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China MeiDong Auto Holdings Limited

中國美東汽車控股有限公司

(Incorporated in the Cayman Islands with limited liabilities)

(Stock code: 1268)

2016 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Turnover increased significantly to RMB6,263.3 million, representing a growth of 30.3%.
- Turnover for new passenger vehicle sales increased by 30.2%.
- Turnover for after-sales services increased by 30.6%.
- Profit attributable to the Shareholders of the Company increased significantly to RMB152.1 million, representing a growth of 48.8%.
- The net profit margin increased to 2.5%.
- A final dividend of RMB0.064 per share is recommended.

RESULTS

The board (the “**Board**”) of directors (the “**Director(s)**”) of China MeiDong Auto Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2016.

The audited consolidated results of the Group for the year ended 31 December 2016 together with the comparative figures of 2015 are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

(Expressed in RMB'000)

	Note	2016	2015
Revenue	2	6,263,322	4,807,980
Cost of sales		<u>(5,685,864)</u>	<u>(4,355,932)</u>
Gross profit		577,458	452,048
Other income	3	45,780	22,210
Distribution costs		(205,665)	(147,253)
Administrative expenses		<u>(175,282)</u>	<u>(130,294)</u>
Profit from operations		242,291	196,711
Interest expenses		(51,470)	(66,429)
Compensation to bondholders		<u>–</u>	<u>(9,099)</u>
Finance costs	4(a)	(51,470)	(75,528)
Share of profits of an associate		4,162	6,671
Share of profits of a joint venture		<u>23,226</u>	<u>18,733</u>
Profit before taxation	4	218,209	146,587
Income tax	5(a)	<u>(61,243)</u>	<u>(40,535)</u>
Profit and total comprehensive income for the year		<u>156,966</u>	<u>106,052</u>
Profit and total comprehensive income attributable to:			
Equity shareholders of the Company		152,057	102,163
Non-controlling interests		<u>4,909</u>	<u>3,889</u>
Profit and total comprehensive income for the year		<u>156,966</u>	<u>106,052</u>
Earnings per share	6		
Basic and diluted (RMB cents)		<u>13.97</u>	<u>9.69</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

(Expressed in RMB'000)

	<i>Note</i>	31 December 2016	31 December 2015
Non-current assets			
Property, plant and equipment		621,525	550,985
Lease prepayments		100,478	103,428
Intangible assets		12,454	11,155
Interest in an associate		18,833	14,671
Interest in a joint venture		53,443	46,387
Other non-current assets		20,327	22,829
Deferred tax assets		10,084	14,171
		<u>837,144</u>	<u>763,626</u>
Current assets			
Inventories	7	483,940	466,318
Trade and other receivables	8	497,790	373,773
Pledged bank deposits		346,825	521,084
Cash and cash equivalents		426,169	253,915
		<u>1,754,724</u>	<u>1,615,090</u>
Current liabilities			
Loans and borrowings		614,708	641,606
Trade and other payables	9	878,547	782,285
Corporate bonds		43,531	–
Income tax payables	5(c)	20,794	16,923
		<u>1,557,580</u>	<u>1,440,814</u>
Net current assets		<u>197,144</u>	<u>174,276</u>
Total assets less current liabilities		<u>1,034,288</u>	<u>937,902</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)*At 31 December 2016**(Expressed in RMB'000)*

	<i>Note</i>	31 December 2016	31 December 2015
Non-current liabilities			
Loans and borrowings		75,635	60,500
Corporate bonds		50,723	77,810
Deferred tax liabilities		3,110	4,451
Other non-current liabilities		2,530	1,488
		<u>131,998</u>	<u>144,249</u>
NET ASSETS		<u>902,290</u>	<u>793,653</u>
EQUITY			
Share capital	<i>11</i>	85,529	85,869
Reserves		778,955	678,887
Total equity attributable to equity shareholders of the Company		864,484	764,756
Non-controlling interests		37,806	28,897
TOTAL EQUITY		<u>902,290</u>	<u>793,653</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

