CHINA ZHENGTONG AUTO SERVICES HOLDINGS LIMITED
中國正通汽車服務控股有限公司

Stock Code 股份代號：1728

2016 ANNUAL REPORT 年報

A LEADING LUXURY BRANDS DEALER CONGLOMERATE

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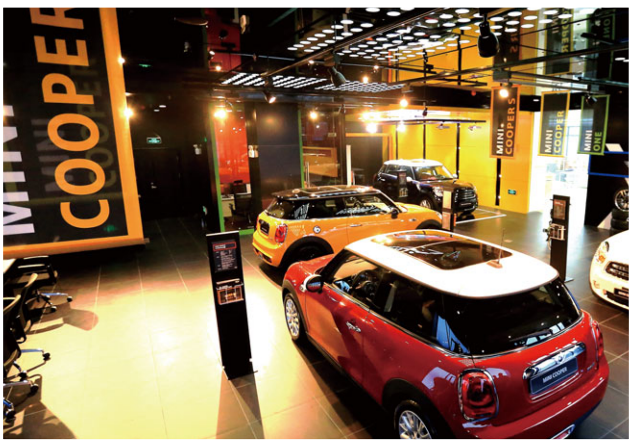
COMPANY PROFILE

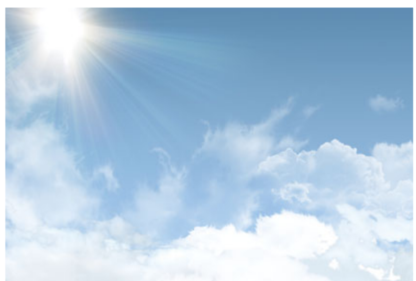
China ZhengTong Auto Services Holdings Limited

China ZhengTong Auto Services Holdings Limited (the "Company" or "ZhengTong" or "ZhengTong Auto", and together with its subsidiaries the "Group") is the leading 4S dealership group in China focusing on dealership of luxury and ultra-luxury branded automobiles such as Porsche, Mercedes-Benz, BMW, Audi, Jaguar and Land Rover, Volvo, Infiniti and Cadillac. The Group also operates dealership stores of middle market brands, such as FAW Volkswagen, Buick, Nissan, Toyota, Honda and Hyundai.

The Group has developed a forward-looking strategic network covering developed regions and fast growing provinces in China so as to lay down a solid foundation for rapid growth of the Group in the future. As at 31 December 2016, we operated 108 dealership outlets in 36 cities across 15 provinces and municipalities nationwide not only covering the developed automobile market of some of the affluent first-tier and capital cities, but also effectively expanding to second and third-tier cities and regions with rapid growth and low automobile penetration.

The Group has endeavored to provide our customers with the most superior automobile sales and after-sale services. The provision of comprehensive automobile solutions and the adoption of customer-oriented business model allow the Group to facilitate its long-term relationship with customers. To address growing demand in automobile market, the Group has also strengthened its after-sale services with an aim to deliver its customers high quality services in a rapid manner. The Group's supply chain business has been complementary to its automobile dealership and after-sale services business. Meanwhile, the Group has been exerting efforts in the development of its automobile financial services, financial leasing, insurance brokerage and other financial business, in order to complete the strategic transformation of the Group's business operation for achieving its goal of sustainable healthy growth.





FIVE YEARS' FINANCIAL SUMMARY

RESULTS

	2012	2013	2014	2015	2016
(RMB'000)					
Revenue	27,649,440	29,840,269	30,910,087	29,361,499	**31,519,255**
Profit before taxation	915,111	1,206,330	1,175,055	921,779	**790,798**
Income tax	(281,520)	(352,132)	(351,517)	(293,117)	**(282,439)**
Profit for the year	633,591	854,198	823,538	628,662	**508,359**
Attributable to:					
Equity shareholders of the Company	604,467	837,390	803,792	618,530	**493,282**
Non-controlling interests	29,124	16,808	19,746	10,132	**15,077**
	633,591	854,198	823,538	628,662	**508,359**

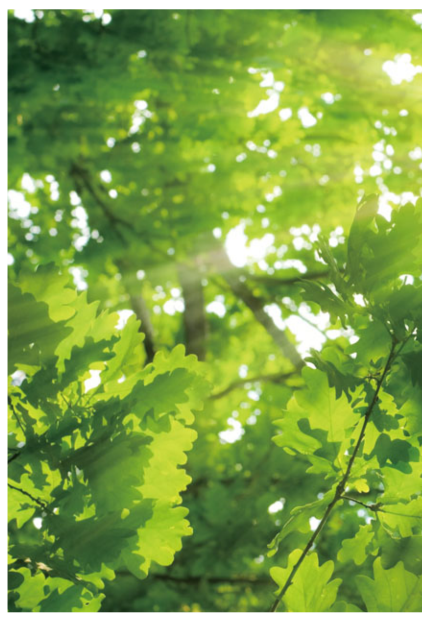
ASSETS AND LIABILITIES

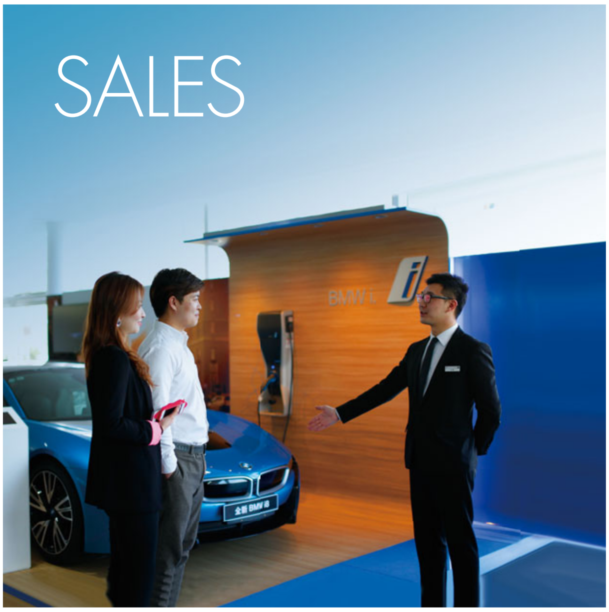
	2012	2013	2014	2015	2016
(RMB'000)					
Total assets	16,942,232	19,115,791	22,182,690	23,679,650	**27,728,910**
Total liabilities	(10,141,645)	(11,477,704)	(13,885,582)	(14,990,312)	**(18,786,749)**
	6,800,587	7,638,087	8,297,108	8,689,338	**8,942,161**
Equity attributable to equity shareholders of the Company	6,708,738	7,543,262	8,172,075	8,588,632	**8,858,331**
Non-controlling interests	91,849	94,825	125,033	100,706	**83,830**
	6,800,587	7,638,087	8,297,108	8,689,338	**8,942,161**

CHAIRMAN'S STATEMENT

PERSEVERANCE AND DETERMINATION

Being determined to become the world's top automobile integrated services supplier




SALES


SPARE PARTS


SERVICE

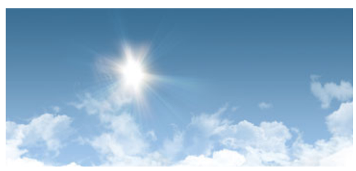

SURVEY

DEAR SHAREHOLDERS,

In 2016, China recorded a GDP growth of 6.7% as compared to the previous year. The economy of China maintained a steady growth in general. Attributable to the stabilized real economy and recovery of consumption power and sentiment of consumers, total retail sales of consumer goods in China in 2016 saw an improvement of 10.4% over the previous year.

According to the China Association of Automobile Manufacturers, the sales of passenger vehicles hit a record high in 2016 to 24,376,900 units, representing an increase of 14.93% as compared to the previous year. The increment was 7.63% higher than that of the previous year. Against a backdrop of steady growth in the passenger vehicle market as compared to the previous year, the growth of different luxury brands varied and competition was increasingly intensive. In respect of the major brands under the Group's dealership, the sales volume of BMW and MINI brands in China was 516,355 units, representing an increase of 11.3% as compared to the corresponding year (2015: 463,736 units); the sales volume of Audi brand in China was 591,554 units, representing an increase of 3.6% as compared to the corresponding year (2015: 570,889 units); the sales volume of Benz brand in China was 472,884 units, representing an increase of 26.6% as compared to the corresponding year (2015: 373,459 units); the sales volume of Jaguar and Land Rover brands in China was 119,048 units, representing an increase of 28.7% as compared to the corresponding year (2015: 92,474 units); the sales volume of Volvo brand in China was 90,930 units, representing an increase of 11.5% as compared to the corresponding year (2015: 81,588 units); the sales volume of Porsche brand in China was 65,246 units, representing an increase of 12.5% as compared to the corresponding year (2015: 58,009 units).

China ZhengTong Auto Services Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") act as a major dealer of various luxury automobile brands in China. Through long-term cooperation with major luxury automobile manufacturers, the Group has promptly grasped the opportunities arising from the latest industry trend and changes in automobile buyers' preference to further improve its existing services and explore innovative services. Leveraging its diversified brand portfolio, reasonable sales network and comprehensive sales and service platform, the Group is able to enhance the service experience of its customers.



CHAIRMAN'S STATEMENT

In 2016, while strengthening the traditional after-sale services for automobiles such as repair, maintenance and sale of accessories, the Group made full use of its unique characteristics to develop new businesses. In particular, the introduction of financial services business had made a significant progress that financial cooperation with manufacturers was consolidated to provide customers with additional services. The Group offered customers more personalized and competitive auto finance solutions, which were significantly supported by the growth of the sales of new and pre-owned automobiles, financial leasing and customer relationship development.

According to the Traffic Management Bureau of the Ministry of Public Security, as of the end of 2016, the number of vehicles registered in China was 194 million units, and the number of licensed drivers was over 310 million. The number of registered passenger vehicles amounted to 160 million units, including 146 million passenger vehicles registered in the name of individuals (private cars), accounting for 90% of registered passenger vehicles. Judging from the increasing number of registered vehicles and drivers, vehicles have become an integral part of daily lives, creating huge potential for the development of automobile-related markets.

In addition, as the auto market in China is becoming more mature, the sales of automobiles face tremendous opportunities with increasingly severe competition. Demand for more professional and personalized services and diversified after-sales services and value-added services for vehicles from consumers continues to increase. Commercial opportunities for vehicles that cater daily needs of users are arising.

In the future, based on the existing business network, the Group will further expand its business presence and improve the profitability of new outlets. In order to enrich the personalized automobile-related services for customers, the Group will continue to invest in innovation. The Group will also strive to enhance internal management efficiency and service platform and explore customer base and consolidate its competitive strengths. The Group is also committed to providing quality, convenient and comprehensive automobile-related services in order to create greater values for the shareholders and employees of the Group as well as the society.

The Group's remarkable performance in 2016 is attributable to the dedication of employees as well as the trust and support of its business partners and shareholders. On behalf of the Board, I would like to express my sincere gratitude to our shareholders, business partners and customers for their long-term support and trust, as well as our loyal staff for their hard work and valuable contributions to the Group over 2016.

Wang Muqing
Chairman of the Board
21 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

SINCERE SERVICES

Establishing a top class brand by providing every customer with sincere services

BUSINESS REVIEW

In 2016, in addition to its continuous effort in the auto sales and after-sales services for luxury brands and ultra-luxury brands, the Group further expanded to auto-related businesses with high added values, such as auto finance, insurance brokerage, financial leasing and pre-owned automobiles trading. For the year ended 31 December 2016, the Group recorded revenue and gross profit of approximately RMB31,519 million and RMB2,736 million, respectively, representing increases of approximately 7.3% and 5.8% as compared to the corresponding year, respectively. Profit attributable to shareholders of the Company was approximately RMB493 million and the basic earnings per share was approximately RMB22.3 cents.

(I) Sales of new automobiles business

In 2016, the Group continued to selectively expand its sales network of luxury automobiles by boosting the development of same-store sales to consolidate its regional competitive edges. The sales of new automobiles amounted to 96,883 units, representing an increase of approximately 9.5% as compared to the corresponding year. The sales of luxury brands and ultra-luxury brands amounted to 67,962 units, representing an increase of approximately 11.4% as compared to the corresponding year. In 2016, revenue from the sales of new automobiles amounted to approximately RMB27,042 million, representing an increase of approximately 6.9% as compared to the corresponding year. With the more diversified product lines offered by the major automobile manufacturers under the Group's dealership, the average selling price of automobiles continued to decrease and the product

cycle and competition landscape of major brands under the Group's dealership further changed, resulting in varied gross profit margins. In 2016, the Group recorded an overall gross profit margin for new auto sales of approximately 2.9%, representing a slight decrease as compared to the corresponding year. The Group believes that the further improvement of the sales growth and gross profit margin of new automobiles will mainly be benefited from the improvement of the product cycle of major brands under the Group's dealership, higher demand arising from the market's stable consumption, further strengthening of our relationship with auto manufacturers, as well as the upgrading of the Group's service platform and financial services.

(II) After-sales services business

In 2016, revenue and gross profit of after-sales services of the Group amounted to approximately RMB3,422 million and approximately RMB1,621 million, representing an increase of approximately 1.4% and a decrease of approximately 0.9% as compared to the corresponding year, respectively. The gross profit margin was approximately 47.4%. In 2016, with greater demand for after-sales services, the Group served 987,766 units of automobiles in aggregate, representing an increase of approximately 8.3% as compared to the corresponding year, of which the Group has served 730,198 units of luxury branded automobiles, representing an increase of 12.1% as compared to the corresponding year.

In 2016, despite the increased pressure regarding the average selling price of after-sales services arising from the adjustment in the price of the market's spare parts and components, the Group vigorously increased its customer loyalty. Through increasing units of automobiles served and the adjustment to the price of parts and components, the Group maintained sound growth in the revenue and gross profit from after-sales services. Great efforts have also been made to expand the research and marketing of new products and services. In particular, in respect of product marketing, the Group leveraged its strength to improve its customized plans including maintenance, repairing, warranty renewal and warranty extension for a higher rate of penetration. In respect of customer experience, the Group provided more efficient after-sales services for its customers through instant appointment and express bodywork. On top of the loaner vehicles services, the Group also offered insurance coverage and discounts for the loaner vehicles. In respect of cost control, the Group restructured its departments to streamline the centralized procurement channels and enhance the management of inventories and spare parts so as to strictly control the costs.

(III) Financial services business

In 2016, the Group exerted great efforts to develop the financial segment consisting of Shanghai Dongzheng Automotive Finance Co., Ltd. ("Dongzheng AFC"), Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. ("Dingze Leasing") and Dingze Insurance Agency Co., Ltd. ("Dingze Insurance Agency"). The Group strove to satisfy the demand of individual customers through the launch of various products, such as differentiated consumer loans provided by Dongzheng AFC, product packages jointly offered by Dongzheng AFC and Dingze Leasing, and auto-related products provided by Dingze Insurance Agency.

Leveraging on the strategic alliance with major luxury brands under the Group's dealership and by proactively exploring the national network coverage, Dongzheng AFC has further expanded and optimized the cooperation with auto manufacturers and other dealers.

As of 31 December 2016, the total assets of Dongzheng AFC amounted to RMB4,153 million. The balance of retail loans amounted to approximately RMB3,505 million, accounting for approximately 90.79% of the balance of total loans. The retail loans had an average term of 31.68 months. With the rapid growth of Dongzheng AFC, its financing costs and operating costs will be further optimized and the credit risks will be further diversified.

In respect of insurance brokerage business, in 2016, the Group continued to raise the penetration rate of policy renewal while maintaining a high level of new businesses. With an aim to satisfy diverse customer needs and increase the revenue and penetration rate of its insurance products, the Group was actively developing special products, such as three-year insurance, warranty extension, robbery and theft insurance and glass insurance, as well as providing installment payment option for customers supported by the financial business of the Group.

In the future, Dongzheng AFC will carry on auto consumption loans business and realize growth in asset quality, business scale and profit by taking advantage of its strengths in risk control, standardized operation and financing. Besides, under the prospective strategic deployment of the Group, Dingze Leasing and Dingze Insurance Agency will engage in the businesses for large corporate customers and auto-related consumption, so as to achieve synergistic benefits with Dongzheng AFC and boost the general competitiveness of the financial services segment.

(IV) Supply chain business

The automobile supply chain business of the Group mainly consists of automobile logistics business and trading of auto maintenance supplies. With the national "5A" logistic enterprise qualifications, the automobile logistics business has developed its own comprehensive logistics management system covering the whole supply chain of automobile logistics ranging from procurement logistics, production logistics, distribution processing, distribution logistics and automobile logistics to logistics-related consulting services. The trading of auto maintenance supplies mainly includes the trading of lubricant oil. Automobile logistics business mainly serves major automobile groups in 25 provinces and municipalities in China. As a cutting-edge automobile logistics service platform in China, the Group's automobile logistics business has great growth potential in the future. The Group is committed to becoming one of the largest third-party logistics service providers independently operated by a Chinese company rather than dominated by OEMs.

(V) Network development

Reasonably laying out the dealership network of luxury brands in China and continuously optimizing the mix of brands to enhance profitability of the Group

As a leading dealership group of luxury brands in China, the Group focuses on dealership of luxury and ultra-luxury branded automobiles, such as Porsche, Mercedes-Benz, BMW, Audi, Jaguar and Land Rover, Volvo, Infiniti and Cadillac. The Group also operates dealership stores of middle market brands, such as FAW-Volkswagen, Buick, Nissan, Toyota, Honda and Hyundai.

As of 31 December 2016, the Group operated 108 dealership stores in 15 provinces and municipalities, covering 36 cities in China. During the year under review, the Group set up six new dealership stores for luxury automobiles, including three Audi 4S Stores in Shenzhen, Zhengzhou and Qingdao, one Jaguar and Land Rover 4S Store in Wuhan, one Volvo 4S Store in Guangzhou and one Mercedes-Benz service center in Shenzhen (深圳奔馳便捷服務中心).

As of the date of this report, the Group set up another Benz 4S Store in Suzhou and obtained authorization for one 4S Store of ultra-luxury brand. 16 authorized dealership stores for core luxury brands, including Porsche, Mercedes-Benz, Audi, BMW, Jaguar and Land Rover, were under construction or to be constructed. With the newly authorized projects covering tier-one cities such as Beijing, Shanghai, Guangzhou, Shenzhen and Chongqing as well as booming areas such as Yunnan, Jiangsu, Anhui, Hubei and Guangdong, the scale and channels of the Group were further expanded.

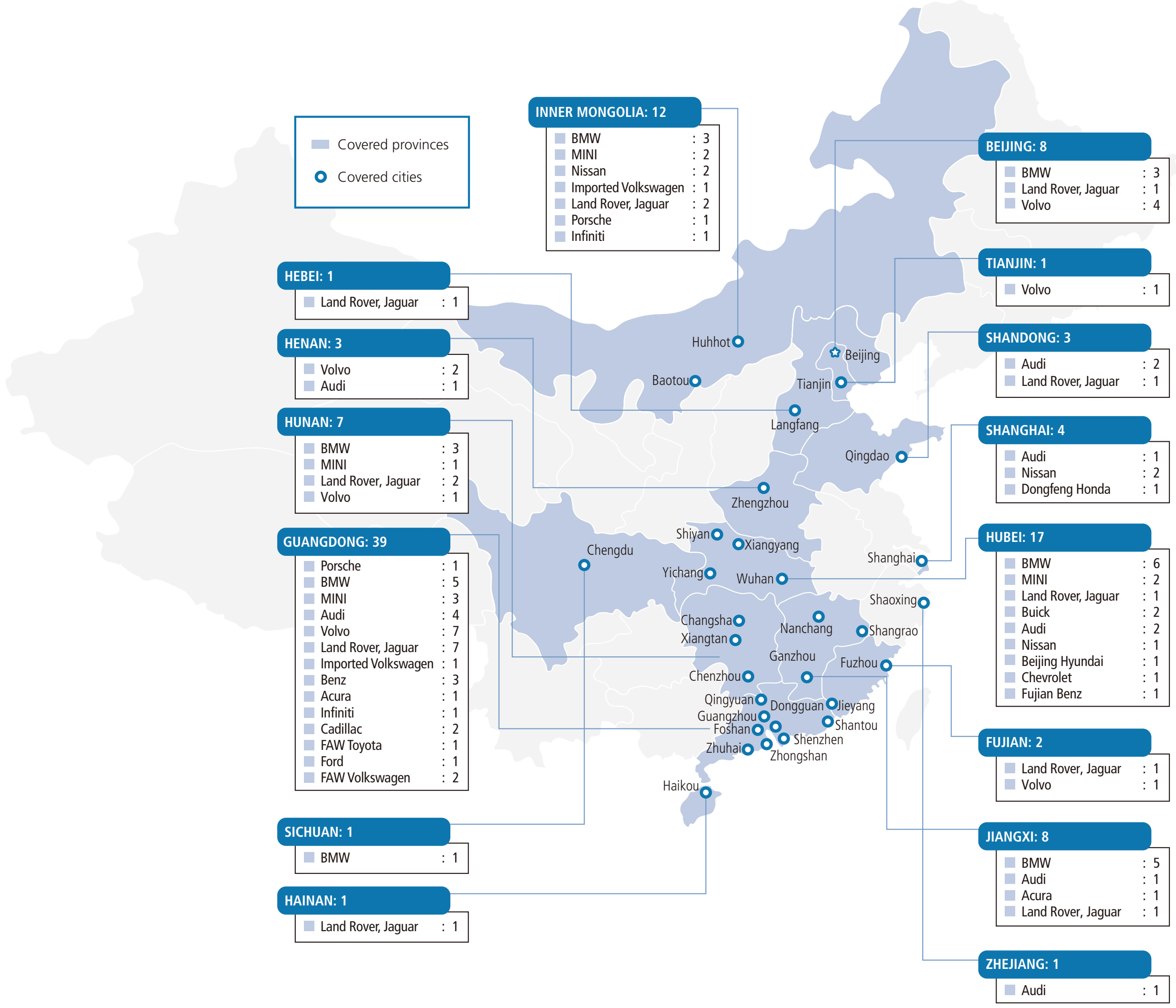
In 2016, while steadily expanding its dealership network, the Group optimized the reasonable distribution of its existing dealership stores and brand structure and controlled the costs so as to further improve the profitability of the whole network. As of the end of 2016, the Group shut down four 4S stores and six urban showrooms due to relocation.

The following table sets forth the details of dealership stores of the Group as of 31 December 2016:

	Dealership store in operation	Authorized dealership stores to be opened	Total
5S/4S store for luxury and ultra-luxury brands	78	15	93
4S store for mid to high-end brands	13	0	13
Urban showroom for luxury brands	11	0	11
Authorized repair service centre for luxury brands	6	0	6
Pre-owned automobile centre	0	1	1
Total	108	16	124

As a leading strategic partner of manufacturers of luxury brands and ultra-luxury brands in the PRC, the Group will continue its network expansion strategies with its focus on a balanced layout of dealership stores of core luxury brands and a refined brand structure in its pursuit of prudent development. Meanwhile, the Group will seek appropriate merger opportunities to rapidly enlarge its business scale and enhance its profitability.

BALANCED NATIONWIDE DEALERSHIP NETWORK



Total number of dealership stores in operation in the PRC as at 31 December 2016: 108

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2016, the revenue of the Group increased by approximately 7.3% to approximately RMB31,519 million from approximately RMB29,361 million in 2015, of which the revenue of automobile financial services increased by approximately 481% to approximately RMB398 million from approximately RMB68 million in 2015. The growth in revenue was mainly benefited from a steady growth in sales of new automobiles and a rapid increase in automobile financing revenue.

