東大東汽車集團有限公司	Controlled by the Controlling Shareholder
Dongguan Meidong 東莞美東汽車服務有限公司	Joint venture
Dongguan Anxin 東莞安信豐田汽車銷售服務有限公司	Associate
Hunan Meibohang Auto Sales and Services Co., Ltd. ("Hunan Meibohang") 湖南省美博行汽車銷售服務有限公司	Controlled by the Controlling Shareholder before 14 May 2013

Notes: The English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

Notes to the Financial Statements

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Recurring transactions

	The Group	
	2014	2013
	RMB'000	RMB'000
Rental expense:		
Dadong Group	**456**	228

The Company's directors are of the opinion that the above related party transactions were conducted on terms no less favourable to the Group than terms available to or from independent third parties and in the ordinary course of business.

(b) Non-recurring transactions

	The Group	
	2014	2013
	RMB'000	RMB'000
Sales of passenger vehicles:		
Dongguan Meidong	**9,347**	17,726
Dongguan Anxin	**1,669**	–
Dadong Group	**63**	–
	11,079	17,726
Purchases of passenger vehicles:		
Dongguan Meidong	**7,880**	12,705
Dongguan Anxin	**1,475**	226
	9,355	12,931
Advance to related parties:		
Dadong Group	**–**	196,169
Ye Fan	**5,432**	–
Hunan Meibohang	**–**	750
	5,432	196,919

Notes to the Financial Statements

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Non-recurring transactions (continued)

	The Group	
	2014	2013
	RMB'000	RMB'000
Repayment of advance to related parties:		
Dadong Group	**114**	365,880
Hunan Meibohang	**–**	750
Ye Fan	**–**	760
	114	367,390
Advance from related parties:		
Dadong Group	**58,400**	52,310
Ye Fan	**62,600**	645
	121,000	52,955
Entrusted loan from related party:		
Ye Fan	**40,000**	–
Repayment of advance from related parties:		
Dadong Group	**58,474**	95,118
Hunan Meibohang	**146**	3,500
Ye Fan	**63,245**	–
	121,865	98,618
Disposal of fixed assets and lease prepayment to related parties:		
Dadong Group	**–**	4,775
Interest income:		
Dadong Group	**–**	8,324

Notes to the Financial Statements

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

At 31 December 2014, the Group had the following balances with related parties:

	The Group	
	2014	2013
	RMB'000	RMB'000
Other receivables due from:		
Dadong Group	**–**	114
Dongguan Meidong	**405**	693
Ye Fan	**5,432**	–
	5,837	807
Other payables due to:		
Dadong Group	**–**	74
Hunan Meibohang	**–**	146
Ye Fan	**–**	645
Dongguan Anxin	**–**	899
Dongguan Meidong	**3,114**	–
	3,114	1,764
Entrusted loan from:		
Ye Fan	**40,000**	–

The amounts due from/to related parties are unsecured, interest free and have no fixed terms of repayment. The entrusted loan from Ye Fan is unsecured, interest free and to be repaid on 26 November 2015.

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) Guarantees and securities issued by related parties

	The Group	
	2014	2013
	RMB'000	RMB'000
Guarantees issued by related parties in respect of loans and borrowings borrowed by the Group:		
– Ye Fan (i)	**120,476**	–
– Ye Fan/Dadong Group	**–**	54,000
– Wang Shenwu/Liu Haiming	**–**	15,000
– Ye Fan/Ye Tao/Dadong Group	**–**	55,000
	120,476	124,000

	The Group	
	2014	2013
	RMB'000	RMB'000
Securities issued by a related party in respect of a loan borrowed by the Group:		
– Apex Sail (i)	**55,476**	–

(i) Loans and borrowings of RMB120,476,000 were guaranteed by Mr. Ye Fan as at 31 December 2014, of which HK$70,000,000 (equivalent to RMB55,476,000) was borrowed by the Company and secured by 164,706,000 ordinary shares of the Company held by Apex Sail.