(Expressed in RMB'000)

	<i>Note</i>	2016	2015
Operating activities:			
Cash generated from operations	<i>10</i>	354,864	240,989
Income tax paid	<i>5(c)</i>	<u>(54,626)</u>	<u>(37,732)</u>
Net cash generated from operating activities		<u>300,238</u>	<u>203,257</u>
Investing activities:			
Payment for the purchase of property, plant and equipment		(149,073)	(181,031)
Proceeds from disposal of property, plant and equipment		27,805	29,239
Payment for purchase of lease prepayments		–	(3,761)
Payment for purchase of software		(1,435)	–
Payment for the acquisition of a subsidiary, net of cash acquired		–	(14,900)
Advances to related parties		(151)	–
Repayment of advances to related parties		151	5,432
Interest received		5,241	10,592
Decrease in deposits with a bank		–	145,400
Dividends received from a joint venture		<u>16,170</u>	<u>8,831</u>
Net cash used in investing activities		<u>(101,292)</u>	<u>(198)</u>

CONSOLIDATED CASH FLOW STATEMENT (Continued)*For the year ended 31 December 2016**(Expressed in RMB'000)*

	<i>Note</i>	2016	2015
Financing activities:			
Proceeds from loans and borrowings		742,730	1,084,374
Repayment of loans and borrowings		(685,431)	(1,286,101)
Proceeds from issuance of new shares, net of issuance expenses		–	139,260
Proceeds from issuance of bonds and warrants, net of issuance expenses		–	80,102
Payment for repurchase of own shares		(3,094)	(5,436)
Advances from related parties		22,646	32,900
Repayment of advances from related parties		(22,620)	(32,900)
Dividends declared and paid		(50,054)	(30,000)
Capital injection by non-controlling interests		4,000	4,000
Interest paid		(34,869)	(53,427)
Compensation paid to bondholders		–	(9,099)
		<hr/>	<hr/>
Net cash used in financing activities		(26,692)	(76,327)
		<hr/>	<hr/>
Net increase in cash and cash equivalents		172,254	126,732
Cash and cash equivalents at 1 January		253,915	127,183
		<hr/>	<hr/>
Cash and cash equivalents at 31 December		426,169	253,915
		<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND THE BASIS OF PRESENTATION

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 Group is principally engaged in 4S dealership business in the People's Republic of China (the "PRC").

(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 and the disclosure requirement of the Hong Kong Companies 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").

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. Note 1(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.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 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 except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- derivative financial instruments.

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.

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of passenger vehicles	5,585,623	4,289,063
After-sales services	677,699	518,917
	<u>6,263,322</u>	<u>4,807,980</u>

(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.

3 OTHER INCOME

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Commission income	41,274	20,610
Bank interest income	4,908	6,549
Gain on a bargain purchase	–	3,157
Net loss on disposal of property, plant and equipment	(200)	(4,485)
Others	(202)	(3,621)
	<u>45,780</u>	<u>22,210</u>

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	<i>Note</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
(a) Finance costs:			
Interest on			
– loans and borrowings		25,072	40,336
– corporate bonds		18,552	12,332
		<u>43,624</u>	52,668
Total borrowing costs		43,624	52,668
Other finance cost	(i)	7,846	13,761
		<u>51,470</u>	66,429
Total interest expenses		51,470	66,429
Compensation to bondholders		–	9,099
		<u>51,470</u>	<u>75,528</u>
(b) Staff costs:			
Salaries, wages and other benefits		220,715	157,787
Equity settled share-based payment expenses	(ii)	819	1,501
Contributions to defined contribution retirement plans	(iii)	8,867	7,261
		<u>230,401</u>	<u>166,549</u>

- (i) It represents the interest expenses borne by the Group arising from discount of bills issued to automobile manufacturers.
- (ii) The Group recognised an expense of RMB819,000 for the year ended 31 December 2016 (2015: RMB1,501,000) in relation to share options granted to certain employees of the Group pursuant to a share option scheme.
- (iii) 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.