The Group generated revenue from sales of new automobiles, after-sales services and other businesses. In 2016, the revenue from sales of new automobiles increased by approximately 6.9% to approximately RMB27,042 million from approximately RMB25,302 million in 2015, representing approximately 85.8% of the total revenue in 2016. Revenue from after-sales services increased by approximately 1.4% to approximately RMB3,422 million from approximately RMB3,376 million in 2015. Sales revenue from luxury and ultra-luxury branded automobiles increased by approximately 7.4% to approximately RMB23,522 million in 2016 from approximately RMB21,906 million in 2015, representing approximately 87.0% of sales revenue from new automobiles. In 2016, revenue from sales of new automobiles and revenue from after-sales services accounted for 85.8% and 10.9% of the total revenue, respectively. The proportion of revenue from after-sales services decreased by approximately 0.6 percentage points as compared to the corresponding year.

Cost of sales

For the year ended 31 December 2016, the cost of sales of the Group increased by approximately 7.5% to approximately RMB28,783 million from approximately RMB26,775 million in 2015, which was basically in line with the increase in revenue. The cost of sales for new automobiles increased by approximately 7.3% to approximately RMB26,260 million in 2016 from approximately RMB24,463 million in 2015. The increase was basically in line with the increase in the revenue from sales of new automobiles. The cost of sales for after-sales services increased by approximately 3.5% to approximately RMB1,801 million from approximately RMB1,740 million in 2015.

Gross profit and gross profit margin

For the year ended 31 December 2016, the gross profit of the Group increased by approximately 5.8% to approximately RMB2,736 million from approximately RMB2,587 million in 2015 while the gross profit margin decreased by approximately 0.1% to 8.7% from approximately 8.8% in 2015.

The Group recorded gross profit mainly from after-sales services, sales of new automobiles and automobile financial services. In 2016, gross profit from sales of new automobiles amounted to approximately RMB782 million, representing a decrease of approximately 6.8% as compared to the corresponding year. Gross profit margin from sales of new automobiles amounted to 2.9%, representing a slight decrease as compared to that of 2015. Gross profit from sales of luxury and ultra-luxury branded automobiles amounted to approximately RMB723 million, representing a decrease of approximately 8.7% as compared to the corresponding year. Gross profit margin from sales of luxury and ultra-luxury branded automobiles slightly decreased to 3.1% from 3.6% in 2015, which was mainly due to relatively sluggish market demands and weak product life cycles of certain brands. In 2016, gross profit from after-sales services of the Group amounted to approximately RMB1,621 million, representing a decrease of approximately 0.9% as compared to the corresponding year. Gross profit margin from after-sales services decreased by approximately 1.1% to approximately 47.4% from approximately 48.5% in 2015. Dongzheng AFC recorded gross profit of approximately RMB286 million in 2016 and its gross profit margin amounted to approximately 65.0%.

Selling and distribution expenses

For the year ended 31 December 2016, the selling and distribution expenses of the Group increased by approximately 11.9% to approximately RMB948 million from approximately RMB847 million in 2015. The increase was mainly due to an increase in leasing charges, staff costs and depreciation costs as a result of an increase in the number of dealership stores.

Administrative expenses

For the year ended 31 December 2016, the administrative expenses of the Group increased by approximately 17.6% to approximately RMB1,072 million from approximately RMB912 million in 2015, which was due to an increase in the number of dealership stores during the period under review and an exchange loss incurred from the depreciation of Renminbi as compared to the beginning of the year.

Profit from operations

For the year ended 31 December 2016, the profit from operations of the Group decreased by approximately 7.7% to approximately RMB1,248 million from approximately RMB1,351 million in 2015. The operating profit margin decreased by approximately 0.6% to approximately 4.0% from approximately 4.6% in 2015.

Income tax expenses

For the year ended 31 December 2016, the income tax expenses of the Group amounted to approximately RMB282 million. The effective tax rate was approximately 35.7%.

Profit during the period

For the year ended 31 December 2016, the profit during the period of the Group decreased by approximately 19.1% to approximately RMB508 million from approximately RMB629 million in 2015. During the period, the net profit margin decreased by approximately 0.5% to approximately 1.6% from approximately 2.1% in 2015.

Contingent liabilities

As at 31 December 2016, the Group had no material contingent liabilities or guarantees save as those assets pledged to banks.

Current assets and current liabilities

As at 31 December 2016, the current assets of the Group increased by approximately RMB2,190 million to approximately RMB14,593 million from approximately RMB12,403 million as at 31 December 2015, which was mainly due to an increase in trade and other receivables and receivables from financial services of the Group.

As at 31 December 2016, the current liabilities of the Group increased by approximately RMB3,622 million to approximately RMB15,378 million from approximately RMB11,756 million as at 31 December 2015, which was mainly due to an expansion of the automobile financing business of the Group.

Cash flow

As at 31 December 2016, the cash and cash equivalents of the Group increased by approximately RMB26 million to approximately RMB1,625 million from approximately RMB1,599 million as at 31 December 2015. The transactions and monetary assets of the Group are denominated in Renminbi. The funds of the Group are mainly used for the purchase of new automobiles, spare parts, automobile accessories and automobile lubricant oil, the settlement of loans, borrowings and other indebtedness, the appropriation to working capital and normal recurring expenses, the establishment of new dealership stores or the acquisition of dealership stores or other businesses. The Group finances its liquidity requirement with a combination of cash flow generated from operating activities, bank loans and other funds. For the year ended 31 December 2016, the Group had net cash inflow generated from operating activities of approximately RMB647 million (for the year ended 31 December 2015, the Group had net cash inflow generated from operating activities of approximately RMB1,526 million).

Capital expenditure and investment

For the year ended 31 December 2016, the capital expenditure and investment of the Group amounted to approximately RMB1,049 million (2015: approximately RMB1,099 million), which was mainly applied to the renovation, upgrades of equipment and purchase of automobiles for test drive.

Inventory

Inventories of the Group primarily include automobiles and automobile spare parts. Generally, each dealership store of the Group independently manages its quotas and orders for new automobiles, automobile spare parts and other inventories. In addition, the Group manages inventories with its information technology systems. It also monitors the inventories within its whole dealership network and coordinates all dealership stores to balance their automobile inventory levels. As of 31 December 2016, the inventories of the Group amounted to approximately RMB3,019 million, representing a decrease of approximately RMB175 million as compared to RMB3,194 million as of 31 December 2015, mainly attributable to the inventory decrease of new automobiles by the Group based on the market demand. The average inventory turnover days of the Group for 2016 decreased by 11.9 days to 39.5 days from 51.4 days for 2015. The following table sets forth its average inventory turnover days for the years indicated:

	For the year ended 31 December	
	2016	**2015**
Average inventory turnover days	**39.5**	51.4

Risks of Foreign Exchange

The Group conducts its business primarily in Renminbi. Certain bank deposits, bank loans and credit enhanced bonds were denominated in foreign currencies. However, the Group's operating cash flow and liquidity have not been subject to significant influence from fluctuations in exchange rate. The Group hedges its future bonds payable in US dollars by adopting cross currency swap. As at 31 December 2016, a fair value of approximately RMB143 million (as at 31 December 2015: RMB27 million) was recognised by the Group in respect of the cross currency swap.

Liquidity and Capital Resources

Working capital and capital expenditures of the Group were primarily funded through cash generated from internal operation and borrowings provided by principal banks. As at 31 December 2016, cash and bank deposits of the Group were approximately RMB3,457 million (including pledged bank deposits and balances with the central bank of approximately RMB1,832 million and cash and cash equivalents of RMB1,625 million), representing an increase of approximately RMB377 million as compared to approximately RMB3,080 million as at 31 December 2015. As at 31 December 2016, loans and borrowings, obligations under finance leases and bonds payable of the Group amounted to approximately RMB11,286 million (as at 31 December 2015: approximately RMB7,997 million). As at 31 December 2016, save as loans and borrowings, obligations under finance leases and bonds payable of approximately RMB8,594 million that bore interest at fixed rates, other loans and borrowings bore interest at floating rates. As at 31 December 2016, net gearing ratio of the Group was approximately 87.5% (as at 31 December 2015: approximately 56.6%). Net gearing ratio was calculated as loans and borrowings, obligations under finance leases and bonds payable less cash and bank deposits divided by owner's equity. The increase in the ratio was mainly attributable to the growth in the scale of the auto finance business of the Group.

Pledged assets of the Group

The Group has pledged its group assets as the security for loans and borrowings as well as bank financing which would be used as working capital for daily operations. As at 31 December 2016, the pledged assets of the Group amounted to approximately RMB3,748 million (as at 31 December 2015: approximately RMB3,620 million).

Material acquisition and disposal of subsidiaries and associates

For the year ended 31 December 2016, there was no material acquisition or disposal of subsidiaries and associates by the Group.

Investments held in foreign currency and hedging

For the twelve months ended 31 December 2016, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group did not encounter any material difficulties or material impacts in respect of its working capital or liquidity as a result of the movement in exchange rate.

Employees and remuneration policies

As at 31 December 2016, the Group had 9,120 employees in China (as at 31 December 2015: 8,765 employees). For the year ended 31 December 2016, the total labour cost of the Group amounted to approximately RMB713 million (for the year ended 31 December 2015: RMB653 million). The Group offers competitive remuneration packages and welfare benefits, including pensions, work-related compensation benefits, maternity insurance, medical and unemployment plans. The Group also provides a good working environment and diversified training programs to its employees. The Group has adopted share option schemes and a restricted share award scheme for granting shares to eligible employees as incentives or rewards for their contribution to the Group.

FUTURE OUTLOOK AND STRATEGIES

China's automobile market becomes increasingly mature. Due to the steady growth of household disposable income, sales of automobiles and consumption of relevant services, automobile consumption will escalate gradually. Meanwhile, there will be higher requirements for product and service quality. Due to the increasing consumption of luxury automobiles, customers will require more specialized services at various stages of consumption relating to automobiles, and will expect to enjoy one-stop integrated services which are of higher quality and convenience. The Group will take the advantage of its diversified portfolio of luxury brands, mature nationwide networks as well as customized and high value-added services in respect of finance and insurance so as to create excellent customer experience. The Group will also fully exercise its advantage in integrated platform and independent business to cater for customers' changing consumption habits. Efforts will also be made to enrich its services and products and expand its service channels to fully capture opportunities. In addition, the Group will develop traditional sales networks on a more selective basis and continue to optimize internal management and operation efficiency to create greater value to its shareholders, employees and the community.

EVENTS AFTER THE REPORTING PERIOD

(1) Mr. Wang Kunpeng, an executive Director of the Company, has been re-designated as the vice Chairman of the Board and ceased to be the chief executive officer since 6 January 2017. On the same day, Mr. Koh Tee Choong, Ivan was appointed as the chief executive officer of the Company with effect from 6 January 2017.

(2) On 12 January 2017, the Company (as borrower) and two of its Hong Kong incorporated subsidiaries (as guarantors) entered into a facility agreement (the "Facility Agreement") with (among other parties) fifteen financial institutions (as lenders) for a syndicated term loan facility for an initial aggregate amount of US$409 million (with a green shoe option of an amount up to US$600 million (inclusive of the said initial amount)). The final repayment date of the loan facility shall be the date falling 36 months after the first utilization date. The purpose of the loan facility is primarily to refinance the existing indebtedness and for the corporate funding requirement of the Company and its subsidiaries.

(3) Mr. Koh Tee Choong, Ivan, the chief executive officer of the Company, was appointed as the executive Director of the Company on 21 March 2017. Mr. Li Yi resigned as the executive Director of the Company on the same day.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2016.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Group also acknowledges the vital importance of good corporate governance to the success and sustainability of the Group.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Board is of the view that throughout the year ended 31 December 2016, the Company has complied with the applicable code provisions (the "Code Provisions") of the CG Code, except that, pertaining to Code Provisions E.1.2, Mr. Wang Muqing, the Chairman of the Board of the Company, was unable to attend the 2016 annual general meeting of the Company due to other commitments.

The Company will periodically review and enhance its corporate governance practices to ensure that it will continue to comply with the requirements of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct (the "Securities Code") regarding the Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the Securities Code and the Model Code during the year ended 31 December 2016.

The Company has also adopted a warning to its employees regarding insider dealings ("Insider Dealings Warning") for their securities transactions. So far as the Company is aware, there was no incident of non-compliance of the Insider Dealings Warning by the employees.

BOARD OF DIRECTORS

Board Composition

The Board consists of nine Directors, including six executive Directors and three independent non-executive Directors.

During the year and up to the date of this report, the Board consists of the following Directors:

Executive Directors:

Mr. Wang Muqing *(Chairman)*
Mr. Wang Kunpeng (re-designated as vice Chairman of the Board on 6 January 2017)
Mr. Koh Tee Choong, Ivan (appointed on 21 March 2017)
Mr. Li Zhubo
Mr. Wan To
Mr. Shao Yong Jun
Mr. Li Yi (resigned on 21 March 2017)

Independent Non-executive Directors:

Dr. Wong Tin Yau, Kelvin
Dr. Cao Tong (appointed on 8 April 2016)
Ms. Wong Tan Tan (appointed on 13 December 2016)
Mr. Zhao Chunjun (retired on 13 December 2016)
Mr. Chang Xiuze (resigned on 8 April 2016)

The Company has listed independent non-executive Directors in all corporate communications pursuant to the Listing Rules. The latest list of Directors (by category) which specifies their roles and functions was also disclosed in the websites of the Company and the Stock Exchange pursuant to the Listing Rules.

None of the members of the Board is related to one another.

During the year ended 31 December 2016, the Board at all times complied with 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. One-third of the members of the Board was independent non-executive Directors.

The Company has received written annual confirmation of independence from three independent non-executive Directors, namely Dr. Wong Tin Yau, Kelvin, Mr. Zhao Chunjun and Dr. Cao Tong, pursuant to the requirements of the Listing Rules. Ms. Wong Tan Tan has also confirmed her independence pursuant to Rule 3.13 of the Listing Rules. Therefore, the Company considers all independent non-executive Directors were independent in accordance with the independence guidelines set out in the Listing Rules.

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

Responsibilities

The Board is collectively responsible for leading and managing the Company and overseeing the businesses, strategic decisions and performance of the Company. The Board has delegated the Chief Executive Officer to assign the authority and responsibility for the daily management and operation of the Group to the senior management. In addition, the Board has established Board committees (the "Committees") and has delegated to these Committees various responsibilities as set out in their respective terms of reference.

All Directors have performed their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its shareholders at all times.

Delegation by the Board

The Board reserves its rights to make decisions on all major matters of the Company, including the formulation and monitoring of all policies and directions, overall strategies and budgets, internal control and risk management systems, major transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as advices and services of the secretary of the Company ("Company Secretary"), with a view to ensuring that the procedures of the Board and all applicable rules and regulations are followed. Each Director may request the Board to seek independent professional advices in appropriate circumstances at the expense of the Company.

The day-to-day management, administration and operation of the Company are delegated to the Executive Committee (previously known as Operation and Management Committee) which is the management authority of the Group. The members of such committee are the Chief Executive Officer and four Executive Directors. Its delegated functions and responsibilities are periodically reviewed by the Board. Any major transactions of the Group shall be subject to the approval of the Board.

The Company has maintained directors and executives liability and company reimbursement insurances for its directors and executives.

Appointment and Re-election of Directors

The procedures and processes of appointment, re-election and removal of Directors are specified in the articles of association of the Company (the "Articles"). The Nomination Committee is responsible for reviewing the structure, size, board diversity and composition of the Board, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors. Details of the Nomination Committee are set out in the section headed "Board Committees" below.

Each of the Directors has entered into a service contract (for Executive Director) or a letter of appointment (for non-executive Director and independent non-executive Director). No Director proposed for re-election at the forthcoming 2017 annual general meeting of the Company (the "2017 AGM") has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Pursuant to the Articles, at each annual general meeting ("AGM"), one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one-third) is required to retire from office by rotation, provided that every Director shall be subject to retirement at least once every three years. The Director to retire in every year shall be the one who has been longest in office since his/her last election but as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by ballot and shall be eligible to offer themselves for re-election. Any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following general meeting of the Company and shall, being eligible, be subject to re-election at such meeting.

Accordingly, Mr. Wang Kunpeng, Mr. Shao Yong Jun, Mr. Wan To, Mr. Koh Tee Choong, Ivan and Ms. Wong Tan Tan shall retire and being eligible, offer themselves for re-election at the 2017 AGM. A circular dated 13 April 2017 to be sent by the Company to the shareholders contains details of the Directors proposed to be re-elected.

The Board recommended the re-appointment of the Directors proposed to be re-elected at the 2017 AGM of the Company.

Board Diversity

The Board has adopted a board diversity policy (the "Board Diversity Policy") in September 2013. In determining the composition of the Board, the Company considers whether a candidate will bring potential complementary benefits to the Board and contribute to the improvement of the overall competence, experience and expertise of the Board. The Company may consider the diversity of the composition of the Board in various aspects, including professional experience and qualifications, gender, age, ethnicity, and cultural and educational background, as well as any other factors that the Board from time to time deems relevant and appropriate. Selection of candidates will be based on a range of diversity perspectives, including but not limited to experience and expertise, professional experience and qualifications, gender, age, ethnicity and cultural and educational background. The Nomination Committee will review the Board Diversity Policy as and when appropriate to ensure its effectiveness.

Induction and Continuing Development of Directors

Every newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Directors' responsibilities and obligations under the Listing Rules, common law and relevant statutory requirements.

The existing Directors are continuously updated with developments in legal and regulatory regime and the business and market environments so as to facilitate the discharge of their responsibilities. In September 2016, the Company organized a 3-hour seminar on the reporting of environment, society and governance ("ESG") for Directors and relevant management. Relevant seminar material was also provided to those who were not able to attend the seminar.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year under review, the posts of Chairman and Chief Executive Officer are held separately by Mr. Wang Muqing and Mr. Wang Kunpeng, Executive Directors of the Company, respectively, neither of whom have any financial, business, family or other relationship with each other. This separation ensures that there is a clear division of responsibilities of the management of the Board and the day-to-day management of business of the Company to ensure a balance of power and authority. The Chief Executive Officer is responsible for leading the day-to-day management of the Company, implementing the strategic plans and business goals of the Company and formulating and recommending business plans and budgets to the Board.

Mr. Wang Kunpeng, was re-designated as vice Chairman of the Board on 6 January 2017 and ceased to be the Chief Executive Office of the Company. He will focus on the development strategies and major investment decision-making functions of the Company. On the same date, Mr. Koh Tee Choong, Ivan was appointed as the Chief Executive Office of the Company. Mr. Koh is also the chairman of the Executive Committee.

ATTENDANCE RECORDS

The attendance of the Directors at the AGM, Board meetings and Committee meetings in 2016 was as follows:

	Meeting Attended during Tenure of Office/Held				
Members of the Board of Directors	2016 AGM	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors:					
Mr. Wang Muqing *(Chairman)*	0/1	4/4	–	1/1	1/1
Mr. Wang Kunpeng	1/1	4/4	–	2/2	–
Mr. Li Zhubo	1/1	4/4	–	–	–
Mr. Wan To	1/1	4/4	–	–	–
Mr. Li Yi	1/1	4/4	–	–	–
Mr. Shao Yong Jun	1/1	4/4	–	–	2/2
Independent Non-executive Directors:					
Dr. Wong Tin Yau, Kelvin	1/1	4/4	2/2	3/3	–
Mr. Zhao Chunjun (retired on 13 December 2016)	0/1	4/4	2/2	–	3/3
Mr. Chang Xiuze (resigned on 8 April 2016)	0/0	2/2	1/1	2/2	2/2
Dr. Cao Tong (appointed on 8 April 2016)	1/1	2/2	1/1	1/1	1/1
Ms. Wong Tan Tan (appointed on 13 December 2016)	0/0	0/0	0/0	–	0/0

BOARD AND COMMITTEE MEETINGS

Board Practices and Conduct of Meetings

During the year ended 31 December 2016, the Company held a total of four Board meetings. At the Board meetings, the Board reviewed and approved the final results for the year ended 31 December 2015 and interim results for the half year ended 30 June 2016 and other significant matters of the Company.

The Company has draft agenda of each meeting of the Board and the Committees made available to Directors in advance, and serves notices of regular Board meetings at least 14 days before the date of the meetings. For other Board and Committee meetings, reasonable notices will be given.

Documents of the Board together with all appropriate, complete and reliable information are sent to all Directors at least three business days before the date of each Board meeting or Committee meeting to keep the Directors abreast of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and every Director also have separate and independent access to the senior management where necessary.

Draft and final versions of minutes are circulated to Directors or relevant Committee members for comments and records respectively within a reasonable time after each meeting. Minutes of Board meetings and Committee meetings are kept by the Company Secretary and are available for inspection by all Directors at all reasonable time.

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

BOARD COMMITTEES

The Board has established three committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. The Remuneration Committee, the Nomination Committee and the Audit Committee are established with defined written terms of reference. These terms of reference are posted on the website of the Company and are available for inspection of shareholders upon request. These committees are provided with sufficient resources to discharge their duties and are required to report to the Board on their decisions or recommendations. During the year ended 31 December 2016, two meetings of the Audit Committee were held, and three meetings of each of the Remuneration Committee and the Nomination Committee were held.

Remuneration Committee

As at the date of this report, the Remuneration Committee comprises three members, including Chairman of the Board and Executive Director, Mr. Wang Muqing (appointed on 8 April 2016), and independent non-executive Directors, Dr. Cao Tong (appointed on 8 April 2016) and Dr. Wong Tin Yau, Kelvin . Dr. Cao Tong is the chairman of the Remuneration Committee.

The Remuneration Committee is primarily responsible for making recommendations to the Board on the remuneration policy and structure of the Company for all Directors and senior management and establishing a formal and transparent procedure of the formulation of the remuneration policy. The responsibilities of the Remuneration Committee also include reviewing and approving the remuneration proposals of the management with reference to the corporate goals and objectives of the Board, and ensuring that no Director or any of his/her associates participates in the determination of his/her own remuneration.

During the year ended 31 December 2016, the Remuneration Committee held three meetings to review the remuneration policies and strategies of the Group, make recommendations to the Board on remuneration of Directors and senior management and provide advices on remuneration of newly appointed Directors to the Board.

Details of the amount of remuneration of Directors and senior management are set out in note 8 and note 9 to the financial statements.

Nomination Committee

As at the date of this report, the Nomination Committee comprises three members, including Chairman of the Board and Executive Director, Mr. Wang Muqing (appointed on 8 April 2016), independent non-executive Directors, Dr. Cao Tong (appointed on 8 April 2016) and Ms. Wong Tan Tan (appointed on 13 December 2016). Mr. Wang Muqing is the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board and making recommendations regarding any proposed changes, identifying suitable candidates for appointment as Directors, making recommendations to the Board on the proposed appointment or re-appointment and succession of Directors and assessing the independence of independent non-executive Directors. The Nomination Committee will also review the Board Diversity Policy as and when appropriate to ensure its effectiveness and discuss any revisions that may be required in the light of the corporate strategies of the Company and recommend any such revisions to the Board for consideration and approval.

During the year ended 31 December 2016, the Nomination Committee held three meetings. The Nomination Committee has performed the following works during the year: (1) reviewing the structure, size, board diversity and composition of the Board to ensure the professional knowledge, skills and experience of the Board to meet the business needs of the Company; (2) reviewing the annual confirmation of independence submitted by the independent non-executive Directors and assessing their independence; (3) providing recommendations to the Board on the appointment of new Director; and (4) making recommendations to the Board on re-appointment of Directors retiring and offering themselves for re-election at the 2016 AGM.