Notes to the Financial Statements

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(e) Guarantees issued by the Group

	The Group	
	2014	2013
	RMB'000	RMB'000
Guarantees issued by the Group in respect of financial facilities granted to a related party:		
– Dongguan Anxin	**20,000**	–

(f) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2014	2013
	RMB'000	RMB'000
Short-term employee benefits	**5,622**	3,086
Equity compensation benefits	**1,588**	–
	7,210	3,086

Total remuneration is included in staff costs (see note 6(b)).

(g) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of rental expense and financial assistance as disclosed above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, however they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

31 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Issuance of corporate bonds and warrants

On 9 March 2015, the Company issued bonds in the aggregate principal amount of HK$101,400,000 and warrants to certain third party holders, of which the warrants entitled the holders thereof to subscribe up to RMB118,202,715 for warrant shares at a subscription price of RMB1.883 per warrant share. 175,838,151 ordinary shares of the Company held by Apex Sail were pledged as security for the bonds. The bonds bear an interest rate of 9% per annum and will mature in 3 years. The bonds may additionally bear a default interest rate of 25% per annum subject to the occurrence of certain default events. The warrants are exercisable within three years after the issuance date.

(b) Final dividend

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 26(b).

(c) Issuance of guarantees

On 5 March 2015, one subsidiary of the Group issued financial guarantees to a financial institution in respect of financial facilities granted to Dongguan Meidong amounting to RMB80,000,000. The directors do not consider it probable that a claim will be made under the guarantee.

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2014, the directors consider the immediate parent of the Group to be Apex Sail, which is incorporated under the laws of the British Virgin Islands, and the ultimate controlling party of the Group to be Mr. Ye Fan.

Notes to the Financial Statements

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of the financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group.

		Effective for accounting periods beginning on or after
Amendments to HKAS 19	Employee benefits: Defined benefit plans: Employee contribution	1 July 2014
Annual Improvements to HKFRSs 2010-2012 Cycle		1 July 2014
Annual Improvements to HKFRSs 2011-2013 Cycle		1 July 2014
Annual Improvements to HKFRSs 2012-2014 Cycle		1 January 2016
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operation	1 January 2016
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to HKAS 27	Equity method in separate financial statements	1 January 2016
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
Amendments to HKAS 1	Disclosure initiative	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2017
HKFRS 9	Financial instruments (2014)	1 January 2018

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

The directors have confirmed that the Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 April 2014) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

Five-Year Financial Summary

RESULTS

	Year ended 31 December				
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	**2014** **RMB'000**
Turnover	2,279,597	2,824,058	2,949,497	3,479,663	**3,854,807**
Profit before taxation	65,398	101,060	61,580	149,358	**156,115**
Taxation	(15,092)	(22,983)	(13,797)	(39,164)	**(41,367)**
Profit for the year	50,306	78,077	47,783	110,194	**114,748**
Profit attributable to equity shareholders of the Company	49,080	76,677	47,647	105,956	**110,680**
Non-controlling interests	1,226	1,400	136	4,238	**4,068**
Profit for the year	50,306	78,077	47,783	110,194	**114,748**
	RMB	RMB	RMB	RMB	**RMB**
Earnings per share Basic and diluted	0.07	0.10	0.06	0.14	**0.11**

ASSETS AND LIABILITIES

	As at 31 December				
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	**2014** **RMB'000**
Total Assets	844,818	1,222,235	1,401,803	1,815,639	**2,109,714**
Total Liabilities	(641,957)	(843,297)	(942,832)	(1,338,427)	**(1,544,414)**
	202,861	378,938	458,971	477,212	**565,300**
Equity attributable to equity shareholders of the Company	198,522	373,199	450,331	460,272	**544,292**
Non-controlling interests	4,339	5,739	8,640	16,940	**21,008**
Total Equity	202,861	378,938	458,971	477,212	**565,300**

Note:

The figures for the year ended 31 December 2010, 2011 and 2012 have been extracted from the Prospectus of the Company dated 22 November 2013.