(c) **Other items:**

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Cost of inventories	6,014,754	4,313,880
Depreciation	55,228	38,293
Amortisation of lease prepayments	2,950	2,844
Amortisation of intangible assets	1,521	796
Operating lease charges	31,219	19,881
Net foreign exchange loss	6,132	4,649
Auditors' remuneration	<u>3,680</u>	<u>3,500</u>

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(a) **Taxation in the consolidated statement of comprehensive income represents:**

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Current tax:		
Provision for PRC income tax for the year	58,497	45,793
Deferred tax:		
Reversal/(origination) of temporary differences	<u>2,746</u>	<u>(5,258)</u>
	<u>61,243</u>	<u>40,535</u>

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

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	<u>218,209</u>	<u>146,587</u>
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (i)	63,973	48,380
Tax effect of non-deductible expenses	1,390	1,831
Tax effect of non-taxable income on share of profits of an associate	(1,040)	(1,668)
Tax effect of non-taxable income on share of profits of a joint venture	(5,806)	(4,683)
Tax effect of recognition of prior years' unused tax losses	–	(3,667)
Tax effect of unused tax losses not recognised	<u>2,726</u>	<u>342</u>
Actual tax expense	<u>61,243</u>	<u>40,535</u>

- (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.

The Group's PRC subsidiaries are subject to income tax at the statutory tax rate of 25%.

(c) **Current taxation in the consolidated statement of financial position represents:**

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	16,923	8,862
Provision for current income tax for the year	58,497	45,793
Payment during the year	<u>(54,626)</u>	<u>(37,732)</u>
At the end of the year	<u>20,794</u>	<u>16,923</u>

6 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB152,057,000 (2015: RMB102,163,000) and the weighted average of 1,088,256,000 ordinary shares in issue (2015: 1,054,002,000 shares) during the year ended 31 December 2016.

Weighted average number of ordinary shares

	2016	2015
Issued ordinary shares at 1 January	1,092,170,000	1,000,000,000
Effect of new shares issued	–	55,616,000
Effect of shares repurchased	<u>(3,914,000)</u>	<u>(1,614,000)</u>
Weighted average number of ordinary shares at 31 December	<u>1,088,256,000</u>	<u>1,054,002,000</u>

The impact of share options and warrants to earnings per share was anti-dilutive for the year ended 31 December 2016 and 2015 and therefore there were no dilutive potential ordinary shares during the year, as a result, the diluted earnings per share is equivalent to the basic earnings per share.

7 INVENTORIES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Motor vehicles	435,557	428,341
Others	<u>48,383</u>	<u>37,977</u>
	<u>483,940</u>	<u>466,318</u>

No inventory provision was made as at 31 December 2016 and 2015, and the inventories as at 31 December 2016 and 2015 were stated at cost.

8 TRADE AND OTHER RECEIVABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade receivables	74,991	31,379
Prepayments	123,132	82,943
Other receivables and deposits	<u>295,857</u>	<u>258,390</u>
Amounts due from third parties	493,980	372,712
Amounts due from related parties	<u>3,810</u>	<u>1,061</u>
Trade and other receivables	<u>497,790</u>	<u>373,773</u>

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

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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 1 month	70,095	28,142
1 to 2 months	1,314	1,632
2 to 3 months	140	182
Over 3 months	3,442	1,423
	74,991	31,379

9 TRADE AND OTHER PAYABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade payables	70,681	41,378
Bills payable	483,887	492,215
	554,568	533,593
Receipts in advance	226,833	178,211
Other payables and accruals	96,010	68,914
	877,411	780,718
Amounts due to third parties	877,411	780,718
Amounts due to related parties	1,136	1,567
	878,547	782,285
Trade and other payables	878,547	782,285

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

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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 3 months	495,680	477,384
After 3 months but within 6 months	58,888	56,209
	<u>554,568</u>	<u>533,593</u>