Audit Committee

As at the date of this report, the Audit Committee comprises three members, who all are independent non-executive Directors (including one independent non-executive Director with appropriate professional qualifications and accounting expertise), namely Dr. Wong Tin Yau, Kelvin, Dr. Cao Tong (appointed on 8 April 2016) and Ms. Wong Tan Tan (appointed on 13 December 2016). Dr. Wong Tin Yau, Kelvin is the chairman of the Audit Committee.

The Audit Committee is primarily responsible for reviewing financial information of the Group, monitoring the independence and objectiveness of the external auditors and the effectiveness of the auditing process and making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and the approval of their remuneration and terms of engagement. The audit committee is also responsible for reviewing the financial reporting process and financial controls, internal controls and risk management systems, including the adequacy of resources, staff qualifications and experience, training programmes and budgets of the internal audit functions as well as arrangements for concerns about possible misconducts in financial reporting, internal controls or other matters raised by employees of the Company ("Whistle-blowing").

The Audit Committee reviews the annual report and accounts and interim report of the Group before submission to the Board for approval.

During the year ended 31 December 2016, the Audit Committee held two meetings. The Audit Committee has performed the following works during the year: (i) reviewing the annual results for the year ended 31 December 2015 and interim results for the six months ended 30 June 2016; (ii) reviewing the financial reporting procedures and compliance procedures, the report of internal audit on internal controls and risk management system; (iii) reviewing the non-exempt continuing connected transactions entered into by the Group and non-competition undertakings made by the controlling shareholders of the Company; and (iv) reviewing the re-appointment of external auditors and providing relevant recommendations to the Board.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016.

The Board is responsible for presenting balanced, clear and understandable annual and interim reports, price-sensitive announcements and other disclosures prepared in accordance with the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the financial statements of the Company, which are put to the Board for approval.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties:

(a) to develop and review the policies and practices on corporate governance of the Group;

(b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group;

(c) to review and monitor the policies and practices on compliance with any requirements, directions and regulations that may be prescribed by the Board or contained in any constitutional documents of the Group or imposed by the Listing Rules, the applicable laws and other applicable organisational governance standards;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Group;

(e) to review the Group's compliance with the corporate governance code from time to time adopted by the Group and the disclosure in the corporate governance report to be contained in the Company's annual reports;

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditor of the Company in respect of its reporting responsibilities for the financial statements is set out in the section headed "Independent Auditor's Report" on page 55.

The remuneration received by the Company's auditors, KPMG, during the year ended 31 December 2016 is set out below:

Category of Services	Fee Paid/Payable RMB
Audit Services	**7,300,000**
Non-audit Services	**328,000**
Total	**7,628,000**

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for maintaining sound and effective risk management and internal control systems to safeguard the investments of the shareholders and the assets of the Company.

The Board monitors the risk management and internal control systems principally through the Internal Audit Department of the Group, and is committed to conducting, at least annually, a review of the effectiveness of the risk management and internal control systems of the Group, including adequacy of resources, qualifications and experience of the accounting and financial reporting personnel of the Company, and the training programmes and budget thereof.

The Board, through the Audit Committee, has conducted a review on the risk management and internal control systems of the Company and its subsidiaries for the year ended 31 December 2016. Such review covered the finance, operation, supervision and risk management of the Group. The Board confirmed that the risk management and internal control systems of the Company are sound, effective and sufficient.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective and ongoing communication with shareholders is essential for enhancing investor relations and investors' understanding of the business performance and strategies of the Group. The Company also recognises the importance of transparency and timely disclosure of corporate information, which enables effective evaluation of the performance of the Group by shareholders and investors.

The Company facilitates communication between the Board and its shareholders through general meetings, and it communicates with the shareholders, investors and the general public through annual reports, interim reports and other corporate announcements.

The Company strives to maintain a high level of investor access through a range of investor relations activities, including teleconferences, one-to-one meetings, roadshows, press conferences and site visits. The Company also regularly meets with institutional investors from overseas and Mainland China to keep the investors abreast of the major developments and strategies of the Group.

To facilitate communication, the Company maintains a website at *http://www.zhengtongauto.com*, where updates on the Company's structure, the Board, business developments and operations, financial information, corporate governance practices and other information are posted.

COMPANY SECRETARY

As an employee of the Company, the Company Secretary shall provide assistance to the Board and ensure efficient information circulation within the Board and, in compliance with the policies and procedures of the Board, provide advises on governance matters to the Board, facilitate induction of Directors and monitor their trainings and continuous professional development. The Company Secretary confirmed that she has undertaken no less than 15 hours of relevant professional training during the year under review.

RIGHTS OF SHAREHOLDERS

A summary of certain rights of the shareholders which shall be disclosed by the Company in accordance with the mandatory disclosure requirement under Paragraph O of the CG Code is set out below:

Procedures for shareholders to convene an extraordinary general meeting ("EGM")

1. One or more shareholders ("Requisitionist(s)") holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company carrying voting right at general meetings shall have the right to request the Board to convene an EGM in respect of any business transaction specified in such requisition.

2. Such requisition shall be made in writing and delivered to the Board at the principal place of business of the Company in Hong Kong at Unit 5905, 59/F, The Center, 99 Queen's Road Central, Hong Kong or via email at ir@zhengtongauto.com.

3. The EGM shall be held within two months after the deposit of such requisition.

4. If the Board fails to convene such meeting within twenty-one (21) days of such deposit, the Requisitionist(s) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

Procedures for shareholders to submit proposals at general meetings

1. A shareholder of the Company should lodge a written notice of his/her proposal ("Proposal") together with his/her detailed contact information at the principal place of business of the Company in Hong Kong at Unit 5905, 59/F, The Center, 99 Queen's Road Central, Hong Kong.

2. The request will be verified with the Hong Kong branch share registrar of the Company and upon its confirmation that the request is proper and in order, the Board will be required to include the Proposal in the agenda of the general meeting.

3. The notice period given to all shareholders of the Company for consideration of the proposal to be raised by the Shareholder concerned at the general meeting varies with the nature of such Proposal:

   (a) At least 14 clear days' and 10 clear business days' notice in writing if the Proposal constitutes an ordinary resolution of the Company;

   (b) At least 21 clear days' and 10 clear business days' notice in writing if the Proposal constitutes a special resolution of the Company in an extraordinary general meeting of the Company or an ordinary resolution of the Company in an annual general meeting of the Company.

Procedures for shareholders to make enquiries to the Company

For matters in relation to the Board, the shareholders of the Company may contact the Company at Unit 5905, 59/F., The Center, 99 Queen's Road Central, Hong Kong or via email at ir@zhengtongauto.com.

For matters in relation to the share registration, such as share transfer and registration, change of name or address, loss of share certificates or dividend warrants, the registered shareholders of the Company may contact Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

CONSTITUTIONAL DOCUMENTS

There was no change to the Memorandum of Association of the Company and Articles during the year under review. The latest consolidated version of the Memorandum of Association and Articles is available on the websites of the Company and the Stock Exchange.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT

1 INTRODUCTION

Basis of Preparation

This report has been prepared to provide a review of the relevant activities during the period from 1 January 2016 to 31 December 2016 in accordance with the Environmental, Social and Governance Guidelines (環境、社會及管治指南) ("ESG Guidelines") issued by the Stock Exchange.

Business of the Group

In 2016, the Group was committed to developing a one-stop automobile service platform mainly for (i) the sales of luxury and super-luxury brand vehicles; (ii) after-sales service (including repair, maintenance and sales of auto parts); (iii) post-market businesses (including auto financing, insurance brokerage, finance leasing, pre-owned automobiles trading, e-commerce platform and other highly value-added businesses); and (iv) supply chain business, covering automobile logistics and trading of auto supplies. As of the end of the reporting period, the Group had 100 4S shops[1] and four 5S shops[2], namely Nanchang Baoze BMW 5S Shop (南昌寶澤寶馬5S店), Chengdu Qibao BMW 5S Shop (成都祺寶寶馬5S店), Beijing Baozehang BMW 5S Shop (北京寶澤行寶馬5S店) and Guangzhou Baoze BMW 5S Shop (廣州寶澤寶馬5S店).

ESG Strategy of the Group

The Group highly values the harmonious relationship between people, operating results and environment, which is crucial to its stable growth and sustainable development. In the pursuit of business and profit growth, the concept of sustainability is incorporated in every aspect of our operation through the adoption of effective and comprehensive policies and measures for the achievement of our mission in respect of the environment and community. It is our objective to enhance the corporate governance of the Group, to share our results with the suppliers, customers, employees and other stakeholders and to minimize the negative impact of our operation on the environment.

Scope of the Report

This report focuses on the operating environment and social policies in relation to the sales, after-sales services, post-market businesses and supply chain businesses of luxury and super-luxury brand and other brand vehicles, which are mainly engaged by the Group in the PRC during the reporting period.

Involvement of Stakeholders

Stakeholders of the Group in respect of environmental, social and governance can be classified as internal and external stakeholders, which mainly involve internal staff (from the management to front-line employees), suppliers, customers, shareholders, investors, governments and communities where the businesses are operated. As 2016 was the first year for the Group to prepare an environmental, social and governance report in accordance with the Environmental, Social and Governance Guidelines (環境、社會及管治指南) ("ESG Guidelines") of the Stock Exchange, the materiality assessment on this report was mainly undertaken by the management team. In the future, other stakeholders will also be invited to work with the management team to review and update the materiality assessment, so as to ensure that the report can fully reflect the latest progress of the Group in sustainable development.

1 4S automobile sales service shop is a four-in-one automobile sales shop providing four different services, including sales of vehicles, sales of auto parts, after-sales services and survey.

2 The fifth "S" denotes sustainability.

Materiality Assessment

Based on the stakeholders and materiality assessment, the following aspects are deemed to have material impact on the sustainable development of the Group and are regarded as key areas in our sustainable development.

Community	Environment
– Supply chain management	– Transport-related energy consumption
– Product liabilities	– Exhaust emission
– Employee welfare	– Electricity utilization
– Employee training and development	– Hazardous waste discharge
– Health and safety	

The Group regards social issues such as supply chain management, product liabilities and employee welfare as an integral part of the environmental, social and governance mission. The Group also attached great importance to the negative impact of our activities on the environment, in particular the energy consumption of automobiles and their emission to the atmosphere. Although we had limited direct control on such two environmental factors (for instance, the energy consumption and compliance of emission standards of the automobiles we sold are subject to the designs of suppliers), we coordinated and cooperated with suppliers to comply with the local emission requirements. For other environmental aspects which we are able to control directly (such as dealership networks, power consumption of plants, emission of hazardous substances and emission of greenhouse gases from operating activities), we will continue to supervise, control and improve our environmental, social and governance performance.

2 ENVIRONMENTAL PROTECTION

The Group is dedicated to an environmentally friendly operation so as to minimise the negative impact of emissions and operating activities on the environment. The operation of our operating premises, such as maintenance centres and showrooms, and product marketing campaigns held outside our operating premises have complied with all applicable laws and regulations with regard to environmental protection.

Apart from regular meetings with automobile manufacturers, the Group supervised and examined automobiles regularly so as to ensure that the entire process from manufacturing to sales has complied with the requirements of environmental protection. In an effort to promote new energy automobiles (including hybrid and electric automobiles), the Group has introduced new energy automobiles to our customers and promoted energy conservation and emission reduction for the purpose of environmental protection. Such efforts will continue in the future through introduction of more environmentally friendly automobiles. During the reporting period, no environmental non-compliance has been found in the areas material to the businesses of the Group.

As of the end of the reporting period, 11 4S shops of the Group obtained the ISO 14001 environmental management system certification. Besides, Nanchang Baoze showroom, our first BMW 5S showroom, commenced operation in December 2012. It has adopted green concepts in its designs. For example, its outer walls have been coated with heat insulating materials, the temperature in ceilings is exceptionally stable (through ceiling coating) and sun-shielding devices (such as automatic curtains) have been installed wherever necessary in the inner and outer areas. As a result, heat accumulation has been minimized, and the overall energy consumption of conditioners is able to be reduced. Dormers have been installed in appropriate locations so as to have a better utilization of natural lights. In addition, in order to improve the air quality in the showrooms, the building materials used have complied with the standard on minimal hazardous release and smoking areas have been designated. With respect to the control of water resources, four 5S shops of the Group have installed rainwater collection devices and water recycling equipments for vehicle washing so as to reduce the use of fresh water.

In order to reduce energy consumption and waste discharge, inexpensive oil-based paint has been replaced with costly and environmental-friendly water-based paint in high-end brand shops, including BMW, Benz, Land Rover, Volvo, Porsche and etc. As of the end of the reporting period, four companies in Shanghai have invested a total of approximately RMB1 million in renovation and equipment upgrade of spray booths in post-sales workshops. Through the application of technologies of activated carbon absorbers and absorption-desorption cycle process, environmental pollution from gas emission has been reduced. The Group will continue to make investments in the maintenance of relevant equipment every year from now on.

In respect of energy efficiency, our spray booths progressively adopted electric heating to replace diesel heating. We will further use quantum radiation heating method with lower energy consumption to replace the ordinary electric heating in spray booths to further reduce our energy consumption from 2017. In addition, the Group has used other energy saving facilities in 60 companies, such as:

- centralized, efficient and energy saving heating, ventilation and air conditioning systems (with centralized heat collection, segregation and control systems);
- energy-efficient lightings (LED or T5) and installation of infrared sensors in non-customer areas to avoid unnecessary energy consumption; and
- renewable energy systems (solar water heaters).

During the period from December 2003 to October 2013, the logistics department of Wuhan Shengze Jietong Logistics Co., Ltd. (捷通物流) had progressively replaced automobiles (diesel forklifts) in its factories with more environmental-friendly electric forklifts for production. Currently, the forklifts had no emission during their operation.

We have encouraged employees to conserve as much water and electricity as possible. For this purpose, we have organized related trainings for our staff on a regular basis with an aim to keep and enhance their environmental awareness.

3 EMPLOYMENT

Employees have always been our major concern and are regarded as the most powerful and effective driving force behind the sustainable development of the Group. The remunerations and benefit packages for the employees of the Group were determined based on the market condition and their respective responsibilities and performance.

The Group has advocated a fair competition. None of our employees were discriminated or harassed due to gender, age, marital status, religion, ethnicity, nationality or health condition. The principle of equal opportunity has been applicable throughout all stages of employment, in particular recruitment, training, career development and promotion. During the reporting period, the Group has complied with all applicable labour laws and regulations, such as the Labour Law of the People's Republic of China, Labor Contract Law of the People's Republic of China and Social Insurance Law of the People's Republic of China.

In strict compliance with the Law of the People's Republic of China on the Protection of Minors, the Group has forbidden employing child labour (who are under the age of 16). The human resources department was responsible for verifying the information of applicants during job application process to avoid employment of children due to false information. The Group has also prohibited forced labour. During the reporting period, there was no incident of child labour or forced labour, nor was there any related discrimination or harassment incidents.

As of 31 December 2016, 35% of the employees have worked in the Group for more than five years.

3.1 Employee Welfare

We value the satisfaction of our employees and encourage them to provide their feedbacks. The Group has established an internal communication and exchange platform which serves as an appropriate channel for our employees to express their grievances and provide recommendations. The Group has handled the requests from our staff in accordance with the prescribed procedures in order to ensure equality in treatment among all staff and their requests. In addition, the Group has proactively adopted reasonable suggestions from our employees in order to enhance their cohesiveness.

The Group has exerted great efforts to develop a harmonious relationship with our employees. Through organizing recreational activities, sports activities and various caring activities on a regular basis, the Group encouraged our employees to maintain a work-life balance. An enhancement in the sense of belonging of employees and a desirable working atmosphere have together facilitated the steady development of the Group.

3.2 Healthy and Safe Workplace

We have strived to provide our employees with a healthy and safe workplace. The Group has formulated safety guidelines which were delivered to all employees.

During the reporting period, the Group organized different types of health and safety educational programmes in order to raise the awareness of our staff in this respect, including trainings, safety knowledge quizzes and competitions. The Group also regularly examined the compliance of safety guidelines of the 4S shops and vehicle maintenance workshops and ensure all certificates required by laws and regulations were obtained or renewed.

The Group has insisted on compliance with the requirements of healthy and safe works. There was no such incident that had adverse impacts on the health and safety of our employees due to substandard workplaces, nor was there any major safety accidents.

3.3 Development and Trainings

The Group has encouraged our employees to pursue continuous learning through on-the-job trainings, job rotation, internal communications, online studies, borrowing of books or DVDs from libraries and site visits. In addition to offering learning resources to all employees, the Group has encouraged them to become our in-house trainers or facilitators. The Group motivated our employees to obtain higher qualifications during their spare time and pursue advanced studies in certain specific professions. In order to encourage employees to further their studies actively, the Group has also granted subsidies for external professional studies.

3.4 Anti-corruption

The Group is strongly against corruptive behaviours during its operating activities and procurement and has taken various effective precautions to prevent the occurrence of any corruptive behaviours. During the reporting period, the Group did not identify any corruption incidents.

4 SUPPLY CHAIN MANAGEMENT

All of our automobiles and parts and components have been supplied by well-known manufacturers who are familiar with relevant environmental requirements and have adequate research and development capability to ensure their products meet the environment standards. We have closely cooperated with service suppliers in respect of after-sale services. Through regular meetings, mutual communications have been facilitated. The Group have conducted regular assessments on our suppliers in respect of environmental and social responsibilities.

Moreover, we believe that the selection of auto dealers and automobile manufacturers is based on mutual agreements. Attributable to our reputation gained from the provision of high quality products and services to customers as well as effective sales channels and methods for automobile manufacturers for a long time, and our awareness of employees' interests and environmental impacts, the Group has been able to obtain the dealership for various famous automobile brands.

5 PRODUCT LIABILITIES

Employees of the Group always uphold the mission of "offering supreme driving experience to our customers" and strive to provide our customers with high quality services. We have spared no effort to fulfil the vision of the Group of "being a world-class automobile services brand".

By maintaining active communications with our customers and providing them with premium services, we ensured their needs in respect of safe driving and other aspects have been accommodated. As such, customer satisfaction has been continuously improving. We have conducted customer satisfaction surveys after sales so as to understand our weaknesses and make corresponding improvements. In the event of a product recall, we will proactively assist the manufacturer to complete the product recall in a timely manner in order to minimize any risks arising from technological problems, potential safety threats or incompliance. As of the end of the reporting period, 11 of the 4S shops under the Group have obtained the ISO 9001 quality management systems certification.

Apart from automobile sales and after-sales services, the Group has also launched a broad range of services which cover the entire life cycle of automobiles with an aim to provide comprehensive experience for our customers. For example, the automobile insurance saved time for our customers and enhanced their consumption experience through providing one-stop services; the financial loan services attracted more potential automobile buyers by enlarging our target customer base; and the pre-owned automobile trading business extended the lifespan of automobiles as it encouraged such reuses, which gave rise to an improvement in both economic efficiency and environmental efficiency.

The Group attached great importance to customer privacy. Stricter internal management has been put in place during the operating activities in order to safeguard customer information. There has been no divulgement of confidential customer information during the reporting period.

6 COMMUNITY INVESTMENTS

The management is well aware of the fact that only by proactively honouring our commitment to social responsibilities can the Group achieve a win-win situation in both economic efficiency and social benefits in the process of our development. As such, as a responsible and conscientious large enterprise, the Group has been devoted to organising various public welfare activities, including providing consolation to elderly living alone in old revolutionary communities, offering bursaries to underprivileged students, in-kind donations and schooling to Hopeful Primary Schools (希望小學) and welfare agencies. Through such voluntary activities, the Group enhanced the awareness of our employees in public welfare, maintained closer connection with our customers and contributed to the community where we have operated in. In the future, the Group will continue to perform our social responsibilities as a large enterprise and achieve better results in our community works.

7 REFERENCE TABLE OF ESG GENERAL DISCLOSURES

ESG Indicator	Key Performance	Description	Page	Note
	Environmental			
A1	Emissions	Policies relating to relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste; and compliance with relevant laws and regulations that have a significant impact on the issuer.	30	2
A2	Use of Resource	Policies on the efficient use of resources, including energy, water and other raw materials.	30	2
A3	The Environment and Natural Resources	Policies on minimizing the issuer's significant impact on the environment and natural resources.	31	2
	Social			
B1	Employment	Policies relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare; and compliance with relevant laws and regulations that have a significant impact on the issuer.	31	3
B2	Health and Safety	Policies relating to providing a safe working environment and protecting employees from occupational hazards; and compliance with relevant laws and regulations that have a significant impact on the issuer.	32	3.2
B3	Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	32	3.3
B4	Labor Standards	Policies relating to preventing child and forced labor; and compliance with relevant laws and regulations that have a significant impact on the issuer.	31	3
B5	Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	33	4
B6	Product Liabilities	Policies relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress; and compliance with relevant laws and regulations that have a significant impact on the issuer.	33	5
B7	Anti-corruption	Policies relating to bribery, extortion, fraud and money laundering; and compliance with relevant laws and regulations that have a significant impact on the issuer.	32	3.4
B8	Community Investments	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	33	6

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

DIRECTORS

Executive Director

Mr. WANG Muqing (王木清先生), aged 66, is the founder of the Group and has served as a non-executive Director of the Company since 9 July 2010 and was re-designated as an executive Director on 30 March 2015. Mr. Wang was appointed as the chairman of the Board on 28 August 2013. He was appointed as a member of the Nomination Committee and a member of the Remuneration Committee on 8 April 2016, and was appointed as the chairman of the Nomination Committee on 13 December 2016. He is also the controlling shareholder of the Company. He started his automobile trading business in 1996 and engaged in automobile dealership business. Mr. Wang founded the Group in 1999. Mr. Wang holds directorships in numerous major domestic subsidiaries of the Group, including (but not limited to) Wuhan Shengze Jietong Logistics Co., Ltd. (currently known as Wuhan Zhengtong United Industrial Investment Group Co., Ltd.), ZhengTong Automobile Investment Holding (Wuhan) Co., Ltd., Beijing Baozehang Automobile Sales Services Co., Ltd., and Shenzhen SCAS Investment Group Co., Ltd.

Mr. WANG Kunpeng (王昆鵬先生), aged 45, obtained a bachelor's degree in professional vehicle engineering from Jilin University of Technology, the PRC. Mr. Wang Kunpeng has been an executive Director since 20 July 2010 and served as a member of the Remuneration Committee from 20 July 2010 to 8 April 2016. He has held several senior management positions with the Group and its major subsidiaries after joining the Group in 2006, including the chief executive officer of the Group. Mr. Wang was re-designated as the vice chairman of the Board on 6 January 2017 and ceased to serve as the chief executive officer. He is currently responsible for the strategic planning of the Group. Before joining the Group, Mr. Wang worked for FAW-Volkswagen Sales Company Ltd., a company engaged in distribution-related activities with respect of Volkswagen automobiles, from 1997 to 2006, responsible for the management of the sale, after-sales services and logistics services relating to Audi and Volkswagen branded automobiles.

Mr. KOH Tee Choong, Ivan (許智俊先生), aged 58, obtained a master's degree in business administration from Durham University in the United Kingdom. Mr. Koh has been an executive Director of the Company since 21 March 2017. He joined the Company on 6 January 2017 and was appointed as the chief executive officer. He is responsible for the strategic planning and overall business management of the Group. Prior to joining the Group, he worked for BMW China in 2006 and had served as the vice president sales and president. From 1989 to 1996, Mr. Koh held senior management positions in several international companies. Mr. Koh served as the regional manager of BMW Group China from 1997 to 2004 and was responsible for business in Mainland China, Hong Kong and Macau regions. Mr. Koh served as the managing director of BMW Concessionaires (HK) Ltd., a member of Sime Darby Group, from 2004 to 2006 and was responsible for businesses in Hong Kong and Macau regions.

Mr. LI Zhubo (李著波先生), aged 47, obtained an executive master of business administration degree from Wuhan University, the PRC. Mr. Li has been an executive Director of the Company since 20 July 2010. He joined the Group in 1999 and is currently the chief financial officer of the Group, responsible for financial planning and financial management of the Company. Before joining the Group, Mr. Li has engaged in financial management in automobile dealership industry with nearly 23 years of experience in financial management in automobile dealership industry.

Mr. WAN To (尹濤先生), aged 45, obtained a master's degree in business administration from the University of Leeds in the United Kingdom. He has been an executive Director of the Company since 16 November 2015. Mr. Wan had been assistant to chief executive officer and general manager of the network development department of the Company since joining the Group in January 2008. Since April 2013, he has been vice president of the Company and is currently in charge of the investments and development of the Company. Since December 2013, Mr. Wan has also been serving as executive director of Shenzhen SCAS Investment Group Co., Ltd, a wholly-owned subsidiary of the Company. Prior to joining the Group, Mr. Wan worked with BMW Brilliance Automotive Ltd. from 2003 to 2006. Mr. Wan has nearly 16 years' experience in marketing and investment for Chinese and foreign-invested auto dealers.

Mr. SHAO Yong Jun (邵永駿先生), aged 42, obtained an executive master of business administration degree from Shanghai Jiao Tong University, the PRC. Mr. Shao has been an executive Director of the Company since 18 August 2011 and was a member of the Nomination Committee of the Company from 1 June 2012 to 8 April 2016. He has been the vice president of the Company since July 2011 and is currently in charge of the investor relations. Before joining the Group, Mr. Shao engaged in management of logistics services business in relation to automobile industry between 2004 and 2011, and was an auditor of KPMG China between 1997 and 2003.

Mr. LI Yi (李禕先生), aged 44, graduated from Wuhan Automobile Polytechnic University, the PRC with a bachelor's degree majoring in auto engineering. He was appointed as an executive Director of the Company on 16 November 2015 and resigned as the executive Director on 21 March 2017. Mr. Li Yi had held a number of senior management positions at the headquarters and several principal subsidiaries of the Group since joining the Group in February 2004. Since July 2012, he has been chief operating officer of the Company in charge of the overall operation and management of the Group's distribution outlets. Mr. Li Yi is currently also the vice president of China Auto Dealers Chamber of Commerce. Prior to joining the Group, Mr. Li Yi has been consistently engaged in the operation and management of auto dealing businesses. Mr. Li Yi has over 14 years' experience in the management of auto dealing businesses.

Independent Non-executive Directors

Dr. WONG Tin Yau, Kelvin (黃天祐博士), JP, aged 56, has served as an independent non-executive Director since 17 November 2010. Dr. Wong also serves as the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He is also an executive director and a deputy managing director of COSCO SHIPPING Ports Limited (previously known as COSCO Pacific Limited) (stock code: 1199), responsible for the strategic planning, management of capital markets and investors relations. Dr. Wong held various senior positions in several listed companies in Hong Kong before he joined COSCO SHIPPING Ports in July 1996. In addition, Dr. Wong is the outgoing chairman and was the chairman of The Hong Kong Institute of Directors (2009-2014), a non-executive director of the Securities and Futures Commission, a chairman of Investor Education Center, a member of Financial Reporting Council, a member of the Corruption Prevention Advisory Committee of Independent Commission Against Corruption. Dr. Wong obtained his master's degree in business administration from Andrews University in Michigan, the United States in 1992 and a Ph.D. in business administration from The Hong Kong Polytechnic University in 2007. Dr. Wong is currently an independent non-executive director of I.T Limited (stock code: 0999), Bank of Qingdao Co., Ltd. (stock code: 3866), Huarong International Financial Holdings Limited (stock code: 0993) and Asia Investment Finance Group Limited (stock code: 0033). Dr. Wong served as an independent non-executive director of CIG Yangtze Ports PLC 中國基建港口有限公司 (stock code: 8233) from September 2005 to October 2015, and an independent non-executive director of AAG Energy Holdings Limited (stock code: 2686) from June 2015 to April 2016. All the aforementioned companies are listed on the Stock Exchange. Dr. Wong is also an independent non-executive director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd., a company listed in Hong Kong and Shanghai (stock code: 2196 and 600196). Moreover, Dr. Wong has also served as an independent non-executive director of Xinjiang Goldwind Science & Technology Co., Ltd., a company listed in Hong Kong and Shenzhen (stock code: 2208 and 2202) for the period from June 2011 to June 2016 and he was re-appointed as an independent non-executive director of the same company on 22 October 2016.

Dr. CAO Tong (曹彤先生), aged 49, has been appointed as an independent non-executive Director since 8 April 2016. Dr. Cao is also the chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee of the Company. Dr. Cao is currently chairman of Xiamen International Financial Technology Co.,Ltd. (廈門國際金融技術有限公司) and Shenzhen Han De Chuang Ke Financial Investment Co., Ltd. (深圳瀚德創客金融投資有限公司), respectively, Dr. Cao is also an independent non-executive director of Bank of Dalian Co., Ltd. Dr. Cao worked with the planning and treasury department of the Beijing Branch of the People's Bank of China from July 1990 to January 1994, and had been deputy general manager of the planning and treasury department, general manager of business department, assistant to the president and vice president of the Beijing Branch, general manager of the personal banking department of the head office and deputy head of the Shenzhen management department of China Merchants Bank from January 1994 to December 2004. He had also been assistant to the president and vice president of China CITIC Bank Corporation Limited, a company listed on the Stock Exchange (stock code: 998) from December 2004 to August 2013 and had been an executive director from December 2011 to September 2013. He also served as the president of WeBank Co., Ltd. in Qianhai, Shenzhen from November 2014 to September 2015. He has nearly 27 years' experience in finance industry. Dr. Cao obtained his master's degree in economics from Renmin University of China in July 1999. He further obtained a Ph.D. in finance from Dongbei University of Finance and Economics in June 2011 and a Ph.D. in business administration from Arizona State University, the United States in July 2015.

Ms. WONG Tan Tan (王丹丹女士), aged 40, has served as an independent non-executive Director since 13 December 2016. Ms. Wong also serves as a member of the Audit Committee and Nomination Committee of the Company. Ms. Wong had served as a financial commissioner of the financial department and a senior manager of the marketing department at UTStarcom (USA) from March 2001 to February 2005, and served as an assistant to the chief executive officer at the Beijing headquarters of UTStarcom from February 2005 to April 2006. From May 2006 to September 2016, she was a chief representative and an executive director of the Beijing Office of J.P. Morgan Chase & Co. Ms. Wong studied business administration at Vanguard University in Costa Mesa, California, the United States from 1997 to 1998. From 1998 to 2000, she studied at the University of Southern California, Gordon S. Marshall School of Business, the United States, where she obtained a bachelor's degree in business administration, majoring in finance.

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL PLACE OF BUSINESS

The Company is a company incorporated in Cayman Islands with limited liability where its registered office is located in Cayman Islands and its operating headquarters is located in Beijing, the PRC.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of the subsidiaries of the Company are set out in note 16 to the consolidated financial statements.

BUSINESS MODEL AND STRATEGIES

The principal business of the Group comprises 4S dealership business, supply chain business and financial services business. The Group has concentrated on luxury and ultra-luxury branded automobile sales in China, and has made significant effort to its traditional after-sales services and post-market businesses in sectors of financing, insurance brokerage, pre-owned automobiles and beyond. The operations strategies implemented by the Group in the year under review were set out in the "Business Review" of the section headed "Management Discussion and Analysis" on Pages 10 to 14 of this annual report.

SUBSIDIARIES

Please refer to note 16 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated financial statements.

BUSINESS REVIEW

Business performance, financial review, business review as well as prospects and strategies of the Group are set out in the section "Management Discussion and Analysis" in this report. Certain key financial indicators are provided in the section "Five Years' Financial Summary" in this report. Since the end of the financial year under review, save as disclosed in this annual report, there is no significant events that have an impact on the Group.

PROPOSED FINAL DIVIDEND

The Board resolved to propose to the shareholders of the Company on the forthcoming annual general meeting to be held on 18 May 2017 (the "2017 AGM") for the distribution of a final dividend of HK$0.10 per share for the year ended 31 December 2016 payable to the shareholders of the Company whose names are listed in the register of members of the Company on 26 May 2017. The proposal for the distribution of the final dividend is subject to the consideration and approval by the shareholders of the Company at the 2017 AGM. Subject to the said approval, the final dividend will be paid in cash to the shareholders of the Company on or around Friday, 2 June 2017.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 15 May 2017 to Thursday, 18 May 2017 (both days inclusive) and from Wednesday, 24 May 2017 to Friday, 26 May 2017 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for attending and voting at the 2017 AGM, unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration before 4:30 p.m. on Friday, 12 May 2017. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the 2017 AGM), unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above mentioned address for registration before 4:30 p.m. on Tuesday, 23 May 2017.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

MAJOR SUPPLIERS AND CUSTOMERS

The single largest customer and the top five customers in aggregate of the Group accounted for 1.32% and 5.18% of the Group's total sales for the year ended 31 December 2016 respectively. The single largest supplier and the top five suppliers in aggregate of the Group accounted for 16.74% and 67.11% of the Group's total purchases for the year respectively.

As far as the Directors are aware, neither the Directors, their associates, nor shareholders who own more than 5% of the Company's share capital as at 31 December 2016 had any interest in any of the five largest suppliers and customers disclosed above.

RETIREMENT BENEFIT SCHEMES

Details of retirement schemes of the Group are set out in note 27 to the consolidated financial statements in the annual report. In addition to contributing into retirement benefit schemes organised by the PRC municipal government, the Group also make contributions into mandatory provident fund ("MPF") schemes set up under the Mandatory Provident Fund Schemes Ordinance for all the Group's qualifying employees in Hong Kong. Contributions into MPF Scheme are made based on a percentage of the employee's basic salary with a cap of HK$1,500.

RESERVES

Details of the movements in the reserve of the Group and the Company during the year ended 31 December 2016 are set out in the Consolidated Statement of Changes in Equity on page 64 and note 30(d) to the consolidated financial statements.

At 31 December 2016, distributable reserves of the Company amounted to RMB3,270 million (31 December 2015: RMB3,679 million). After the end of the reporting period, the directors proposed a final dividend of HK$0.10 (approximately RMB0.09) per ordinary share (2015: HK$0.10 (approximately RMB0.08) per share), amounting to RMB198 million (2015: RMB185 million). This dividend has not been recognised as a liability at the end of reporting date.

DIRECTORS

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

Executive Directors:

Mr. Wang Muqing *(Chairman)*
Mr. Wang Kunpeng (re-designed as vice Chairman of the Board on 6 January 2017)
Mr. Koh Tee Choong, Ivan (appointed on 21 March 2017)
Mr. Li Zhubo
Mr. Wan To
Mr. Shao Yong Jun
Mr. Li Yi (resigned on 21 March 2017)

Independent Non-executive Directors:

Dr. Wong Tin Yau, Kelvin
Dr. Cao Tong (appointed on 8 April 2016)
Ms. Wong Tan Tan (appointed on 13 December 2016)
Mr. Zhao Chunjun (retired on 13 December 2016)
Mr. Chang Xiuze (resigned on 8 April 2016)

During the year under review, Mr. Chang Xiuze resigned as an independent non-executive Director for aging and health reasons on 8 April 2016, and Dr. Cao Tong was appointed as an independent non-executive Director, a member of the Audit Committee, a member of the Nomination Committee and Chairman of the Remuneration Committee on the same day. Mr. Zhao Chunjun retired as an independent non-executive Director for aging and health reasons on 13 December 2016, and Ms. Wong Tan Tan was appointed as an independent non-executive Director, a member of the Audit Committee and a member of the Remuneration Committee on the same day. After the reporting period, Mr. Wang Kunpeng was re-designated as the vice Chairman of the Board on 6 January 2017. Mr. Koh Tee Choong, Ivan was appointed as an executive Director on 21 March 2017, and on the same day, Mr. Li Yi resigned as an executive Director in order to be committed to the expansion and management of automobile financial business of the Company.

The biographical information of the newly appointed Directors and relevant changes in the memberships of the Board Committees are set out in the section headed "Directors' and Senior Management's Profiles" of this annual report.

Mr. Wang Kunpeng, Mr. Koh Tee Choong, Ivan, Mr. Wan To, Mr. Shao Yong Jun and Ms. Wong Tan Tan shall retire and being eligible, offer themselves for re-election at the 2017 AGM. The Board proposes to re-appoint the Directors standing for re-election at the 2017 AGM of the Company.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the 2017 AGM has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Other than disclosed in the section "Continuing Connected Transactions" in this report, no contracts of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section "Continuing Connected Transactions" in this report, no contract of significance had been entered into between the Company or any of its subsidiaries, and any controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed under the section "Continuing Connected Transactions" in this report, none of the Directors or their respective associates has any interests in a business, which competes or may compete with the business of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

CONTINUING CONNECTED TRANSACTIONS

During 2016, the Group has entered into the following Lease Agreements and Property Management Agreement which constituted non-exempt continuing connected transactions subject only to the announcement, reporting and annual review requirements under Chapter 14A of the Listing Rules.

(1) Relationship between the Group and its connected persons

The relevant connected persons as lessor, with whom some of the Group's PRC operating entities or Wuhan Shengze Jietong Logistics Co., Ltd. (currently known as Wuhan Zhengtong United Industrial Investment Group Co., Ltd ("Wuhan Zhengtong")) have entered into the lease agreements (collectively, the "Lease Agreements" and each a "Lease Agreement") and/or property management agreement as lessee, are as follows:

1. Hubei Shengze Industry Co., Ltd. ("Hubei Shengze"), which is 100% owned by Mr. Wang Muqing, thus a connected person of the Company under Rule 14A.11(4) of the Listing Rules;

2. 內蒙古聖澤鼎傑汽車貿易有限公司 (Inner Mongolia Dingjie Automobile Trading Co., Ltd.) ("Inner Mongolia Dingjie Automobile Trading"), being a company demerged from Inner Mongolia Dingjie and wholly owned by Hubei Shengze, thus a connected person of the Company under Rule 14A.11(4) of the Listing Rules;

3. 長沙聖澤瑞寶電子產品貿易有限公司 (Changsha Shengze Ruibao Electronics Trading Co., Ltd.) ("Changsha Shengze"), being a company demerged from Changsha Ruibao and wholly owned by Hubei Shengze, thus a connected person of the Company under Rule 14A.11(4) of the Listing Rules;

4. 武漢聖澤捷運貿易有限公司 (Wuhan Shengze Jieyun Trading Co., Ltd.) ("Wuhan Shengze Jieyun"), being a company wholly owned by Hubei Shengze, thus a connected person of the Company under Rule 14A.11(4) of the Listing Rules;

5. 武漢聖澤捷眾物流有限公司 (Wuhan Shengze Jiezhong Logistics Co., Ltd.) ("Wuhan Shengze Jiezhong"), being a company wholly owned by Hubei Shengze, thus a connected person of the Company under Rule 14A.11(4) of the Listing Rules;

6. 北京寶澤汽車科技發展有限公司 (Beijing Baoze Automobile Technology Development Co., Ltd.) ("Beijing Development"), being a company held as to 90% by Hubei Shengze and 10% by 北京廣澤房地產開發有限公司 (Beijing Guangze Real Estate Development Co., Ltd.) ("Beijing Guangze") which is wholly owned by Hubei Shengze, thus a connected person of the Company under Rule 14A.11(4) of the Listing Rules; and

7. 武漢江融投資有限公司 (Wuhan Jiangrong Investment Co., Ltd.) ("Wuhan Investment"), being a company wholly owned by Hubei Shengze, thus a connected person of the Company under Rule 14A.11(4) of the Listing Rules.

Under the Listing Rules, for so long as the above lessors remain as connected persons of the Company, the following transactions between the Group and the above lessors would constitute continuing connected transactions for the Company.

(2) The Lease Agreements

Referred to the prospectus of the Company dated 29 November 2010, the Group entered into eight lease agreements (the "Original Lease Agreements") with respective lessors for leasing of the premises necessary for the business operation of the Group in the PRC for an initial term of three years starting from the period between June and September 2010 and expiring during the period between May and September 2013. Following expiry of the Original Lease Agreements, eight renewed leased agreements (the "Renewed Lease Agreements") were entered into to renew the Original Lease Agreements. Five of the Renewed Lease Agreements expired on 31 May 2014 and were renewed again (the "2014 Lease Agreements") with the expiring date on 31 December 2015. The remaining three of the Renewed Lease Agreements together with four new lease agreements dated 30 September 2013 were entered into with respective lessors for a term from 30 September 2013 to 31 December 2015 (the "2013 Lease Agreements"). In order to ensure the continual use of the leased premises by the Group for relevant purposes after the expiry of the 2013 Lease Agreements and the 2014 Lease Agreements, the Group entered into an aggregate of eleven 2016 Lease Agreements with the respective Connected Lessors on 31 December 2015.

The table below sets out the details of the 2016 Lease Agreements, the date of each of these agreements is 31 December 2015 and the term of all such agreements are from 1 January 2016 to 31 December 2018[1]:

	Location	Gross floor area (sq.m)	Use	Lessor	Lessee	Quarterly rental (RMB)
1.	4S shop, the basement and levels 1, 2, 3 and 5 on No. 59 West Third Ring South Road, Feng Tai District, Beijing, the PRC	22,502.92	The Group's head office, operation of 4S businesses and garage	Beijing Development	Beijing Baozehang Automobile Sales Services Co., Ltd. ("Beijing Baozehang")	6,599,457.50
2.	4S Store, No. 40, Xingan North Road Yi, New District, Hohhot, Inner Mongolia Autonomous Region, the PRC[2]	4,662.00	Operation of 4S businesses	Inner Mongolia Dingjie Automobile Trading	Huhhot Yingfei Automobile Sales Services Co., Ltd. ("Huhhot Yingfei")	51,049.00
3.	4S Store, No. 42, Xingan North Road, New District, Hohhot, Inner Mongolia Autonomous Region, the PRC	4,615.29	Operation of 4S businesses	Inner Mongolia Dingjie Automobile Trading	Inner Mongolia Dingjie Automobile Trading Co., Ltd.	463,260.00
4.	4S Store, No. 40, Xingan North Road Yi, New District, Hohhot, Inner Mongolia Autonomous Region, the PRC	10,199.00	Operation of 4S businesses	Inner Mongolia Dingjie Automobile Trading	Huhhot Qibao Automobile Sales Services Co., Ltd.	2,419,713.00
5.	4S Store, No. 40, Xingan North Road Jia, New District, Hohhot, Inner Mongolia Autonomous Region, PRC	7,439.00	Operation of 4S businesses	Inner Mongolia Dingjie Automobile Trading	Huhhot Jieyunhang Automobile Sales Services Co., Ltd.	2,850,997.00
6.	4S Store, No. 688, Changsha Avenue, Yuhua District, Changsha, Hunan, the PRC	4,498.26	Operation of 4S businesses	Changsha Shengze	Changsha Ruibao Automobile Sales Services Co., Ltd.	621,951.00
7.	No. Te 6 Huangpu Technological Park, Jiangan District, Wuhan City, Hubei Province, the PRC	4,661.59	Operation of 4S businesses	Hubei Shengze	Hubei Bocheng Automobile Sales Services Co., Ltd.	579,162.00
8.	No. Te 6 Huangpu Technological Park, Jiangan District, Wuhan City, Hubei Province, the PRC	6,541.52	Operation of 4S businesses	Hubei Shengze	Wuhan Kaitai Automobile Sales Services Co., Ltd.	819,476.00
9.	Shiqiao Village, Houhu County, Jiangan District, Wuhan City, Hubei, the PRC	21,156.00	Operation of 4S businesses	Wuhan Investment	Hubei Aoze Automobile Sales Services Co., Ltd.	4,086,357.00
10.	Lot 6C2 Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	58,051.22	Operation of logistics and storage businesses	Wuhan Shengze Jieyun	Wuhan Zhengtong/ Shengze Jietong Supply Chain Co., Ltd.	3,543,560.00
11.	Lot 5C2 Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	10,422.59	Operation of logistics and storage businesses	Wuhan Shengze Jiezhong	Wuhan Zhengtong/ Shengze Jietong Supply Chain Co., Ltd.	636,215.00

1 The lessors have undertaken to grant the lessees options to renew the leases up to 2020 under the same conditions.

2 The land located at No. 40, Xingan North Road, New District, Hohhot is owned by Inner Mongolia Dingjie Automobile Trading, one of the Connected Lessors, and the buildings erected there on are owned by Huhhot Yingfei, the lessee of the Group.

The rental amounts of the 2016 Lease Agreements are determined after arm's length negotiations between the Group subsidiaries and the relevant Connected Lessors with reference to the prevailing market rate determined by a valuer engaged by the Group subsidiaries.

(3) Property Management Agreement

As set out in the table under the section headed "The Lease Agreements" above, Beijing Development, as lessor, and Beijing Baozehang, as lessee, has entered into an lease agreement to renew the lease of the 4S shop, basement, levels 1, 2, 3 and 5 on No. 59 West Third Ring South Road, Feng Tai District, Beijing, the PRC with an aggregate gross floor area of 22,502.92 sq.m.. In order to ensure the continual use of the property management services of Beijing Development by the Group, the Group entered into the Property Management Agreement with Beijing Development on 31 December 2015 for a period of 3 years from 1 January 2016 to 31 December 2018 (the "2016 Property Management Agreement"). Pursuant to the 2016 Property Management Agreement, Beijing Baozehang shall pay the property management monthly fee of RMB283,537.80 to Beijing Development from 1 January 2016. In addition, Beijing Development shall charge Beijing Baozehang the air-conditioning annual fee of RMB2,373,049 under the 2016 Property Management Agreement payable semiannually. The management fee under the 2016 Property Management Agreement was determined with reference to the market rate determined by a valuer engaged by Beijing Baozehang.

(4) Proposed Annual Caps

Pursuant to the 2016 Lease Agreements and the 2016 Property Management Agreement, the proposed annual caps of the continuing connected transactions for each of the three years ending 31 December 2018 were RMB96.5 million. The proposed annual caps are determined with reference to the rent payable by the Group to the lessors during the effective term of the lease pursuant to the 2016 Lease Agreements, and the management fee and the air-conditioning fee payable to Beijing Development pursuant to the 2016 Property Management Agreement.

(5) Purpose of the transactions

The premises leased by the Group under the above lease agreements nos. 1, 2, 3, 4, 5, 6, 7 and 9 are for the purpose of the Group's operation of 4S businesses and the headoffice of the Group. The land leased by the Group under the above lease agreement no. 8 is also for the purpose of the Group's operation of 4S businesses. The premises leased by the Group under the above lease agreements nos. 10 and 11 are for the purpose of the Group's operation of logistics and storage businesses.

REVIEW OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged KPMG, its independent external auditor, to perform certain procedures in respect of the continuing connected transactions undertaken by the Group for the year ended 31 December 2016 which has reported to the board of Directors in a letter dated 21 March 2017. KPMG has confirmed the matters stated in Rule 14A.56 of the Listing Rules.