10 RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS:

	<i>Note</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Profit before taxation		218,209	146,587
Adjustments for:			
– Depreciation	<i>4(c)</i>	55,228	38,293
– Amortisation of lease prepayments	<i>4(c)</i>	2,950	2,844
– Amortisation of intangible assets	<i>4(c)</i>	1,521	796
– Net loss on disposal of property, plant and equipment	<i>3</i>	200	4,485
– Finance costs	<i>4(a)</i>	51,470	75,528
– Share of profits of an associate		(4,162)	(6,671)
– Share of profits of a joint venture		(23,226)	(18,733)
– Interest income	<i>3</i>	(4,908)	(6,549)
– Equity settled share-based payment expenses	<i>4(b)</i>	819	1,501
– Gain on a bargain purchase	<i>3</i>	–	(3,157)
Changes in working capital:			
(Increase)/decrease in inventories		(17,622)	184,106
Increase in trade and other receivables		(126,077)	(70,868)
Decrease/(increase) in pledged bank deposits		36,282	(98,468)
Increase in trade and other payables		166,394	9,408
Decrease in other non-current assets		(2,214)	(18,113)
Cash generated from operations		<u>354,864</u>	<u>240,989</u>

11 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	2016 RMB'000	2015 RMB'000
Final dividend proposed after the statement of financial position date of RMB0.064 per ordinary share (2015: RMB0.046 per ordinary share)	<u>69,640</u>	<u>50,054</u>

The final dividend proposed after the statement of financial position date has not been recognised as a liability at the statement of financial position date.

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

	2016 RMB'000	2015 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.046 per share (2015: RMB0.03 per share)	<u>50,054</u>	<u>30,000</u>

(b) Share capital

The share capital of the Group as at 31 December 2016 represented the amount of issued and paid-up capital of the Company with details set out below:

Authorised:

			2016		2015	
	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	<u>20,000,000</u>	<u>2,000,000</u>	<u>20,000,000</u>	<u>2,000,000</u>

Ordinary shares, issued and fully paid:

	<i>Note</i>	Number of ordinary shares (thousand)	Nominal value of ordinary shares HK\$('000)
At 1 January 2015		1,000,000	100,000
Issuance of new shares	(ii)	100,000	10,000
Shares repurchased and cancelled	(iii)	<u>(7,830)</u>	<u>(783)</u>
At 31 December 2015 and 1 January 2016		1,092,170	109,217
Shares repurchased and cancelled	(iii)	<u>(4,040)</u>	<u>(404)</u>
At 31 December 2016		<u>1,088,130</u>	<u>108,813</u>
RMB equivalent ('000) at 31 December 2016			<u>85,529</u>
RMB equivalent ('000) at 31 December 2015			<u>85,869</u>

(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 authorised 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.

(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 (RMB equivalent: 58,965,000) 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.

On 12 June 2015, the Company issued 100,000,000 new ordinary shares at the subscription price of HK\$1.83 per share. The gross proceeds of HK\$183,000,000 (RMB equivalent 144,473,000), net of direct share issuance expenses of HK\$6,605,000 (RMB equivalent 5,213,000), were raised, of which RMB7,895,000 and RMB131,365,000 was credited to share capital and share premium account, respectively.

(iii) *Repurchase of own shares*

During the year, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased (thousand)	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate price paid HK\$('000)
January 2016	2,798	0.91	0.81	2,455

As of 31 December 2016, the Company cancelled above repurchased shares and 1,242,000 number of ordinary shares repurchased on 31 December 2015 and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of RMB340,000 was transferred from the share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB2,754,000 was charged to the share premium account as well.

During the year ended 31 December 2015, the Company repurchased 9,072,000 number of ordinary shares. Except for 1,242,000 number of ordinary shares repurchased on 31 December 2015, which were not yet paid or cancelled as of 31 December 2015, the repurchased shares were cancelled as of 31 December 2015 and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of RMB646,000 was transferred from the share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB4,790,000 was charged to the share premium account as well.

12 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) **Final dividend**

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 11(a).