The independent non-executive Directors of the Company have reviewed the non-exempt continuing connected transactions and the report of KPMG and are of the opinion that the transactions were entered into by the Group:

(a) in the ordinary and usual course of the Group's business;

(b) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and

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

RELATED PARTY TRANSACTIONS

Save as disclosed in the section headed "Continuing connected transactions" of this report, the Group had not entered into any related party transaction during the year under review.

SHARE OPTION SCHEMES

(A) Share Option Scheme

The Company has adopted a share option scheme ("Share Option Scheme") pursuant to a resolution in writing passed by the Shareholders on 17 November 2010, which enables the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. The Share Option Scheme became effective on 10 December 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from the date of its adoption.

Eligible participants of the Share Option Scheme include the following:

(i) any employee ("Eligible Employee(s)") (whether full-time or part-time including any executive Director but excluding any non-executive Director) of the Company, any of the Company's subsidiaries or any entity (the "Invested Entity") in which the Group holds an equity interest;

(ii) any non-executive Directors (including independent non-executive Directors) of the Company, any of the Company's subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any member of any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group,

and for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants.

As of the date of this report, the total number of shares of the Company available for issue under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue on the day on which trading of the shares commence on the Stock Exchange (the "General Scheme Limit"), i.e. 200,000,000 shares, representing 9.05% of the issued share capital of the Company as at the date of this report.

No option has been granted under the Share Option Scheme as at the date of this report.

The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder, chief executive or Director as explained below) in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of share options in excess of the Individual Limit is subject to Shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules) ("Connected Persons"), are subject to approval in advance by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, in the 12-month period up to and including the date of grant, are subject to shareholders' approval in general meeting.

The offer of a grant of share options may be accepted by a participant within 21 days from the date of offer upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the options subject to the provisions for early termination under the Share Option Scheme.

The subscription price for shares under the Share Option Scheme shall be a price determined by the Board, but shall not be less than the highest of (i) the closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of the offer of the grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant; and (iii) the nominal value of the shares of the Company.

Subject to the early termination of the Share Option Scheme in accordance with the Share Option Scheme rules, the Share Option Scheme will expire on 16 November 2020.

(B) Pre-IPO Share Option Scheme

The Company has, based on a framework plan formulated on 9 August 2010, formally adopted a pre-initial public offering share option scheme ("Pre-IPO Share Option Scheme") pursuant to a resolution in writing passed by the shareholders on 17 November 2010, which enables the Company to recognise and reward the contribution of certain Directors, senior management and employees of the Group to the growth and development of the Group and the Listing.

Pursuant to the Pre-IPO Share Option Scheme, the Company has granted options for the subscription of 23,435,900 shares to certain Directors, senior management, employees and former employees of the Group on 10 August 2010, 20 August 2010 and 10 November 2010 respectively.

Details of the movements in the Pre-IPO Share Option Scheme for the year ended 31 December 2016 are as follows:

Grantees	Date of grant	Exercise price per share (RMB)	Exercise period	Outstanding as at 1 January 2016	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 31 December 2016
Directors								
Wang Kunpeng	10/8/2010	1.50	01/01/2012-10/08/2017	205,000	0	0	0	205,000
	10/8/2011	1.50	01/01/2013-10/08/2017	512,500	0	0	0	512,500
	10/8/2012	1.50	01/01/2014-10/08/2017	512,500	0	0	0	512,500
				1,230,000	0	0	0	1,230,000
Li Zhubo	10/8/2010	1.50	01/01/2012-10/08/2017	205,000	0	0	0	205,000
	10/8/2011	1.50	01/01/2013-10/08/2017	512,500	0	0	0	512,500
	10/8/2012	1.50	01/01/2014-10/08/2017	512,500	0	0	0	512,500
				1,230,000	0	0	0	1,230,000
Sub-total				2,460,000	0	0	0	2,460,000
Employees and former employees	10/8/2010	1.50	01/01/2012-10/08/2017	211,230	0	0	16,100	195,130
	10/8/2010	1.50	01/01/2013-10/08/2017	973,075	0	0	27,250	945,825
	10/8/2010	1.50	01/01/2014-10/08/2017	2,128,075	0	0	27,250	2,100,825
				3,312,380	0	0	70,600	3,241,780
	10/8/2010	2.00	01/04/2012-10/08/2017	66,200	0	0	0	66,200
	10/8/2010	2.00	01/04/2013-10/08/2017	170,500	0	0	0	170,500
	10/8/2010	2.00	01/04/2014-10/08/2017	170,500	0	0	0	170,500
				407,200	0	0	0	407,200
	10/8/2010	2.50	01/07/2012-10/08/2017	0	0	0	0	0
	10/8/2010	2.50	01/07/2013-10/08/2017	0	0	0	0	0
	10/8/2010	2.50	01/07/2014-10/08/2017	0	0	0	0	0
				0	0	0	0	0
	20/8/2010	2.50	01/07/2012-10/08/2017	0	0	0	0	0
	20/8/2010	2.50	01/07/2013-10/08/2017	0	0	0	0	0
	20/8/2010	2.50	01/07/2014-10/08/2017	0	0	0	0	0
				0	0	0	0	0
	17/11/2010	2.50	01/07/2012-17/11/2017	26,000	0	0	0	26,000
	17/11/2010	2.50	01/07/2013-17/11/2017	13,000	0	0	0	13,000
	17/11/2010	2.50	01/07/2014-17/11/2017	13,000	0	0	0	13,000
				52,000	0	0	0	52,000
Sub-total				3,771,580	0	0	70,600	3,700,980
Total				6,231,580	0	0	70,600	6,160,980

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

(i) Long positions in the shares and underlying shares of the Company:

Name of Director	Capacity/nature of interest	Number of Shares/ underlying Shares	Approximate percentage of shareholding
Wang Muqing	Settlor of The Grand Glory Trust	1,372,516,820 (Note 1)	62.10%
Wang Kunpeng	Beneficial Owner	1,230,000 (Note 2)	0.056%
Li Zhubo	Beneficial Owner	1,550,000 (Note 3)	0.070%

Notes:

1. These shares are directly held by Joy Capital Holdings Limited ("Joy Capital"). The entire issued share capital of Joy Capital is owned by Grand Glory Enterprises Limited ("Grand Glory"), whose entire issued share capital is the trust asset of The Grand Glory Trust, which was founded by Mr. Wang Muqing as settlor and managed by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Grand Glory Trust, which is a trust established in accordance with the Purpose Trust Act 2004 of Bahamas. The discretionary beneficiaries of The Grand Glory Trust include Mr. Wang and his family members.

2. These represent the maximum number of shares which may be allotted and issued to Mr. Wang Kunpeng upon the exercise of the options under a pre-initial public offering share option scheme ("Pre-IPO Share Options") granted to him. The Pre-IPO Share Options may be exercised in three tranches: (i) The first tranche represents 50% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2012 to 10 August 2017. (ii) The second tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2013 to 10 August 2017. (iii) The third tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2014 to 10 August 2017. The exercise price for subscription of each share upon the exercise of the Pre-IPO Share Options is RMB1.5.

3. Mr. Li Zhubo has a total of 1,550,000 shares, among which 320,000 shares were purchased in the market, and the remaining 1,230,000 shares represent the maximum number of shares which may be allotted and issued to Mr. Li upon the exercise of the options under the Pre-IPO Share Options granted to him. The Pre-IPO Share Options may be exercised in three tranches: (i) The first tranche represents 50% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2012 to 10 August 2017. (ii) The second tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2013 to 10 August 2017. (iii) The third tranche represents 25% of the total number of shares which may be subscribed for upon the exercise of the Pre-IPO Share Options, and is exercisable during the period between 1 January 2014 to 10 August 2017. The exercise price for subscription of each share upon the exercise of the Pre-IPO Share Options is RMB1.5.

(ii) Long Positions in the associated corporations of the Company:

Name of Director	Name of associated corporation	Capacity	Approximate percentage of equity interest
Wang Muqing	Joy Capital	Settlor of The Grand Glory Trust (Note 1)	100%

Note:

1. Joy Capital is the direct owner of 1,372,516,820 shares of the Company. The entire issued share capital of Joy Capital is owned by Grand Glory, whose entire issued share capital is the trust asset of The Grand Glory Trust, which was founded by Mr. Wang Muqing as settlor and managed by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Grand Glory Trust, which is a trust established in accordance with the Purpose Trust Act 2004 of Bahamas. The discretionary beneficiaries of The Grand Glory Trust include Mr. Wang and his family members.

Save as disclosed above, as at 31 December 2016, none of the Directors or any of their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the interests or short positions of the substantial shareholders (other than the Directors) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Long positions in the Shares of the Company:

Name of Shareholders	Capacity/ nature of interest	Number of Shares	Approximate percentage of shareholding
Joy Capital	Beneficial owner (Note 1)	1,372,516,820	62.10%
Grand Glory	Interest of controlled corporation (Note 1)	1,372,516,820	62.10%

Note:

1. Joy Capital is the direct owner of 1,372,516,820 shares of the Company. The entire issued share capital of Joy Capital is owned by Grand Glory, whose entire issued share capital is the trust asset of The Grand Glory Trust, which was founded by Mr. Wang Muqing as settlor and managed by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Grand Glory Trust, which is a trust established in accordance with the Purpose Trust Act 2004 of Bahamas. The discretionary beneficiaries of The Grand Glory Trust include Mr. Wang and his family members.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the share option schemes, at no time during the year ended 31 December 2016 was the Company, or any of its holding company, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

NON-COMPETE UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

In accordance with the non-compete undertakings ("Non-Compete Undertakings") contained in the share purchase agreement dated 17 November 2010 between the Company, Mr. Wang Muqing, Grand Glory and Joy Capital, each of Mr. Wang, Grand Glory and Joy Capital (collectively, the "Covenantors") has undertaken to the Company that during the period in which he and his associates, individually or taken as a whole, remains a controlling shareholder (as defined under the Listing Rules) of the Company, they would comply with the terms of the Non-Compete Undertakings.

In addition, under the Non-Compete Undertakings, each of the Covenantors has undertaken to the Company that he shall provide to the Company and/or the Directors (including the independent non-executive Directors) from time to time all information necessary for annual review by the independent non-executive Directors with regard to compliance with the terms of the Non-Compete Undertakings. Each of the Covenantors has also undertaken to issue an annual confirmation to the Company on compliance with the terms of the Non-Compete Undertaking, their interests in any projects or business opportunities, if any, and consenting to the disclosure of such confirmation in the annual reports of the Company, thereby enabling the Company to keep monitoring the relevant compliance by the Covenantors.

The Company has received an annual confirmation from the Covenantors in respect of their compliance with the terms of the Non-Compete Undertakings and that they have not engaged, nor been interested, in any business which directly or indirectly, competes or may compete with the business of the Group during the year ended 31 December 2016.

The independent non-executive Directors have reviewed the said undertakings and are of the view that the Covenantors have complied with the Non-Compete Undertakings during the year ended 31 December 2016.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2016 are set out in notes 23 and 26 to the consolidated financial statements.

DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

On 12 January 2017, the Company (as borrower) entered into a facility agreement with fifteen financial institutions (as lenders) for a syndicated term loan facility for an initial aggregate amount of US$409 million (with a green shoe option of an amount up to US$600 million (inclusive of the said initial amount)). The final repayment date of the loan facility shall be the date falling 36 months after the first utilization date. Pursuant to the facility agreement, Mr. Wang Muqing (王木清先生), and his close relatives or any trust of which Mr. Wang and his close relatives are beneficiaries ceasing to own beneficially (whether directly or indirectly) are required to hold no less than 50% of the total issued share capital of the Company. For details, please refer to the announcement of the Company dated 18 January 2017.

EMOLUMENT POLICY

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

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

The remuneration of the Directors and senior management of the Company are set out in notes 8 and 9 to the consolidated financial statements.

RELATIONSHIPS WITH MAJOR STAKEHOLDERS

We fully understand that employees, customers and suppliers are the key to our sustainable and stable development. We are committed to establishing a close relationship with our employees, enhancing cooperation with our suppliers and providing high-quality products and services to our customers so as to ensure our sustainable development.

The Group has placed high emphasis on human resources. Hence, the Group offer its employees a competitive remuneration package and various trainings, including internal trainings and refresher courses offered by professional organisations, so as to keep them abreast of the latest development in the market, industry and various businesses.

The Group has enhanced communications with customers via various channels so as to provide excellent and quality customer services, with a focus on the customers' need and thus enhance customer satisfaction and loyalty. We value the feedback from customers and always try to understand their thoughts through daily communication, after-sale return visit and customer satisfaction surveys. In addition, we also assign designated personnel to maintain customers relationship, responding to the feedback and complaints from customers.

The Group has established strong cooperation relationship with a number of manufacturers of luxury and ultra-luxury branded automobiles and entered standing cooperative agreements, including dealership agreements and other licensing agreements. With the development of prevailing trend in the automobile industry, the Group will continue to facilitate exchange and cooperation with manufacturers of automobiles for the purpose of creating win-win situation. For the management of other suppliers, the Group has been more prudent in selecting suppliers and established long-term cooperation with them. The Group places emphasis on ongoing assessment and monitoring on the suppliers selection in order to ensure compliance with our commitment to quality and ethical conduct.

COMPLIANCE OF LAWS AND REGULATIONS

The Company is aware of the importance of complying with the relevant laws and regulations, and has allocated systems and human resources to guarantee our constant compliance to provisions and codes, and build good relationship with supervision authorities through effective communication.

During the year under review, to the knowledge of Directors, the Company is in compliance with the laws and regulations relating to its business, including those relating to automobile dealership, auto financing and insurance brokerage. In addition, the Group maintains compliance with laws and regulations relating employees' rights and benefits, and provides them a healthy and safe working environment and condition. Meanwhile, the Group is committed to achieving high standards of corporate governance by observing laws and regulations on taxation, financial issues and listing compliance.

MAJOR RISKS AND UNCERTAINTIES

The results and business operations of the Group are subject to the impact of a number of factors, including those arising from the macro-economic environment as well as those inherent in the auto retail sector. The major risks are summarised as follows:

(i) Macro-economic environment

As a pillar industry of the national economy, the auto sector is considerably correlated to the volatile periods of the macro-economy in terms of timing and extent. Currently, China's auto market continues to hold out strong potential for development. However, if significant fluctuations occur in the auto industry as a result of cyclical developments in the macro-economy, auto sales will be inevitably affected. As such, the Group is required to monitor any changes in the economic landscape in a timely manner and adjust its overall business planning, network development plans and marketing plans under different market conditions.

(ii) Industry policies

The Group's business operations must comply with policies and regulations announced by the PRC government for the administration of the auto industry. Changes in such industry policies may result in decreased market demand for products, lower prices for products and services and escalated market competition, which will in turn result in the decrease in revenue and profit. As such, the Group will monitor closely any developments in government policies on our industry, while enhancing our service standards on an ongoing basis to address any risks arising from changes in industry policies.

(iii) Manufacturers' policies

As an auto dealer group, we have maintained sound cooperation with branded automobile manufacturers. Changes in the policies of such manufacturers might result in changes in the sales strategies for their brands, sales incentives and business policy support for us, and such changes might result in a decrease in products sales and revenue. Hence, the Group will actively enhance communication with the manufacturers and continue to adopt a development strategy that covers a diverse range of brands.

(iv) Intense competition

We compete not only with other auto dealers, but also players in the general express auto repair service sector and the e-commerce sector, in a number of segments, such as sales, repair, maintenance and extended services. Our inability to respond to challenges presented by different competitors in a timely manner may result in the decline in customers' demand for our products and the decrease in our revenue and profit. Hence, the Group is required to adjust its strategy in a timely manner and enhance its overall service standards to address intense competition.

(v) Supply chain

The Group does not own or operate any production facilities, and is dependent on branded automakers and suppliers of auto accessories for the supply of all of our products. Any disruption in the supply of products by our suppliers might result in problems for our supply chain. Nevertheless, we have fostered long-term, stable partnerships with a number of branded automakers and suppliers of parts and components, and such partnerships have been highly valued by the suppliers. Hence, we have endeavoured to minimise the impact of any disruption in suppliers on a best-effort and ensure we are able to locate other suppliers of similar quality for reasonable prices at any time.

(vi) Information systems

The Group's business is dependent on information technology systems and networks in connection with sales, procurement, sales and distribution at all retail outlets, inventory management, customer relations management, digitalized marketing, financial reporting and auto finance. Any serious disruption to or slowdown of our information technology systems as a result of, among others, our inability to successfully upgrade our systems, system breakdowns or virus or cyber attacks might result in the loss of data and disruption in operations. Hence, the Group will invest in information technology and ERP systems on an ongoing basis to ensure the technological security, accessibility and completeness of important operational data.

(vii) Market risks

The Group is subject to various types of market risks, including credit risks, liquidity risks, interest rate risks and exchange risks, the details of which are set out in note 31 to the financial statements in this annual report. The Group has exercised effective control over market risks through continuous monitoring of risks and changes, timely risk warnings and appropriate application of hedge instruments.

INDEMNITY TO DIRECTORS

The articles of association of the Company contain provisions that provide indemnity to, among other persons, our Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty. In accordance with the service agreement, each of our executive Director is entitled to be indemnified by the Company in all respects under laws, except to the extent of the willful default or gross negligence of a director. The Company maintained directors' and chief executives' liability insurance and corporate compensation insurance during the year.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We recognise the importance of environmental protection and have adopted stringent measures for environmental protection in order to ensure the compliance by the Group of the prevailing environmental protection laws and regulations.

The Group has been advocating the concept of green office in its daily operation by fully committing to environmental protection, energy saving and discharge reduction, reasonable allocation and utilisation of resources. In addition, the Group has implemented resources recycling with an aim to minimise energy consumption and waste. In future, the Group will firmly employ its sustainable development strategy to strongly promote environmental protection and carry out measures for environmental protection.

MANAGEMENT CONTRACTS

Except for the service contracts of the directors and senior management of the Company or otherwise disclosed in this report, no contracts were entered into between the Company and any individuals, companies or legal corporations, for the management of all or any material part of the Company's business.

CORPORATE GOVERNANCE

Throughout the year ended 31 December 2016, the Company had complied with the code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules except for the deviations set out in the Corporate Governance Report contained in this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

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

AUDITORS

KPMG will retire and, being eligible, offer themselves for re-appointment at the 2017 AGM of the Company. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the 2017 AGM of the Company.

On behalf of the Board

Wang Muqing
Chairman
21 March 2017

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of China ZhengTong Auto Services Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 61 to 139, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

Impairment of goodwill and intangible assets – car dealerships

Refer to note 14 & note 15 to the consolidated financial statements and the accounting policies on page 72.

The Key Audit Matter	How the matter was addressed in our audit
As a result of acquisitions by the Group of 4S dealership stores during 2010 and 2011, the Group recognised goodwill and intangible assets – car dealerships, which totalled RMB1.9 billion and RMB3.3 billion, respectively, as at 31 December 2016. Goodwill has been allocated to each of the relevant individual 4S dealership stores, which are considered to represent individual cash-generating units ("CGUs"). The 4S dealership business in China operates in an increasingly competitive market and commercial factors, such as car restriction policies, changes in market share of different brands or changes in the frequency with which customers replace their cars, increases the risk of sales volatility of the 4S dealership stores. Consequently, there are uncertainties as to whether the acquired 4S dealership stores can meet forecast growth projections. Annually, management assesses goodwill and intangible assets – car dealerships for potential impairment by determining the recoverable amount for each CGU to which the goodwill and intangible assets – car dealerships have been allocated. The recoverable amount of each CGU is determined by management using the post-tax discounted cash flow method based on a post-tax discount rate. The preparation of discounted cash flow forecasts involved the exercise of significant management judgement, particularly in estimating the growth rates for sales, corresponding gross margin rates and working capital changes, which are based on past performance and management's expectation of market developments. We identified impairment of goodwill and intangible assets – car dealerships as a key audit matter because these assets are material to the consolidated financial statements and because the impairment assessments prepared by management are complex and contain certain judgements and assumptions which are inherently uncertain and could be subject to management bias.	Our audit procedures to assess impairment of goodwill and intangible assets – car dealerships included the following: • evaluating the appropriateness of management's identification of CGUs and the amounts of goodwill and intangible assets – car dealerships allocated to each CGU; • with the assistance of our internal valuation specialists, evaluating the methodology adopted by management in the preparation of the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards and assessing whether the discount rates applied were within the range adopted by other companies in the same industry; • comparing data in the discounted cash flow forecast of each individual CGU with relevant data, including forecast revenue, forecast cost of sales, forecast other operating expenses and forecast working capital, in the financial budget which was approved by the directors and comparing forecast revenue growth trends with sales forecasts issued by industry research institutions; • comparing forecast revenue, forecast cost of sales, forecast other operating expenses and forecast working capital included in the discounted cash flow forecasts prepared in the prior year with the current year's performance to assess how accurate the prior year's discounted cash flow forecasts were and making enquiries of management as to the reasons for any significant variations identified; • obtaining from management sensitivity analyses of the key assumptions adopted in the discounted cash flow forecasts and assessing the impact of changes in the key assumptions to the conclusions reached in the impairment assessments and whether there were any indicators of management bias; and • considering the disclosures in the consolidated financial statements of the assumptions in the impairment assessments of goodwill and intangible assets – car dealerships with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (continued)

Recognition of vendor rebates	
Refer to note 19 to the consolidated financial statements and the accounting policies on page 79.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group earns vendor rebates under various and differing arrangements with automobile manufacturers. Rebate arrangements, which can vary in different fiscal years and between automobile manufacturers, include volume based purchase rebates, sales rebates for certain specific car models, performance rebates and other specific rebates. Volume based purchase rebates and sales rebates are granted by vendors if certain purchase or sales targets are met. Performance rebates are granted by vendors in accordance with the vendors' comprehensive assessment of the Group's business performance. In addition, other specific rebates are granted to the Group, including, but not limited to, compensation for automobile mortgage sales, new store one-off compensation, regional annual awards and car demonstration compensation. Volume based purchase rebates are recognised as a deduction from the costs of purchase of motor vehicles when the performance conditions associated with them are met. Sales based rebates, performance based rebates and other specific rebates are recognised as a deduction from cost of sales when the respective conditions associated with them are met. The Group manually calculates rebates and recognises them when the associated conditions for recognition are met. We identified recognition of vendor rebates as a key audit matter because there are many different kinds of rebate arrangements in place and because the manual calculation of the Group's entitlement to such rebates increases the risk that vendor rebates could be recognised before the entitlement conditions have been met.	Our audit procedures to assess the recognition of vendor rebates included the following: • obtaining an understanding of the design and implementation of management's key internal controls in relation to the recognition of vendor rebates; • assessing the Group's accounting policies in respect of the recognition of vendor rebates by inspecting the terms and conditions set out in each type of rebate arrangement communicated by the respective automobile manufacturers with reference to the requirements of the prevailing accounting standards; • selecting a sample of vendor rebates recognised and settled during the year and comparing the recognised rebate amount with credit notes issued by the vendors or underlying bank payment slips; • for vendor rebate receivables at the reporting date, performing recalculations of the amounts receivable, on a sample basis, based on the terms of the underlying vendor rebate policies and relevant inputs, including sales and purchase volume data, rebate rates and other specific criteria as set out in the respective vendor rebate policies; • evaluating, on a sample basis, the above relevant inputs used to calculate vendor rebates by comparing the inputs with relevant underlying documentation; and • assessing, on a sample basis, whether vendor rebates accrued at the previous financial reporting date were subsequently settled in the current year.

KEY AUDIT MATTERS (continued)

Impairment of receivables from financial services operations

Refer to note 20 to the consolidated financial statements and the accounting policies on page 72.

The Key Audit Matter	How the matter was addressed in our audit
The Group's financial services operations mainly comprise automobile consumer financing services; i.e. providing loans and advances to individual car buyers, which are recorded as receivables from financial services in the consolidated financial statements. A material portion of the impairment provisions for receivables from financial services operations is calculated by management on a modelled basis for portfolios of loans and advances to individual car buyers. From the Group's perspective, the portfolios which gave rise to the greatest uncertainty in determining impairment of receivables from financial services operations were those where impairments were derived from collective assessment models. Estimations and judgements are applied by management in determining the impairment calculation, including: • the external economic environment and the Group's internal credit risk management strategy, which are significant factors in the determination of the collective impairment provisions; • the Group's historical losses for receivables from financial services operations, the loss emergence period (i.e. the time lapse between the occurrence of the event causing eventual default to the actual recording of a loss); and • economic factors such as market rate variance, the supply and demand of the automobile consumer market and the operation of the whole automobile finance industry, which are key in calculating adjustment factors. We identified impairment of receivables from financial services operations as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results of the Group.	Our audit procedures to assess impairment of receivables from financial services operations included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the approval, recording and monitoring of receivables from financial services operations, the credit grading process and the measurement of impairment provisions for receivables from financial services operations; • evaluating the validity of the models used and assumptions adopted in the Group's calculation of collective impairment provisions by critically assessing input parameters involving subjective judgement, seeking collaborative evidence from external sources and comparing the historical losses against the Group's other internal records. – as part of these procedures, we challenged the Group's revisions to estimates and input parameters, the consistency of judgement applied in the use of economic factors, the loss emergence period and the observation period for historical losses; – we compared the economic factors used in the models to market information to assess whether they were aligned with market and economic development. We also assessed the emergence period by tracing the lifecycle of overdue accounts from the specific credit event to downgrading the accounts to impaired receivables from financial services operations; – having considered the above, we performed re-calculations to assess the amount of collective impairment provisions; and • assessing the disclosures in the consolidated financial statements in relation to impairment of receivables from financial services operations with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and 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.

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Au Yat Fo.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
21 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016 (Expressed in RMB'000)

	Note	For the year ended 31 December 2016	2015
Revenue	4	**31,519,255**	29,361,499
Cost of sales		**(28,782,921)**	(26,774,726)
Gross profit		**2,736,334**	2,586,773
Other revenue	5	**402,910**	457,505
Other net income	5	**128,730**	66,006
Selling and distribution expenses		**(948,116)**	(847,289)
Administrative expenses		**(1,072,188)**	(911,850)
Profit from operations		**1,247,670**	1,351,145
Finance costs	6(a)	**(482,275)**	(459,908)
Share of profit of joint venture and associates		**25,403**	30,542
Profit before taxation	6	**790,798**	921,779
Income tax	7(a)	**(282,439)**	(293,117)
Profit for the year		**508,359**	628,662
Attributable to:			
Equity Shareholders of the Company		**493,282**	618,530
Non-controlling interests		**15,077**	10,132
Profit for the year		**508,359**	628,662
Earnings per share	10		
Basic (RMB cent)		**22.3**	28.0
Diluted (RMB cent)		**22.3**	27.9

The notes on pages 67 to 139 form part of these financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in note 30(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016 (Expressed in RMB'000)

	Note	For the year ended 31 December 2016	2015
Profit for the year		**508,359**	628,662
Other comprehensive income for the year (after tax):			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of:			
– financial statements of entities outside the Mainland China		**(15,461)**	(13,304)
Other comprehensive income for the year		**(15,461)**	(13,304)
Total comprehensive income for the year		**492,898**	615,358
Attributable to:			
Equity Shareholders of the Company		**477,821**	605,226
Non-controlling interests		**15,077**	10,132
Total comprehensive income for the year		**492,898**	615,358

The notes on pages 67 to 139 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016 (Expressed in RMB'000)

	Note	At 31 December 2016	2015
Non-current assets			
Property, plant and equipment	12	3,912,899	3,428,069
Lease prepayments	13	1,108,570	1,067,350
Receivables from financial services	20	1,931,884	704,353
Intangible assets	14	3,691,704	3,789,357
Goodwill	15	1,926,551	1,926,551
Interest in a joint venture	17	244,114	217,314
Interest in associates		21,803	3,200
Deferred tax assets	29	154,912	113,208
Other financial assets		143,456	27,041
		13,135,893	11,276,443
Current assets			
Inventories	18(a)	3,018,856	3,193,735
Trade and other receivables	19	6,384,103	5,294,363
Receivables from financial services	20	1,732,996	834,684
Pledged bank deposits and balances with central bank	21	1,831,934	1,481,308
Cash and cash equivalents	22	1,625,128	1,599,117
		14,593,017	12,403,207
Current liabilities			
Loans and borrowings for financial services	23	3,252,885	1,169,500
Loans and borrowings for non-financial services	23	5,392,584	4,481,582
Obligations under finance leases	24	101,720	–
Trade and other payables	25	5,501,303	5,132,648
Income tax payables	7(c)	1,129,926	972,331
		15,378,418	11,756,061
Net current (liabilities)/assets		(785,401)	647,146
Total assets less current liabilities		12,350,492	11,923,589
Non-current liabilities			
Loans and borrowings for financial services	23	–	188,000
Loans and borrowings for non-financial services	23	224,000	–
Bonds payable	26	2,314,703	2,158,071
Deferred tax liabilities	29	869,628	888,180
		3,408,331	3,234,251
NET ASSETS		8,942,161	8,689,338
Equity	30		
Share capital		188,788	188,788
Reserves		8,669,543	8,399,844
Equity attributable to shareholders of the Company		8,858,331	8,588,632
Non-controlling interests		83,830	100,706
TOTAL EQUITY		8,942,161	8,689,338

Approved and authorised for issue by the board of directors on 21 March 2017.

Wang Kunpeng
Director, Vice Chairman

Li Zhubo
Director, CFO

The notes on pages 67 to 139 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016 (Expressed in RMB'000)

	Attributable to shareholders of the Company										
	Share capital (note 30(c))	Share premium	Capital reserve	PRC statutory reserve (note 30(d)(i))	Exchange reserve (note 30(d)(ii))	Discretionary surplus reserve	General reserve (note 30(d)(iii))	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2015	**188,776**	**4,548,765**	**334,501**	**296,305**	**6,352**	**4,459**	**-**	**2,792,917**	**8,172,075**	**125,033**	**8,297,108**
Profit for the year	-	-	-	-	-	-	-	618,530	618,530	10,132	628,662
Other comprehensive income	-	-	-	-	(13,304)	-	-	-	(13,304)	-	(13,304)
Total comprehensive income for the year	-	-	-	-	(13,304)	-	-	618,530	605,226	10,132	615,358
Shares issued pursuant to pre-IPO employee share option scheme (note 30(a))	12	468	(179)	-	-	-	-	-	301	-	301
Acquisition of non-controlling interest	-	-	(14,769)	-	-	-	-	-	(14,769)	(10,457)	(25,226)
Transfer of profits to general reserve	-	-	-	-	-	-	5,340	(5,340)	-	-	-
Dividends (note 30(b))	-	-	-	-	-	-	-	(174,201)	(174,201)	(24,002)	(198,203)
Appropriation to reserves	-	-	-	67,501	-	-	-	(67,501)	-	-	-
Balance at 31 December 2015 and 1 January 2016	**188,788**	**4,549,233**	**319,553**	**363,806**	**(6,952)**	**4,459**	**5,340**	**3,164,405**	**8,588,632**	**100,706**	**8,689,338**
Profit for the year	-	-	-	-	-	-	-	493,282	493,282	15,077	508,359
Other comprehensive income	-	-	-	-	(15,461)	-	-	-	(15,461)	-	(15,461)
Total comprehensive income for the year	-	-	-	-	(15,461)	-	-	493,282	477,821	15,077	492,898
Acquisition of non-controlling interest	-	-	(20,913)	-	-	-	-	-	(20,913)	(18,085)	(38,998)
Transfer of profits to general reserve	-	-	-	-	-	-	17,824	(17,824)	-	-	-
Dividends (note 30(b))	-	-	-	-	-	-	-	(187,209)	(187,209)	(13,868)	(201,077)
Appropriation to reserves	-	-	-	60,569	-	-	-	(60,569)	-	-	-
Balance at 31 December 2016	**188,788**	**4,549,233**	**298,640**	**424,375**	**(22,413)**	**4,459**	**23,164**	**3,392,085**	**8,858,331**	**83,830**	**8,942,161**

The notes on pages 67 to 139 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016 (Expressed in RMB'000)

	Note	For the year ended 31 December 2016	2015
Operating activities:			
Profit before taxation		**790,798**	921,779
Adjustments for:			
– Depreciation	6(c)	**278,158**	238,522
– Amortisation of lease prepayments	6(c)	**23,860**	20,198
– Amortisation of intangible assets	6(c)	**101,509**	100,872
– Net gain on disposal of property, plant and equipment	5	**(20,860)**	(23,294)
– Net gain on disposal of lease prepayment		**(1,923)**	–
– Finance costs	6(a)	**482,275**	459,908
– Share of profit of joint venture and associates		**(25,403)**	(30,542)
– Interest income from bank deposits	5	**(20,605)**	(31,518)
– Allowance for doubtful debts	20(b)	**30,728**	11,819
– Write down of inventories	18(b)	**20,044**	–
– Net gain on derivatives	5	**(96,148)**	(15,981)
– Foreign exchange loss		**178,667**	121,424
		1,741,100	1,773,187
Changes in working capital:			
– Decrease in inventories		**154,835**	1,152,282
– Increase in trade and other receivables		**(1,121,408)**	(506,000)
– (Increase)/decrease in pledged bank deposits		**(58,818)**	181,463
– Increase/(Decrease) in trade and other payables		**376,745**	(722,618)
– Increase in receivables from financial services		**(2,156,571)**	(1,550,856)
– Increase in loans and borrowings for financial services		**1,896,403**	1,357,500
Cash generated from operations		**832,286**	1,684,958
Income tax paid	7(c)	**(185,100)**	(158,531)
Net cash generated from operating activities		**647,186**	1,526,427
Investing activities:			
Payment for purchase of property, plant and equipment		**(949,854)**	(1,022,861)
Proceeds from disposal of property, plant and equipment		**238,493**	209,100
Payment for purchase of lease prepayments		**(68,420)**	(2,633)
Proceeds from disposal of lease prepayments		**5,263**	–
Payment for purchase of intangible assets		**(3,856)**	(14,878)
Investment in an associate		**(20,000)**	–
Decrease in time deposits		**–**	31,207
Interest received		**20,605**	31,518
Net cash used in investing activities		**(777,769)**	(768,547)

The notes on pages 67 to 139 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016 (Expressed in RMB'000)

	Note	For the year ended 31 December 2016	2015
Financing activities:			
Proceeds from loans and borrowings		**13,203,276**	10,240,145
Repayment of loans and borrowings		**(11,973,443)**	(10,112,610)
Proceeds from shares issued		**–**	301
Repayment of finance lease liabilities		**(38,038)**	–
Acquisition of non-controlling interests		**(38,998)**	(25,226)
Dividends paid to non-controlling interests	30(b)	**(13,868)**	(24,002)
Dividend paid to equity shareholders of the Company	30(b)	**(187,209)**	(174,201)
Interest paid		**(512,730)**	(508,930)
Other cash used in financing activities		**(291,808)**	–
Net cash generated from/(used in) financing activities		**147,182**	(604,523)
Net increase in cash and cash equivalents		**16,599**	153,357
Cash and cash equivalents at beginning of the year		**1,599,117**	1,435,083
Effect of foreign exchange rate changes		**9,412**	10,677
Cash and cash equivalents at end of the year	22	**1,625,128**	1,599,117

The notes on pages 67 to 139 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China ZhengTong Auto Services Holdings Limited (the "Company") was incorporated in the Cayman Islands on 9 July 2010 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (collectively, the "Group") are principally engaged in 4S dealership business, supply chain business and financial services in the People's Republic of China (the "PRC").

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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements 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"). Significant accounting policies adopted by the Group are disclosed 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. Note 3 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 and the Company 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 (together refer to as the "Group") and the Group's interest in a joint venture and associates.

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

As at 31 December 2016, the Group's current liabilities exceeded its current assets by RMB785,401,000. In view of these circumstances, the directors of the Company have given consideration to the future liquidity of the Group and its available sources of finance including banking facilities in assessing whether the Group will have sufficient financial resources to continue as a going concern. As at 31 December 2016, taking into account the Group's cash flow projection, including the Group's unutilised banking facilities, ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, the directors of the Company consider that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the financial statements have been prepared on a going concern basis.

The measurement basis used in the preparation of the financial statement is the historical cost basis, except that derivative financial instruments are stated at fair value as explained in the accounting policies set out below.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

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 consolidated financial statements and major sources of estimation uncertainty are discussed in note 37.

(c) 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 meet 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 statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other 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 shareholders 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.

In the Company's statement of financial position, an investment in subsidiaries is stated at cost less impairment losses (see note 2(j)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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(j)). 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 profit or loss, 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 profit or loss and other 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 associates 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.

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, which is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(j)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(g) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(j)).

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(v)).

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 situated on leasehold land	Over the shorter of the unexpired term of lease and their estimated useful lives, being 30-40 years after the date of completion.
– Leasehold improvements	Over the shorter of the un-expired term of the lease and 5 years
– Plant and machinery	10 years
– Motor vehicles	5/10 years
– Office equipment and furniture	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 is stated at cost less impairment losses (see note 2(j)). Cost comprises direct costs of construction during the year of construction and installation. Capitalisation of these 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 of their intended use are completed.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Intangible assets (other than goodwill)

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(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

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. The principal estimated useful lives of intangible assets are as follows:

–	Car dealership	40 years
–	Favourable lease contracts	Over the unexpired term of lease, being 1-10 years
–	Software	5 years

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(i) 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 the cost of acquiring land use rights paid to the PRC's governmental authorities. Lease prepayments are carried at cost less accumulated amortisation and impairment losses (see note 2(j)). 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 terms, 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets (continued)

(iv) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(j) 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(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(j)(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(j)(ii).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

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

For trade, other receivable and receivable from financial services carried at cost or 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 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 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 provision account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(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, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments;
- intangible assets;
- investments in associate and joint venture;
- investments in subsidiaries; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– 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 whenever 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 to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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 the profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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 after deducting rebates from suppliers 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 expenses in the period in which the reversal occurs.

(l) 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(j)), 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.

(m) 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.

(n) 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.

(o) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits

(i) Short-term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits 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

Obligation for contributions to defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in the consolidated statement of profit or loss as incurred.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options 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).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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.

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 profit 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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.

(r) 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.

(s) 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) Sales of motor vehicles

Revenue arising from the sale of motor vehicles is recognised upon delivery of motor vehicles which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Sales of motor spare parts

Revenue arising from the sale of motor spare parts is recognised when significant risks and rewards of ownership have been transferred to the buyers.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue recognition (continued)

(iii) Maintenance services income

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

(iv) Logistics services income and other related services income

Revenue arising from logistics services and other related services are recognised when the service is rendered to customers.

(v) Sales of lubricant oil

Revenue arising from the sales of lubricant oil is recognised when lubricant oil is delivered at the customers' premises.

(vi) Service income

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

(vii) Interest income

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

(t) Vendor rebates

Incentive rebates provided by vendors are recognised 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.

(u) 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.

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 determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) 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.

(w) 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 Company or an entity related to the Group.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated 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 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.

4 REVENUE

The Group is mainly engaged in sales of passenger motor vehicles, motor spare parts, provision of maintenance services, provision of logistics services, sales of lubricant oil and financial services. Revenue represents the sales of goods, services income rendered to customers, and interest income.

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

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Sales of passenger motor vehicles	**27,042,043**	25,302,074
Sales of motor spare parts	**691,859**	766,214
Provision of maintenance services	**2,730,283**	2,609,350
Provision of logistics services	**411,946**	350,995
Sales of lubricant oil	**245,280**	264,434
Interest and service income from financial services	**397,844**	68,432
	31,519,255	29,361,499

5 OTHER REVENUE AND NET INCOME

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Other revenue:		
Service income	**377,447**	424,264
Interest income from bank deposits	**20,605**	31,518
Others	**4,858**	1,723
	402,910	457,505
Other net income:		
Net gain on disposal of property, plant and equipment	**20,860**	23,294
Net gain on derivative financial instruments	**96,148**	15,981
Others	**11,722**	26,731
	128,730	66,006

6 PROFIT BEFORE TAXATION

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

		For the year ended 31 December	
	Note	**2016**	2015
		RMB'000	RMB'000
(a) Finance costs:			
Interest on loans and borrowings and bonds payable		**470,519**	471,112
Other finance costs	(i)	**43,818**	37,818
Less: interest capitalised*		**(32,062)**	(49,022)
		482,275	459,908

* The borrowing costs have been capitalised at a rate of 4.35–7.80% per annum (2015: 4.50–7.80%).

(b) Staff costs:			
Salaries, wages and other benefits		**661,372**	605,502
Contributions to defined contribution retirement plans	(ii)	**51,674**	47,452
		713,046	652,954

6 PROFIT BEFORE TAXATION (continued)

(i) It mainly represents the interest expenses arising from discount of bills.

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

The Group has no other material obligation for the payment of retirement benefits other than the annual contributions described above.

		For the year ended 31 December	
		2016 RMB'000	2015 RMB'000
(c)	**Other items:**		
	Cost of inventories (note 18(b))	**28,295,264**	26,226,635
	Depreciation	**278,158**	238,522
	Amortisation of lease prepayments	**23,860**	20,198
	Amortisation of intangible assets	**101,509**	100,872
	Operating lease charges	**306,170**	270,131
	Net gain on derivative financial instruments	**(96,148)**	(15,981)
	Net foreign exchange loss	**169,254**	118,370
	Allowance for doubtful debts	**30,728**	11,819
	Auditors' remuneration		
	– audit service	**7,300**	7,300
	– non-audit service	**328**	–

7 INCOME TAX

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

	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000
Current tax:		
Provision for income tax for the year	**342,695**	354,282
Deferred tax:		
Origination of temporary differences (note 29)	**(60,256)**	(61,165)
	282,439	293,117

(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.

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

(iii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax rate of 25% (2015: 25%).

7 INCOME TAX (continued)

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

For the year ended 31 December	2016 RMB'000	2015 RMB'000
Profit before taxation	**790,798**	921,779
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	**197,700**	230,445
Non-deductible expenses	**58,884**	70,308
Unused tax losses not recognised	**32,206**	–
Non-taxable income on:		
– Share of profits recognised under the equity method	**(6,351)**	(7,636)
Income tax	**282,439**	293,117

(c) Income tax payables in the consolidated statement of financial position represent:

For the year ended 31 December	2016 RMB'000	2015 RMB'000
Balance at beginning of the year	**972,331**	776,580
Provision for current income tax for the year	**342,695**	354,282
Payment during the year	**(185,100)**	(158,531)
Balance at the end of the year	**1,129,926**	972,331

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2016

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Total RMB'000
Chairman					
Wang Muqing	–	–	–	–	–
Executive directors					
Wang Kunpeng	–	384	576	62	1,022
Li Zhubo	–	384	576	106	1,066
Wan To	–	264	396	–	660
Shao Yongjun	–	288	432	106	826
Li Yi	–	312	468	68	848
Independent non-executive directors					
Wong Tin Yau, Kelvin	295	–	–	–	295
Cao Tong (note (i))	214	–	–	–	214
Wong Tan Tan (note (i))	16	–	–	–	16
Zhao Chunjun (note (i))	283	–	–	–	283
Chang Xiuze (note (i))	79	–	–	–	79
	887	1,632	2,448	342	5,309

8 DIRECTORS' REMUNERATION (continued)

Year ended 31 December 2015

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Total RMB'000
Chairman					
Wang Muqing	–	–	–	–	–
Executive directors					
Wang Kunpeng	–	530	424	24	978
Li Zhubo	–	547	437	44	1,028
Wan To	–	380	304	–	684
Li Yi	-	383	306	21	710
Shao Yongjun	–	399	319	44	762
Chen Tao (note (ii))	–	475	216	–	691
Independent non-executive directors					
Wong Tin Yau, Kelvin	276	–	–	–	276
Zhao Chunjun	276	–	–	–	276
Chang Xiuze	276	–	–	–	276
	828	2,714	2,006	133	5,681

Notes:

(i) Mr. Chang Xiuze resigned as independent non-executive director of the Company on 8 April 2016. Mr. Zhao Chunjun retired as an independent non-executive director of the Company on 13 December 2016.

Dr. Cao Tong was appointed as independent non-executive director of the Company on 8 April 2016. Ms. Wong Tantan was appointed as independent non-executive director of the Company on 13 December 2016.

(ii) Mr. Chen Tao resigned as executive director and vice president of the Company on 16 November 2015.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, five (2015: five) are directors whose emoluments are disclosed in note 8.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2016 was based on the profit attributable to shareholders of the Company of RMB493,282,000 (2015: RMB618,530,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2016 of 2,210,200,440 (2015: 2,210,154,002), calculated as follows:

Weighted average number of ordinary shares

	For the year ended 31 December	
	2016	2015
Issued ordinary shares at 1 January	**2,210,200,440**	2,210,050,440
Effect of share options exercised	**–**	103,562
Weighted average number of ordinary shares at 31 December	**2,210,200,440**	2,210,154,002

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2016 is based on the profit attributable to shareholders of the Company of RMB493,282,000 (2015: RMB618,530,000) and the weighted average number of ordinary shares of 2,212,369,686 (2015: 2,213,469,125) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's pre-IPO employee share option scheme, calculated as follows:

Weighted average number of shares (diluted)

	For the year ended 31 December	
	2016	2015
Weighted average number of ordinary shares for the year ended 31 December	**2,210,200,440**	2,210,154,002
Effect of deemed issue of shares under the pre-IPO employee share option scheme	**2,169,246**	3,315,123
Weighted average number of ordinary shares at 31 December	**2,212,369,686**	2,213,469,125

11 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three major operating segments:

1 4S dealership business

4S dealership business mainly includes sales of motor vehicles, motor spare parts and provision of maintenance services through the Group's network of 4S dealerships in the PRC.

2 Supply chain business*

Supply chain business mainly includes provision of motor-related logistics services and trading of lubricant oil.

* Wuhan Zhengtong United Industrial Investment Group Co., Ltd. ("Wuhan Zhengtong"), formerly known as Wuhan Shengze Jietong Logistics Co., Ltd., was an inter-mediate holding company of the Group, which engaged in logistics service business and sales of spare parts before the year 2016. Wuhan Zhengtong was managed in supply chain business segment for internal reporting by the Group in 2015 and before. During the year 2016, Wuhan Zhengtong transferred its entire logistics service business to Shengze Jietong Supply Chain Co., Ltd., ("Jietong Supply Chain") and it remains as an investment holding company. As a result, Wuhan Zhengtong has been excluded from the segment reporting, while the financial information of Jietong Supply Chain has been included in supply chain segment.

The relevant comparative figures within supply chain business segment have not been restated for this change in composition of reportable segment as necessary information is not available and the cost to develop it would be excessive.