(b) **Issuance of guarantees**

On 5 March 2017, one subsidiary of the Group renewed its financial guarantee 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.

FINANCIAL REVIEW

Turnover and Cost of Sales

For the year ended 31 December 2016, the Group recorded a turnover of RMB6,263.3 million, representing an increase of 30.3% from RMB4,808.0 million recorded in 2015. The increase in turnover is mainly due to: (i) increase in sale of new passenger vehicles of 30.2%; and (ii) increase in after sales services of approximately 30.6%. Cost of goods sold increased by 30.5% from RMB4,355.9 million in 2015 to RMB5,685.9 million for the year ended 31 December 2016. The increase in cost of goods sold is due to: (i) increase in cost of sale of new passenger vehicles of 30.3%; and (ii) increase in cost of after sales services of 33.5%.

Gross Profit

Gross profit increased significantly from RMB452.0 million in 2015 to RMB577.5 million for the year ended 31 December 2016, representing an increase of approximately 27.7%. Gross profit margin for the year ended 31 December 2016 was 9.2%, remained stable as 9.4% in 2015. Gross profit margin for the new car sales was 4.4%, maintained at the same level as that in 2015. After-sales gross profit margin decreased slightly from 50.3% for the year ended 31 December 2015 to 49.2% for the year ended 31 December 2016.

Distribution Costs and Administrative Expenses

Distribution costs increased to RMB205.7 million for the year ended 31 December 2016 from RMB147.3 million recorded in 2015, representing an increase of approximately 39.7%. Administrative expenses increased to RMB175.3 million for the year ended 31 December 2016 from RMB130.3 million recorded in 2015, representing an increase of approximately 34.5%. The increase in both distribution costs and administrative expenses was mainly attributable by the increase in the number of operating stores. By the end of 2016, the Group has 32 subsidiary stores in operation, increased by seven stores compared to that by the end of 2015.

Finance Costs

Finance costs decreased significantly by 31.9% to RMB51.5 million for the year ended 31 December 2016, from RMB75.5 million recorded in 2015. The decrease was mainly attributable by the significant decrease in the interest expenses of the Group by 22.5% from RMB66.4 million to RMB51.5 million.

Other Income

Other income increased significantly from RMB22.2 million for the year ended 31 December 2015 to RMB45.8 million for the year ended 31 December 2016, representing an increase of approximately 106.1%. The increase was attributable by the increase in commission income relating to value-added services to RMB41.3 million, up 100.3% compared to RMB20.6 million in 2015.

Associated Company and Joint Venture Company

Share of results of associated company and joint venture increased by approximately 7.8% from RMB25.4 million for the year ended 31 December 2015 to RMB27.4 million for the year ended 31 December 2016. The increase was mainly attributable by the higher profit achieved by Dongguan Meidong Lexus store, the day-to-day operations of which is managed by the Group.

Taxation

Taxation increased from RMB40.5 million for the year ended 31 December 2015 to RMB61.2 million for the year ended 31 December 2016, representing an increase of approximately 51.1%. The effective tax rate has increased slightly from 27.7% for the year ended 31 December 2015 to 28.1% for the year ended 31 December 2016. The Group's PRC subsidiaries are subject to a statutory tax rate of 25%.

Financial Resources and Position

As at 31 December 2016, the Group's loans and borrowings and corporate bonds amounted to RMB784.6 million, representing an increase of 0.6% from RMB779.9 million as at 31 December 2015. With the exception of RMB126.4 million (including the corporate bonds issued by the Company) that will mature after one year but within three years, all other loans and borrowings and corporate bonds are short term in nature. As at 31 December 2016, the Group had a current ratio of 1.1 times and a gearing ratio (loans and borrowings and corporate bonds less cash and cash equivalents and bank deposits divided by equity attributable to shareholders) of 1.3%.