3 Financial services business

Financial services business mainly includes providing financial services to auto customers and dealers.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

- Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

- The measure used for reporting segment profit is profit before taxation. To arrive at profit before taxation, the Group's earnings are adjusted for items not specifically attributed to individual segments, such as head office and corporate administration costs, other revenue, other net income and finance costs.

- Segment assets include all current and non-current assets with the exception of intangible assets, goodwill, deferred tax assets and unallocated head office assets. Segment liabilities include all current and non-current liabilities with the exception of income tax payables, deferred tax liabilities and unallocated head office liabilities.

- In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment sales), loans and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

11 SEGMENT REPORTING (continued)

(a) Segment results, assets and liabilities (continued)

	4S dealership business		Supply chain business		Financial services business		Total	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Revenue from external customers	30,464,185	28,677,638	657,226	615,429	397,844	68,432	31,519,255	29,361,499
Inter-segment revenue	-	-	-	380,220	58,788	3,609	58,788	383,829
Reportable segment revenue	30,464,185	28,677,638	657,226	995,649	456,632	72,041	31,578,043	29,745,328
Reportable segment profit	586,319	875,252	119,703	107,414	221,431	18,250	927,453	1,000,916
Depreciation and amortisation for the year	371,409	344,190	16,967	12,620	15,151	2,782	403,527	359,592
Reportable segment assets	16,175,278	14,137,909	234,729	3,226,969	4,413,169	1,917,643	20,823,176	19,282,521
Additions to non-current segment assets during the year	764,634	1,093,656	10,465	3,245	277,799	16,765	1,052,898	1,113,666
Reportable segment liabilities	(12,523,755)	(10,958,515)	(144,001)	(2,267,591)	(3,531,114)	(1,397,238)	(16,198,870)	(14,623,344)
Investment in a joint venture and associates	-	-	247,314	220,514	18,603	-	265,917	220,514

(b) Reconciliations of reportable segment

For the year ended 31 December

	2016 RMB'000	2015 RMB'000
Revenue:		
Reportable segment revenue	31,578,043	29,745,328
Elimination of inter-segment revenue	(58,788)	(383,829)
Consolidated revenue	31,519,255	29,361,499
Profit before taxation:		
Reportable segment profit	927,453	1,000,916
Elimination of inter-segment profits	(17,274)	–
Unallocated head office expenses	(168,746)	(142,740)
Other revenue	402,910	457,505
Other net income	128,730	66,006
Finance costs	(482,275)	(459,908)
Consolidated profit before taxation	790,798	921,779

11 SEGMENT REPORTING (continued)

(b) Reconciliations of reportable segment (continued)

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Assets:		
Reportable segment assets	20,823,176	19,282,521
Intangible assets	3,691,704	3,789,357
Goodwill	1,926,551	1,926,551
Deferred tax assets	154,912	113,208
Unallocated head office assets	2,356,499	65,153
Elimination of inter-segment receivables	(1,223,932)	(1,497,140)
Consolidated total assets	27,728,910	23,679,650
Liabilities:		
Reportable segment liabilities	(16,198,870)	(14,623,344)
Income tax payables	(1,129,926)	(972,331)
Deferred tax liabilities	(869,628)	(888,180)
Unallocated head office liabilities	(1,812,257)	(3,597)
Elimination of inter-segment payables	1,223,932	1,497,140
Consolidated total liabilities	(18,786,749)	(14,990,312)

(c) Geographic information

As the Group solely operates in the PRC, no geographical segment information has been presented.

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2015	1,398,323	104,603	382,314	463,210	237,251	687,405	3,273,106
Additions	213,070	–	79,597	106,578	61,880	635,030	1,096,155
Transfer	524,847	–	24,477	107,670	–	(656,994)	–
Disposals	(31,387)	(18,205)	(6,462)	(245,821)	(15,144)	–	(317,019)
At 31 December 2015 and 1 January 2016	2,104,853	86,398	479,926	431,637	283,987	665,441	4,052,242
Additions	39,642	–	63,456	404,381	18,874	454,268	980,621
Transfer	261,546	9,864	3,793	26,914	2,719	(304,836)	–
Disposals	(20,828)	–	(14,523)	(265,787)	(17,309)	–	(318,447)
At 31 December 2016	**2,385,213**	**96,262**	**532,652**	**597,145**	**288,271**	**814,873**	**4,714,416**
Accumulated depreciation:							
At 1 January 2015	135,735	66,257	93,561	119,451	101,860	–	516,864
Charge for the year	58,237	9,007	38,171	89,805	43,302	–	238,522
Written back on disposals	(30,386)	(18,125)	(3,948)	(67,967)	(10,787)	–	(131,213)
At 31 December 2015 and 1 January 2016	163,586	57,139	127,784	141,289	134,375	–	624,173
Charge for the year	86,166	14,227	51,344	78,408	48,013	–	278,158
Written back on disposals	(2,352)	–	(9,848)	(76,526)	(12,088)	–	(100,814)
At 31 December 2016	**247,400**	**71,366**	**169,280**	**143,171**	**170,300**	**–**	**801,517**
Net book value:							
At 31 December 2016	**2,137,813**	**24,896**	**363,372**	**453,974**	**117,971**	**814,873**	**3,912,899**
At 31 December 2015	1,941,267	29,259	352,142	290,348	149,612	665,441	3,428,069

(a) The Group's buildings are located in the PRC. The Group has yet to obtain property ownership certificates of certain buildings with an aggregate net book value of RMB190,040,880 as at 31 December 2016 (2015: RMB188,877,412). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2016.

(b) Property, plant and equipment with carrying amount of RMB114,871,000 are pledged against a standby letter of credit (see note 26) as at 31 December 2016 (2015: RMB118,580,000).

(c) The Group leases vehicles under finance leases expiring within one year. The leases do not include contingent rentals.

During the year, additions to vehicles financed by new finance leases were RMB137,133,000 (2015: Nil). At the end of the reporting period, the net book value of vehicles held under finance leases was RMB118,524,000 (2015: Nil).

13 LEASE PREPAYMENTS

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Cost:		
At 1 January	**1,132,344**	1,129,711
Additions	**68,420**	2,633
Disposals	**(3,930)**	–
At 31 December	**1,196,834**	1,132,344
Accumulated amortisation:		
At 1 January	**(64,994)**	(44,796)
Charge for the year	**(23,860)**	(20,198)
Written back on disposals	**590**	–
At 31 December	**(88,264)**	(64,994)
Net book value:		
At 31 December	**1,108,570**	1,067,350

Lease prepayments represent cost of land use rights in respect of land located in the PRC with a lease period of 23 to 50 years when granted.

Lease prepayments with carrying amount of RMB64,873,000 are pledged against a standby letter of credit (see note 26) as at 31 December 2016 (2015: RMB67,391,000).

14 INTANGIBLE ASSETS

	Car dealerships RMB'000	Favourable lease contracts RMB'000	Trademark RMB'000	Software RMB'000	Others RMB'000	Total RMB'000
Cost:						
At 1 January 2015	3,888,752	36,904	362,732	–	363	4,288,751
Additions	–	–	–	14,878	–	14,878
At 31 December 2015 and 1 January 2016	3,888,752	36,904	362,732	14,878	363	4,303,629
Additions	–	–	–	3,856	–	3,856
At 31 December 2016	**3,888,752**	**36,904**	**362,732**	**18,734**	**363**	**4,307,485**
Accumulated amortisation:						
At 1 January 2015	(398,922)	(14,478)	–	–	–	(413,400)
Charge for the year	(94,519)	(4,191)	–	(2,162)	–	(100,872)
At 31 December 2015 and 1 January 2016	(493,441)	(18,669)	–	(2,162)	–	(514,272)
Additions	(94,519)	(3,730)	–	(3,260)	–	(101,509)
At 31 December 2016	**(587,960)**	**(22,399)**	**–**	**(5,422)**	**–**	**(615,781)**
Net book Value:						
At 31 December 2016	**3,300,792**	**14,505**	**362,732**	**13,312**	**363**	**3,691,704**
At 31 December 2015	3,395,311	18,235	362,732	12,716	363	3,789,357

The car dealerships arise from relationship with automobile manufacturers, with an estimated useful life of 40 years. The fair value of the car dealerships as at the respective acquisition date was determined by using the multiple excess earning method.

The trademark, arising from the acquisition of Top Globe Limited, has an indefinite useful life because it is expected to contribute net cash inflows to the Group indefinitely. The fair value of the trademark as at the acquisition date was determined by using the relief from royalty method.

The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of profit or loss.

15 GOODWILL

	At 31 December	
	2016	2015
	RMB'000	RMB'000
At 1 January and at 31 December	**1,926,551**	1,926,551

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to the operating segments as follows:

	At 31 December	
	2016	2015
	RMB'000	RMB'000
4S dealership business	**1,926,551**	1,926,551

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated by using an estimated growth rate of 3% (2015: 3%) which is consistent with the forecasts included in industry reports. The discount rates applied to the cash flow projections beyond the one year period is 12% (2015: 12%).

Key assumptions used for value in use calculations are the growth rates for sales, corresponding gross margin rates and working capital changes, based on past performance and its expectation for market development.

16 INTEREST IN SUBSIDIARIES

As of 31 December 2016, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies. The particulars of these subsidiaries are set out below:

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Big Glory International Limited (浩榮國際有限公司)		British Virgin Islands ("BVI") 22 June 2006	US$100	100%	–	Investment holding
Top Globe Limited (同方有限公司)		British Virgin Islands ("BVI") 27 August 2007	US$100	100%	–	Investment holding
Acme Joy Group Limited		British Virgin Islands ("BVI") 28 April 2011	US$50,000	–	100%	Investment holding
Chang Jun Limited (昌駿有限公司)		British Virgin Islands ("BVI") 16 June 2011	US$100	–	100%	Investment holding
Silver Journey Global Limited		British Virgin Islands ("BVI") 6 July 2011	US$50,000	–	100%	Investment holding
Rising Wave Development Limited (升濤發展有限公司)		Hong Kong 21 April 2006	HK$100	–	100%	Investment holding
Wealth Fame Holdings Limited (佳名集團有限公司)		Hong Kong 19 July 2007	HK$1	–	100%	Investment holding
Tongda Group (China) Co., Ltd. (通達集團(中國)有限公司)		Hong Kong 10 November 2008	HK$10,000	–	100%	Investment holding
Wuhan Zhengtong United Industrial Investment Group Co., Ltd. (武漢正通聯合實業投資集團有限公司)		The PRC 22 November 2002	RMB1,410,000,000/ RMB809,538,630	–	100%	Investment holding
Shanghai Shenxie Automobile Trading Co., Ltd. (上海紳協汽車貿易有限公司)		The PRC 21 April 1999	RMB50,000,000	–	100%	Automobile dealership
Shanghai Yige Science & Technology Trading Co., Ltd. (上海繹格科工貿有限公司)	(ii)	The PRC 25 September 2002	RMB15,000,000	–	50%	Distribution of lubricant oil
Hubei Dingjie Automobile Sales Services Co., Ltd. (湖北鼎傑汽車銷售服務有限公司)		The PRC 12 December 2002	RMB55,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Inner Mongolia Dingjie Automobile Trading Co., Ltd. (內蒙古鼎傑汽車貿易有限公司)		The PRC 23 January 2003	RMB7,000,000	–	100%	Automobile dealership
Hubei Bocheng Automobile Sales Services Co., Ltd. (湖北博誠汽車銷售服務有限公司)		The PRC 30 May 2003	RMB20,000,000	–	100%	Automobile dealership
Wuhan Kaitai Automobile Sales Services Co., Ltd. (武漢開泰汽車銷售服務有限公司)		The PRC 20 October 2003	RMB10,000,000	–	100%	Automobile dealership
Hubei Xinrui Automobile Sales Services Co., Ltd. (湖北欣瑞汽車銷售服務有限公司)		The PRC 18 March 2004	RMB10,000,000	–	100%	Automobile dealership
Wuhan Baoze Automobile Sales Services Co., Ltd. (武漢寶澤汽車銷售服務有限公司)		The PRC 26 May 2004	RMB70,000,000	–	100%	Automobile dealership
Shiyan Shenxie Automobile Trading Co., Ltd. (十堰紳協汽車貿易有限公司)		The PRC 18 June 2004	RMB19,000,000	–	100%	Automobile dealership
Shanghai Luda Automobile Sales Services Co., Ltd. (上海陸達汽車銷售服務有限公司)		The PRC 8 November 2004	RMB10,000,000	–	100%	Automobile dealership
Changsha Ruibao Automobile Sales Services Co., Ltd. (長沙瑞寶汽車銷售服務有限公司)		The PRC 21 June 2005	RMB20,000,000	–	100%	Automobile dealership
Hubei Jierui Automobile Sales Services Co., Ltd. (湖北捷瑞汽車銷售服務有限公司)		The PRC 24 June 2005	RMB22,000,000	–	100%	Automobile dealership
Huhhot Qibao Automobile Sales Services Co., Ltd. (呼和浩特市祺寶汽車銷售服務有限公司)		The PRC 23 February 2006	RMB10,000,000	–	100%	Automobile dealership
Yichang Baoze Automobile Sales Services Co., Ltd. (宜昌寶澤汽車銷售服務有限公司)		The PRC 13 June 2006	RMB8,000,000	–	100%	Automobile dealership
Chenzhou Ruibao Automobile Sales Services Co., Ltd. (郴州瑞寶汽車銷售服務有限公司)		The PRC 6 September 2006	RMB6,000,000	–	100%	Automobile dealership
Shanghai Shenxie Shentong Automobile Sales Services Co., Ltd. (上海紳協紳通汽車銷售服務有限公司)		The PRC 31 January 2007	RMB15,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nanchang Baoze Automobile Sales Services Co., Ltd. (南昌寶澤汽車銷售服務有限公司)		The PRC 2 June 2008	RMB29,000,000	–	100%	Automobile dealership
Zhuhai Baoze Automobile Sales Services Co., Ltd. (珠海寶澤汽車銷售服務有限公司)		The PRC 27 June 2008	RMB30,000,000	–	100%	Automobile dealership
Shanghai Aohui Automobile Sales Services Co., Ltd. (上海奧匯汽車銷售服務有限公司)		The PRC 4 December 2008	RMB10,000,000	–	100%	Automobile dealership
Guangzhou Baoze Automobile Sales Services Co., Ltd. (廣州寶澤汽車銷售服務有限公司)		The PRC 20 April 2009	RMB30,000,000	–	100%	Automobile dealership
Dongguan Jieyunhang Automobile Sales Services Co., Ltd. (東莞捷運行汽車銷售服務有限公司)		The PRC 6 July 2009	RMB10,000,000	–	100%	Automobile dealership
Baotou Baoze Automobile Sales Services Co., Ltd. (包頭市寶澤汽車銷售服務有限公司)		The PRC 6 August 2009	RMB26,000,000	–	100%	Automobile dealership
Beijing Baozehang Automobile Sales Services Co., Ltd. (北京寶澤行汽車銷售服務有限公司)		The PRC 16 October 2009	RMB90,000,000	–	100%	Automobile dealership
Inner Mongolia Dingze Automobile Sales Services Co., Ltd. (內蒙古鼎澤汽車銷售服務有限公司)		The PRC 27 October 2009	RMB20,000,000	–	100%	Automobile dealership
Shantou Hongxiang Materials Co., Ltd. (汕頭市宏祥物資有限公司)		The PRC 12 July 2000	RMB5,000,000	–	100%	Automobile dealership
Shangrao Baoze Automobile Sales Services Co., Ltd. (上饒市寶澤汽車銷售服務有限公司)		The PRC 2 November 2010	RMB10,000,000	–	100%	Automobile dealership
Ganzhou Baoze Automobile Sales Services Co., Ltd. (贛州寶澤汽車銷售服務有限公司)		The PRC 3 December 2010	RMB10,000,000	–	100%	Automobile dealership
Xiangyang Baoze Automobile Sales Services Co., Ltd. (襄陽寶澤汽車銷售服務有限公司)		The PRC 1 November 2010	RMB10,000,000	–	100%	Automobile dealership
Xiangtan Baoze Automobile Sales Services Co., Ltd. (湘潭寶澤汽車銷售服務有限公司)		The PRC 9 November 2010	RMB10,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Wuhan Shengtong Investment Management Co., Ltd. (武漢升通投資管理有限公司)		The PRC 22 April 2011	RMB10,000,000	–	100%	Investment holding
Baotou Luze Automobile Sales Services Co., Ltd. (包頭市路澤汽車銷售服務有限公司)		The PRC 4 May 2011	RMB20,000,000	–	100%	Automobile dealership
Ganzhou Yizezhiye Co., Ltd. (贛州益澤置業有限公司)		The PRC 19 November 2010	RMB10,000,000	–	100%	Real estate development
Xiangtan Yizezhiye Co., Ltd. (湘潭益澤置業有限公司)		The PRC 18 November 2010	RMB10,000,000	–	100%	Real estate development
Shangrao Yizezhiye Co., Ltd. (上饒市益澤置業有限公司)		The PRC 18 November 2010	RMB10,000,000	–	100%	Real estate development
Ulanqab Yizezhiye Co., Ltd. (烏蘭察布市益澤置業有限公司)		The PRC 21 December 2010	RMB10,000,000	–	100%	Real estate development
Hubei Aoze Automobile Sales Services Co., Ltd. (湖北奧澤汽車銷售服務有限公司)		The PRC 25 May 2011	RMB20,000,000	–	100%	Automobile parts sales
Lhasa Jinsheng Automobile Sales Co., Ltd. (拉薩金勝汽貿有限公司)		The PRC 13 April 2011	RMB20,000,000	–	100%	Automobile parts sales
Qingdao Huacheng Automobile Services Co., Ltd. (青島華成汽車服務有限公司)		The PRC 8 March 2001	RMB8,800,000	–	100%	Automobile dealership
Shantou Lujie Automobile Sales Services Co., Ltd. (汕頭市路傑汽車銷售服務有限公司)		The PRC 2 September 2011	RMB10,000,000	–	100%	Automobile dealership
Lhasa Hongjin Automobile Sales Co., Ltd. (拉薩弘進汽貿有限公司)		The PRC 12 April 2011	RMB15,000,000	–	100%	Automobile parts sales
Henan Jintangsheng Automobile Co., Ltd. (河南省錦堂盛汽車有限公司)		The PRC 7 May 2008	RMB10,000,000	–	100%	Automobile dealership
Zhengzhou Dingwo Automobile Sales Services Co., Ltd. (鄭州鼎沃汽車銷售服務有限公司)		The PRC 3 June 2010	RMB10,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
ZhengTong Automobile Investment Holding (Wuhan) Co., Ltd. (正通汽車投資控股(武漢)有限公司)	(i)	The PRC 29 March 2011	RMB600,000,000	–	100%	Investment holding
Chengdu Qibao Automobile Sales Services Co., Ltd. (成都祺寶汽車銷售服務有限公司)		The PRC 13 July 2011	RMB50,000,000	–	100%	Automobile dealership
Wuhan ZhengTong Second Hand Automobile Brokerage Co., Ltd. (武漢正通二手車經紀有限公司)		The PRC 27 June 2011	RMB500,000	–	100%	Automobile trading agency
Huhhot Weijie Automobile Sales Services Co., Ltd. (呼和浩特市緯捷汽車銷售服務有限公司)		The PRC 16 June 2011	RMB500,000	–	100%	Automobile trading agency
Foshan Zheng Tong Zhong Rui Automobile Sales Services Co., Ltd. (佛山正通眾鋭汽車銷售服務有限公司)		The PRC 18 April 2011	RMB10,000,000	–	100%	Automobile dealership
Baotou Zhongrui Automobile Sales Service Co., Ltd. (包頭眾鋭汽車銷售服務有限公司)		The PRC 21 September 2010	RMB10,000,000	–	100%	Automobile dealership
ZhengTong Automobile Services Co., Ltd. (正通汽車服務有限公司)		The PRC 1 September 2011	RMB50,000,000	–	100%	Automobile parts sales
Jiangxi Deao Automobile Sales Services Co., Ltd. (江西德奧汽車銷售服務有限公司)		The PRC 17 September 2002	RMB5,000,000	–	100%	Automobile dealership
Huhhot Jieyun Automobile Sales Services Co., Ltd. (呼和浩特市捷運行汽車銷售服務有限公司)		The PRC 29 December 2011	RMB60,000,000	–	100%	Automobile dealership
Jieyang Dingjie Automobile Sales Services Co., Ltd. (揭陽鼎傑汽車銷售服務有限公司)		The PRC 19 July 2011	RMB20,000,000	–	100%	Automobile dealership
Shenzhen Roadmate Technology Co., Ltd. (深圳路美特科技有限公司)	(iii)	The PRC 15 March 2004	US$2,100,000	–	100%	Investment holding
Shenzhen SCAS Investment Group Co., Ltd. (深圳市中汽南方投資集團有限公司)		The PRC 21 May 2001	RMB50,000,000	–	100%	Investment holding