Cash and cash equivalents and pledged bank deposits amounted to RMB773.0 million as at 31 December 2016, of which RMB346.8 million have been pledged for securing facilities granted to the Group. Cash and cash equivalents and pledged bank deposits are mostly denominated in Renminbi and Hong Kong Dollars. As the Group's businesses are conducted in the PRC, the Group does not expect to be exposed to any material foreign exchange risks.

As at 31 December 2016, assets pledged by the Group amounted to RMB430.2 million to secure the loans and borrowings of the Group.

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 2016, one subsidiary of the Group issued financial guarantees to financial institutions in respect of financial facilities granted to related parties of the Group amounting to RMB178,000,000 (2015: RMB158,000,000) and the financial facilities utilised by the related parties amounted to RMB43,381,000 (2015: RMB87,692,000) as at 31 December 2016.

As at 31 December 2016, the Directors do not consider it probable that a claim will be made under the above guarantees taking into account the financial performance of the related parties.

BUSINESS REVIEW

New passenger vehicle sales accounted for approximately 89.2% of total revenue during the year ended 31 December 2016, which also included the sales of bundled accessories that were included in the sales of new passenger vehicles. The Group sold a total of 26,626 units of new passenger vehicles during the year ended 31 December 2016, representing an increase of approximately 24.4% from the 21,411 units sold during 2015.

New Passenger Vehicle Sales

New passenger vehicle sales enjoyed a substantial growth during the year ended 31 December 2016. All brands recorded sales quantity growths with Lexus being the highest at 79.0%, followed by Porsche at 46.3%, BMW at 30.3%, Hyundai at 23.0% and Toyota at 13.0%.

Brand	2015	2016	Growth
Porsche	863	1,263	46.3%
BMW	3,004	3,915	30.3%
Lexus	1,880	3,365	79.0%
Toyota	11,833	13,371	13.0%
Hyundai	3,831	4,712	23.0%
Total	<u>21,411</u>	<u>26,626</u>	<u>24.4%</u>

The overall gross profit margin for new vehicle sales remained at the same level of 4.4% as for the year ended 31 December 2015, with luxury brands increasing significantly from 5.2% to 5.9%, while mid-to-high-end brands decreasing from 3.6% to 2.0%. The stable gross profit margin is primarily due to: (1) a much more stable market with a good balance between supply and demand for new vehicle sales of major brands; (2) a substantial growth in gross profit margin of luxury brands, and (3) continued effort exerted by our management to improve margins while increase the inventory turnover rate.

After Sales Services accounted for approximately 10.8% of our total revenue during the year ended 31 December 2016. The Group serviced a total of 258,299 units after sales services for the year ended 31 December 2016, representing an increase of approximately 19.1% from the 216,886 units serviced during 2015.

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 2015 and in 2016 were luxury brand stores.

New Stores

During 2016, seven new stores were opened, taking the number of operating 4S dealership stores to 34, including 32 subsidiary stores, a joint venture that is operated by us and an associate store. The name, brand and location of these stores are as follows:

Brand	2015	2016	Increase
Porsche	2	2	–
BMW	7	11	+4
Lexus	6	8	+2
Toyota	10	11	+1
Hyundai	2	2	–
Total	<u>27</u>	<u>34</u>	<u>+7</u>

Staff Training and Development

As at 31 December 2016, the Group had a total of 2,825 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 remuneration committee of the Company (“**Remuneration Committee**”), having regard to the Company’s operating results, individual performance and comparable market statistics, determined the emoluments of the Directors. None of the Directors or any of his/her associates, and executive, is involved in dealing in his/her own remuneration.

Prospects

In 2017, the Company will continue to fully leverage on our excellent management strength and the “single city, single brand” network strategy to increase in both operational scale and profits, optimize its business structure and improve operating efficiency, and further enhance the profitability and risk management capability of the Group.

We will fully grasp the development opportunities and continue to achieve further business expansion through establishment of new stores and potential mergers and acquisitions. Adhering to our strategies of developing luxury brands and “single city, single brand”, we will accelerate the establishment of new stores, and focus on promoting luxury brands in third-tier and fourth-tier cities in southern China and areas neighboring Beijing. Leveraging on the quick build out and low investment costs, aided by our excellent management, we are aiming to attain single-month profit within half a year in all new stores, and maintain our double-digit growth in the number of stores. In terms of merger and acquisition and business expansion, we will explore and seize market opportunities, utilize possible human resources, capital and market capability within the Group, and acquire underperformed dealership stores or groups, so as to achieve a turnaround within a short period with minimal investments.

We will persist in enhancing the data-driven management system, in particular the sales and inventory management and after-sales services operational efficiency management, and further develop our value-added services, aiming to facilitate our rapid response to the ever-changing market conditions and maintain our leading position in inventory standard of new cars and after-sales efficiency in the industry.

In 2017, we will further strengthen our operational management, exert a greater control over operating costs and financial expenses, improve our cash flow and optimize our corporate operational structure, thereby improving the sales, profit and cash flow of the Company, facilitating the business expansion of the Group and creating more returns for our shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

The Company repurchased an aggregate of 2,798,000 Shares on the market during the period from 11 January 2016 to 20 January 2016. During the year ended 31 December 2016, 4,040,000 Shares have been cancelled on 3 March 2016, including 1,242,000 Shares that have been repurchased but not cancelled on 31 December 2015.

Particulars of the Shares repurchased on the Stock Exchange during the year ended 31 December 2016 are as follow:

2016	Number of Shares repurchased by the Company	Highest price per share <i>HK\$</i>	Lowest price per share <i>HK\$</i>	Aggregate consideration paid <i>HK\$</i>
11 January	464,000	0.87	0.81	392,941
15 January	666,000	0.89	0.83	577,748
18 January	900,000	0.89	0.84	789,854
19 January	518,000	0.91	0.86	466,948
20 January	250,000	0.91	0.89	227,543
TOTAL	<u>2,798,000</u>			<u>2,455,034</u>

The Directors believe that the above repurchases would lead to an enhancement of the earnings per share of the Company, which is in the best interests of the Company and the Shareholders.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year ended 31 December 2016 and until the date of this announcement.

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 2016. Details of the corporate governance of the Group are set out in the section headed “Corporate Governance Report” in the annual report of the Company for the year ended 31 December 2016.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules (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 2016.

Audit Committee

The Company has an audit committee (the “**Audit Committee**”) which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group’s financial reporting process and internal controls.

An Audit Committee meeting was held on 23 March 2017 to review the audited annual financial report for the year ended 31 December 2016.

Annual General Meeting

An annual general meeting of the Company (the “**AGM**”) will be held on 18 May 2017. For details of the AGM, please refer to the Notice of AGM which is expected to be published on or about 12 April 2017.

Final Dividend

The Board recommended the payment of a final cash dividend out of the share premium account under reserves of the Company of RMB0.064 per share (2015: RMB0.046 per share) to shareholders whose names are on the register of members of the Company on 31 May 2017, which is subject to approval by shareholders at the AGM and compliance with the Companies Law of the Cayman Islands.

It is expected that the cheques for cash dividends will be sent by ordinary mail to shareholders at their own risk on or about 12 June 2017.

Closure of Register of Members

The register of members of the Company will be closed for the following periods:

1. from 15 May 2017 to 18 May 2017, both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to attend and vote at the AGM; and
2. from 25 May 2017 to 31 May 2017, both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to the final dividend to be approved at the AGM.

All completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 12 May 2017 and 24 May 2017 respectively.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my gratitude to all the staff and management team for their contribution during the period. I would also like to express my appreciation to the continuous support of our shareholders and investors.

By Order of the Board
YE Tao
Chief Executive Officer

Hong Kong, 23 March 2017

As at the date of this announcement, the Board comprises:

Executive Directors:

Mr YE Fan (*Chairman*)

Mr YE Tao (*Chief Executive Officer*)

Ms LIU Xuehua

Independent Non-executive Directors:

Mr PAN Lu

Mr WANG, Michael Chou

Mr JIP Ki Chi