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Shenzhen Yama Automobile Trading Co., Ltd. (深圳野馬汽車貿易有限公司)		The PRC 15 June 1993	RMB15,000,000	–	100%	Investment holding
Shenzhen SCAS Electric Machinery Co., Ltd. (深圳市中汽南方機電設備有限公司)		The PRC 25 November 1996	RMB50,000,000	–	100%	Automobile dealership
Shenzhen SCAS Automobile Maintenance Co., Ltd. (深圳市中汽南方汽車維修有限公司)		The PRC 14 August 2000	RMB5,000,000	–	100%	Provision of automobile maintenance services
Guangdong SCAS Automobile Sales Services Co., Ltd. (廣東中汽南方汽車銷售服務有限公司)		The PRC 21 July 2004	RMB20,000,000	–	100%	Automobile dealership
Dongguan SCAS Automobile Sales Services Co., Ltd. (東莞中汽南方汽車銷售服務有限公司)		The PRC 30 July 2004	RMB5,000,000	–	100%	Automobile dealership
Zhongshan SCAS Automobile Sales Services Co., Ltd. (中山中汽南方汽車銷售服務有限公司)		The PRC 29 April 2011	RMB5,000,000	–	100%	Automobile dealership
Zhuhai SCAS Automobile Sales Services Co., Ltd. (珠海中汽南方汽車銷售服務有限公司)		The PRC 10 March 2005	RMB5,000,000	–	100%	Automobile dealership
Hunan SCAS Automobile Sales Services Co., Ltd. (湖南中汽南方汽車銷售服務有限公司)		The PRC 26 May 2005	RMB10,000,000	–	90%	Automobile dealership
Hainan SCAS Automobile Sales Services Co., Ltd. (海南中汽南方汽車銷售服務有限公司)		The PRC 23 May 2008	RMB20,000,000	–	100%	Automobile dealership
Fujian SCAS Automobile Sales Services Co., Ltd. (福建中汽南方汽車銷售服務有限公司)		The PRC 29 April 2005	RMB20,000,000	–	100%	Automobile dealership
Beijing SCAS North China Automobile Services Co., Ltd. (北京中汽南方華北汽車服務有限公司)		The PRC 2 July 2001	RMB10,000,000	–	100%	Automobile dealership
Beijing BWWR Automobile Sales Services Co., Ltd. (北京百旺沃瑞汽車銷售服務有限公司)		The PRC 27 March 2008	RMB5,000,000	–	100%	Automobile dealership
Beijing Dewanlong Trading Co., Ltd. (北京德萬隆經貿有限公司)		The PRC 9 September 1999	RMB30,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Beijing SCAS Zhongguan Automobile Sales Co., Ltd. (北京中汽南方中關汽車銷售有限公司)		The PRC 19 March 2010	RMB5,000,000	–	100%	Automobile dealership
Tianjin SCAS Automobile Sales Services Co., Ltd. (天津中汽南方汽車銷售服務有限公司)		The PRC 21 May 2004	RMB10,000,000	–	100%	Automobile dealership
Tianjin Automobile Industry SCAS Sales Co., Ltd. (天津汽車工業銷售深圳南方有限公司)		The PRC 28 November 1995	RMB20,000,000	–	100%	Automobile dealership
Shenzhen SCAS Tengxing Automobile Sales Services Co., Ltd. (深圳市南方騰星汽車銷售服務有限公司)		The PRC 15 May 2006	RMB50,000,000	–	100%	Automobile dealership
Shenzhen SCAS Infiniti Automobile Sales Services Co., Ltd. (深圳市南方英菲尼迪汽車銷售服務有限公司)		The PRC 19 October 2006	RMB20,000,000	–	100%	Automobile dealership
Shenzhen SCAS Changfu Automobile Sales Co., Ltd. (深圳市中汽南方長福汽車銷售有限公司)		The PRC 10 December 2004	RMB10,000,000	–	100%	Automobile dealership
Shenzhen SCAS Tengtian Automobile Sales Services Co., Ltd. (深圳市南方騰田汽車銷售服務有限公司)		The PRC 24 March 2006	RMB10,000,000	–	100%	Automobile dealership
Shenzhen SCAS Tenglong Automobile Sales Services Co., Ltd. (深圳市南方騰龍汽車銷售服務有限公司)		The PRC 5 December 2005	RMB5,000,000	–	100%	Automobile dealership
Shenzhen SCAS Toyota Automobile Sales Services Co., Ltd. (深圳南方豐田汽車銷售服務有限公司)		The PRC 9 April 2002	RMB10,000,000	–	100%	Automobile dealership
Qingyuan SCAS Hezhong Automobile Sales Services Co., Ltd. (清遠南方合眾汽車銷售服務有限公司)		The PRC 31 December 2009	RMB10,000,000	–	100%	Automobile dealership
Qingyuan SCAS Heda Automobile Sales Services Co., Ltd. (清遠南方合達汽車銷售服務有限公司)		The PRC 26 October 2010	RMB8,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Qingyuan SCAS Toyota Automobile Sales Services Co., Ltd. (清遠南方豐田汽車銷售服務有限公司)		The PRC 17 October 2008	RMB10,000,000	–	100%	Automobile dealership
ZhengTong Supply Chain Investment Holding (Shenzhen) Co., Ltd. (正通供應鏈投資控股(深圳)有限公司)	(i)	The PRC 10 January 2012	USD7,000,000	–	100%	Investment holding
Baotou Lizhongyou Materials Co., Ltd. (包頭市利中友物資有限公司)		The PRC 6 November 2003	RMB1,000,000	–	100%	Automobile parts sales
Changchun Shengze Jietong Transportation Co., Ltd. (長春聖澤捷通物流有限公司)		The PRC 24 October 2008	RMB30,000,000	–	100%	Provision of auto-mobile related logistic services
Wuhan Yuntong Investment Management Co., Ltd. (武漢運通行投資管理有限公司)		The PRC 1 March 2012	RMB10,000,000	–	100%	Investment holding
Shanxi Zhengtong Lanbo Automobile Sales Services Co., Ltd. (山西正通蘭博汽車銷售服務有限公司)		The PRC 5 April 2012	RMB10,000,000	–	100%	Automobile dealership
Dongguan Liaobu SCAS Automobile Sales Services Co., Ltd. (東莞寮步中汽南方汽車銷售服務有限公司)		The PRC 15 May 2012	RMB15,000,000	–	100%	Automobile dealership
Guangdong SCAS Shengwo Automobile Sales Services Co., Ltd. (廣東中汽南方勝沃汽車銷售服務有限公司)		The PRC 11 June 2012	RMB10,000,000	–	100%	Automobile dealership
Wuhan Baoze Automobile Maintenance Co., Ltd. (武漢寶澤行汽車維修服務有限公司)		The PRC 12 June 2012	RMB10,000,000	–	100%	Provision of automobile maintenance Services
Jingdezhen Shengtong Trading Co., Ltd. (景德鎮升通貿易有限公司)		The PRC 20 June 2012	RMB10,000,000	–	100%	Automobile parts sales
Zhuhai SCAS Jielu Automobile Sales Services Co., Ltd. (珠海中汽南方捷路汽車銷售服務有限公司)		The PRC 21 June 2012	RMB10,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hunan SCAS Xingsha Automobile Sales Services Co., Ltd. (湖南中汽南方星沙汽車銷售服務有限公司)		The PRC 27 June 2012	RMB20,000,000	–	100%	Automobile dealership
Dongguan Zhengtong Kaidi Automobile Sales Services Co., Ltd. (東莞正通凱迪汽車銷售有限公司)		The PRC 29 October 2012	RMB10,000,000	–	100%	Automobile dealership
Jiangxi Zhengtong Zetian Automobile Sales Services Co., Ltd. (江西正通澤田汽車銷售服務公司)		The PRC 19 November 2012	RMB10,000,000	–	100%	Automobile dealership
Shanghai Zhengtong Zhonghui Automobile Sales Services Co., Ltd. (上海正通眾輝汽車銷售服務有限公司)		The PRC 21 December 2012	RMB10,000,000	–	100%	Automobile dealership
Shanghai Qibao Automobile Sales Services Co., Ltd. (上海祺寶汽車銷售服務有限公司)		The PRC 8 June 2013	RMB10,000,000	–	100%	Automobile dealership
Chenzhou Haochi Automobile Sales Services Co., Ltd (郴州豪馳汽車銷售服務有限公司)		The PRC 21 March 2013	RMB10,000,000	–	100%	Automobile dealership
Zhanjiang Zhengtong Kaidi Automobile Sales Services Co., Ltd. (湛江正通凱迪汽車銷售服務有限公司)		The PRC 15 April 2013	RMB10,000,000	–	100%	Automobile dealership
Wuhan Zhengtong Yuechi Automobile Sales Services Co., Ltd (武漢正通悦馳汽車銷售服務有限公司)		The PRC 14 May 2013	RMB10,000,000	–	100%	Automobile dealership
Shantou Baoze Automobile Sales Services Co., Ltd. (汕頭市寶澤汽車銷售服務有限公司)		The PRC 2 September 2013	RMB10,000,000	–	100%	Automobile dealership
Jingmen Aoze Automobile Sales Services Co., Ltd.. (荊門奧澤汽車銷售服務有限公司)		The PRC 11 October 2013	RMB10,000,000	–	100%	Automobile dealership
Weihai Luze Automobile Sales Services Co., Ltd. (威海路澤汽車銷售服務有限公司)		The PRC 31 October 2013	RMB10,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Baotou Baozehang Automobile Maintenance Services Co., Ltd. (包頭寶澤行汽車維修服務有限公司)		The PRC 18 December 2013	RMB10,000,000	–	100%	Provision of automobile maintenance Services
Shantoushi Luze Automobile Sales Services Co., Ltd. (汕頭市路澤汽車銷售服務有限公司)		The PRC 20 November 2013	RMB10,000,000	–	100%	Automobile dealership
Shenzhenshi Qianhaizhengtong Logistic Equipment Services Co., Ltd. (深圳市前海正通物流設備服務有限責任公司)	(i)	The PRC 24 May 2013	RMB6,170,000	–	100%	Automobile dealership
Changsha Ruize Real Estate Development Co., Ltd. (長沙瑞澤房地產開發有限公司)		The PRC 4 March 2013	RMB20,000,000	–	100%	Property management
Shantoushi Ruize Automobile Sales Services Co., Ltd. (汕頭市瑞澤房地產開發有限公司)		The PRC 14 August 2013	RMB160,000,000	–	100%	Property management
Dingze Insurance Agency Co., Ltd. (鼎澤保險代理有限公司)		The PRC 16 September 2013	RMB50,000,000	–	100%	Insurance agency services
Wuhan Jiewo Advisory Services Limited (武漢捷沃諮詢服務有限公司)		The PRC 8 August 2013	RMB1,000,000	–	100%	Consulting services
Sky Wonder Limited (天悅有限公司)		Hong Kong 14 March 2014	HK$1	–	100%	Investment holding
Shenzhenshi Zhuoruixiang Information Advisory Co., Ltd. (深圳市卓瑞翔資訊諮詢有限公司)		The PRC 31 December 2013	RMB32,000,000	–	100%	Consulting services
ChengTong Developments Limited (成通發展有限公司)		British Virgin Islands ("BVI") 1 April 2014	US$1	–	100%	Consulting services Investment holding
Landtime International Limited (裕泰國際有限公司)		Hong Kong 7 April 2014	US$1	–	100%	Investment holding
Goldrich Holdings Limited (啟富集團有限公司)		Hong Kong 16 January 2014	HK$1	–	100%	Investment holding

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Beijing Zhengtong Baozehang Automobile Sales Services Co., Ltd. (北京正通寶澤行汽車銷售有限公司)		The PRC 7 January 2014	RMB10,000,000	–	100%	Automobile dealership
Wuhan Luze Automobile Sales Services Co., Ltd. (武漢路澤汽車銷售服務有限公司)		The PRC 6 January 2014	RMB15,000,000	–	100%	Automobile dealership
Shangraoshi Luze Automobile Sales Services Co., Ltd. (上饒市路澤汽車銷售服務有限公司)		The PRC 17 February 2014	RMB10,000,000	–	100%	Automobile dealership
Langfangshi Luze Automobile Sales Services Co., Ltd. (廊坊市路澤汽車銷售服務有限公司)		The PRC 23 May 2014	RMB10,000,000	–	100%	Automobile dealership
Yichun Baoze Automobile Sales Services Co., Ltd. (宜春寶澤汽車銷售服務有限公司)		The PRC 6 March 2014	RMB10,000,000	–	100%	Automobile dealership
Qingdao Aoze Automobile Sales Services Co., Ltd. (青島奧澤汽車銷售服務有限公司)		The PRC 9 May 2014	RMB10,000,000	–	100%	Automobile dealership
Baotoushi Jieyunhang Automobile Sales Services Co., Ltd. (包頭市捷運行汽車銷售服務有限公司)		The PRC 24 March 2014	RMB65,000,000	–	100%	Automobile dealership
Shengzhou Aoze Automobile Sales Services Co., Ltd. (嵊州奧澤汽車銷售服務有限公司)		The PRC 30 May 2014	RMB10,000,000	–	100%	Automobile dealership
Dongguan Zhengtong Kaize Automobile Sales Services Co., Ltd. (東莞正通凱澤汽車銷售服務有限公司)		The PRC 17 February 2014	RMB5,000,000	–	100%	Automobile dealership
Shanghai Chichang Trading Co., Ltd. (上海馳暢貿易有限公司)	(i)	The PRC 24 July 2014	RMB100,000,000	–	100%	Automobile parts sales
Beijing Zhengtong Baoze Automobile Maintenance Services Co., Ltd. (北京正通寶澤汽車維修服務有限公司)		The PRC 14 July 2014	RMB5,000,000	–	100%	Provision of automobile maintenance services
Loudi Dingwo Automobile Sales Services Co., Ltd. (婁底鼎沃汽車銷售服務有限公司)		The PRC 10 July 2014	RMB5,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Shenzhen Aoze Automobile Sales Services Co., Ltd. (深圳奧澤汽車銷售服務有限公司)		The PRC 2 July 2014	RMB10,000,000	–	100%	Automobile dealership
Dongguan Aoze Automobile Sales Services Co., Ltd. (東莞奧澤汽車銷售服務有限公司)		The PRC 21 July 2014	RMB10,000,000	–	100%	Automobile dealership
Foshan Aoze Automobile Sales Services Co., Ltd. (佛山奧澤汽車銷售服務有限公司)		The PRC 5 September 2014	RMB10,000,000	–	100%	Automobile dealership
Zhengzhou Aoze Automobile Sales Services Co., Ltd. (鄭州奧澤汽車銷售服務有限公司)		The PRC 25 July 2014	RMB10,000,000	–	100%	Automobile dealership
Baoding Aoze Automobile Sales Services Co., Ltd. (保定奧澤汽車銷售服務有限公司)		The PRC 18 September 2014	RMB10,000,000	–	100%	Automobile dealership
Fuzhou Dingwo Automobile Sales Services Co., Ltd. (福州鼎沃汽車銷售服務有限公司)		The PRC 19 August 2014	RMB5,000,000	–	100%	Automobile dealership
Shenzhen Dingwo Automobile Sales Services Co., Ltd. (深圳鼎沃汽車銷售服務有限公司)		The PRC 3 September 2014	RMB5,000,000	–	100%	Automobile dealership
Jieyang Luze Automobile Sales Services Co., Ltd. (揭陽路澤汽車銷售服務有限公司)		The PRC 14 August 2014	RMB10,000,000	–	100%	Automobile dealership
ShenzhenLuze Automobile Sales Services Co., Ltd. (深圳路澤汽車銷售服務有限公司)		The PRC 15 August 2014	RMB10,000,000	–	100%	Automobile dealership
Yichang Baozehang Automobile Sales Services Co., Ltd. (宜昌寶澤行汽車銷售服務有限公司)		The PRC 22 August 2014	RMB10,000,000	–	100%	Automobile dealership
Shenzhenshi SCAS Huawo Automobile Sales Services Co., Ltd. (深圳市中汽南方華沃汽車銷售服務有限公司)		The PRC 11 June 2014	RMB5,000,000	–	100%	Automobile dealership
Shenzhen Hengyiyingtong Investment Management Co., Ltd. (深圳恒毅盈通投資管理有限公司)		The PRC 3 April 2014	RMB100,000,000	–	100%	Investment holding
Shenzhenshi Huianqi Investment Advisory Co., Ltd. (深圳市匯安啟投資諮詢有限公司)		The PRC 13 May 2014	HK$500,000	–	100%	Consulting services

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Shenzhen Baoze Automobile Sales Services Co., Ltd. (深圳寶澤汽車銷售服務有限公司)		The PRC 31 March 2015	RMB10,000,000	–	100%	Automobile dealership
Beijing Zhengtong Dingwo Automobile Sales Services Co., Ltd. (北京正通鼎沃汽車銷售服務有限公司)		The PRC 30 January 2015	RMB5,000,000	–	100%	Automobile dealership
Hengyang Luze Automobile Sales Services Co., Ltd. (衡陽路澤汽車銷售服務有限公司)		The PRC 2 July 2014	RMB10,000,000	–	100%	Automobile dealership
Huhhot Yingfei Automobile Sales Services Co., Ltd. (呼和浩特市英菲汽車銷售服務有限公司)		The PRC 27 May 2015	RMB10,000,000	–	100%	Automobile dealership
Shanghai Dongzheng Automobile Finance Co., Ltd. (上海東正汽車金融有限責任公司)		The PRC 11 March 2015	RMB500,000,000	–	95%	Financial services
Beijing Hengyiyingtong Advertising Media Co., Ltd. (北京恒毅盈通廣告傳媒有限公司)		The PRC 21 May 2015	RMB5,000,000	–	100%	Consulting services
Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. (上海正通鼎澤融資租賃有限公司)		The PRC 29 July 2014	US$100,000,000	–	100%	Financial services
Shengze Jietong Supply Chain Co., Ltd. (聖澤捷通供應鏈有限公司)		The PRC 15 January 2016	RMB200,000,000	–	100%	Provision of auto-mobile related logistic services
Tianjin Chichang International Trading Co., Ltd. (天津馳暢國際貿易有限公司)		The PRC 11 June 2015	RMB100,000,000	–	100%	Automobile parts sales
Yunnan Chixing Automobile Sales Services Co., Ltd. (雲南馳星汽車銷售服務有限公司)		The PRC 25 May 2016	RMB10,000,000	–	100%	Automobile dealership
Beijing Baoze Exhibition Co., Ltd. (北京寶澤會展有限公司)		The PRC 16 March 2016	RMB10,000,000	–	100%	Consulting services
Suzhou Anzhixing Automobile Sales Services Co., Ltd. (宿州安之星汽車銷售服務有限公司)		The PRC 23 November 2016	RMB20,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Guangzhoushi Hengyuehang Automobile Sales Services Co., Ltd. (廣州市恒悦行汽車銷售服務有限公司)		The PRC 21 June 2016	RMB50,000,000	-	100%	Automobile dealership
Qingyuan Aoze Automobile Sales Services Co., Ltd. (清遠奧澤汽車銷售服務有限公司)		The PRC 10 August 2016	RMB10,000,000	-	100%	Automobile dealership
Shenzhen Hengshuo Advisory Services Co., Ltd. (深圳恒爍諮詢服務有限公司)		The PRC 7 September 2016	RMB1,000,000	-	100%	Consulting services
Foshan Tengxing Automobile Sales Services Co., Ltd. (佛山騰星汽車銷售服務有限公司)		The PRC 17 August 2016	RMB10,000,000	-	100%	Automobile dealership

Notes:

(i) These entities are incorporated in the PRC as wholly foreign-owned enterprises by Rising Wave Development Limited.

(ii) This entity is considered a subsidiary of the Group because the Group has rights to variable returns from its involvement with the entity and has the ability to affect those returns by virtue of an agreement signed with another equity shareholder which holds 50% interest in this entity, that results in the Group has the power to appoint the sole director of the entity.

(iii) This entity is incorporated in the PRC as a wholly foreign-owned enterprise by Wealth Fame Holdings Limited.

(iv) Except for Big Glory International Limited, Rising Wave Development Limited, Tongda Group (China) Co., Ltd., Silver Journey Global Limited, Acme Joy Group Limited, Chang Jun Limited, Top Globe Limited and Wealth Fame Holdings limited, the English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

The directors are of the view that the Group had no individually material non-controlling interest as at 31 December 2016.

17 INTEREST IN A JOINT VENTURE

	At 31 December 2016 RMB'000	2015 RMB'000
Share of net assets	**244,114**	217,314

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:

Name of the investee	Place of incorporation/ establishment	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: held by subsidiaries	Principal activities
Fengshen Logistics Co., Ltd.	The PRC	RMB60,000,000	50%	50%	Provision of automobile related logistics services

Fengshen Logistics Co., Ltd ("Guangzhou Fengshen") is an unlisted corporate entity in which the Group has joint control and a 50% ownership interest. Guangzhou Fengshen is structured as a separate vehicle and the Group has a residual interest in its net assets. Accordingly, the Group has classified its interest in Guangzhou Fengshen as a joint venture, which is equity-accounted for.

The following is summarised financial information for Guangzhou Fengshen. For the years presented, no adjustments have been made (or are necessary) to conform the joint venture's accounting policies to those of the Group as there are no material differences between the accounting policies adopted by the joint venture and the Group.

Gross amounts of Guangzhou Fengshen:

	At 31 December 2016 RMB'000	2015 RMB'000
Current assets	**528,088**	593,535
Non-current assets	**514,180**	552,070
Current liabilities	**(554,040)**	(710,977)
Equity	**488,228**	434,628

17 INTEREST IN A JOINT VENTURE (continued)

Included in the above assets and liabilities:

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Cash and cash equivalents	**2,085**	4,826

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Revenue	**1,889,784**	1,737,891
Profit from continuing operations	**53,600**	61,084
Total comprehensive income	**53,600**	61,084

Included in the above profit:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Depreciation and amortisation	**(45,575)**	(46,822)
Interest income	**10**	8
Income tax expense	**(27,397)**	(17,428)

Reconciled to the Group's interest in Guangzhou Fengshen:

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Gross amounts of Guangzhou Fengshen's net assets	**488,228**	434,628
Group's effective interest	**50%**	50%
Group's share of Guangzhou Fengshen's net assets	**244,114**	217,314
Carrying amount in the consolidated financial statements	**244,114**	217,314

18 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Motor vehicles	**2,765,645**	2,911,859
Automobile spare parts	**229,487**	262,771
Others	**23,724**	19,105
	3,018,856	3,193,735

Inventories with carrying amount of RMB1,268,875,000 have been pledged as security for the bills payable (see note 25) as at 31 December 2016 (2015: RMB1,357,349,000).

Inventories with carrying amount of RMB185,451,000 have been pledged as security for loans and borrowings from banks and other financial institutions (see note 23) as at 31 December 2016 (2015: RMB112,089,000).

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

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Carrying amount of inventories sold	**28,275,220**	26,226,635
Write down of inventories	**20,044**	–
	28,295,264	26,226,635

19 TRADE AND OTHER RECEIVABLES

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Trade receivables	**713,488**	528,168
Bills receivable	**340**	5,450
	713,828	533,618
Prepayments	**1,054,354**	837,255
Other receivables and deposits	**4,615,921**	3,923,490
Trade and other receivables	**6,384,103**	5,294,363

19 TRADE AND OTHER RECEIVABLES (continued)

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

Trade and other receivables with carrying amount of RMB32,808,381 are pledged against bank loans (see note 23) as at 31 December 2016 (2015: RMB33,584,868).

As of the end of the reporting period, the ageing analysis of trade and bills receivables, based on the invoice date, is as follows:

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Within 3 months	**676,669**	509,220
More than 3 months but within 1 year	**26,404**	16,680
Over 1 year	**10,755**	7,718
	713,828	533,618

Details on the Group's credit policy are set out in note 31(a).

20 RECEIVABLES FROM FINANCIAL SERVICES

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Current		
Receivable from retail customers	**1,618,481**	588,939
Receivable from auto dealers	**143,046**	252,106
Less: allowance for doubtful debts	**(28,531)**	(6,361)
	1,732,996	834,684
Non-current		
Receivable from retail customers	**1,939,492**	709,811
Less: allowance for doubtful debts	**(7,608)**	(5,458)
	1,931,884	704,353
Net receivables from financial services	**3,664,880**	1,539,037

Receivable from retail customers are expected to be recovered within one to five years. Receivable from auto dealers are expected to be recovered within one year.

Receivables from financial services with carrying amount of RMB249,504,707 are pledged against bank loans (see note 23) as at 31 December 2016 (2015: RMB449,486,250).

20 RECEIVABLES FROM FINANCIAL SERVICES (continued)

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of receivables from financial services, based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Within 3 months	**1,036,040**	915,916
More than 3 months but within 1 year	**1,910,937**	623,121
More than 1 year but within 2 years	**717,903**	–
	3,664,880	1,539,037

Details on the Group's credit policy are set out in note 31(a).

(b) Impairment of receivables from financial services

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016	2015
	RMB'000	RMB'000
At 1 January	**11,819**	–
Impairment loss recognised	**30,728**	11,819
Uncollectible amounts written off	**(6,408)**	–
At 31 December	**36,139**	11,819

At 31 December 2016, receivables from financial services of RMB13,894,342 (2015: RMB439,000) were past due and individually determined to be impaired. Consequently, specific allowance for doubtful debts of RMB12,460,081 were recognised.

(c) Receivables from financial services that are not impaired

As at 31 December 2016, there are no receivables from financial services that are past due but not impaired.

21 PLEDGED BANK DEPOSITS AND BALANCES WITH CENTRAL BANK

	Note	At 31 December 2016 RMB'000	2015 RMB'000
Restricted guarantee deposits in respect of:			
Bank loans (note 23)	(i)	**277,804**	85,996
Bills payable (note 25)	(i)	**1,298,850**	1,239,839
Standby letter of credit (note 26)	(ii)	**251,000**	151,000
		1,827,654	1,476,835
Restricted balances with central bank:			
Statutory deposit reserve funds	(iii)	**4,280**	4,473
		1,831,934	1,481,308

(i) The bank deposits pledged for banks loans and bills payables will be released upon the settlement of relevant bank loans and bills payable.

(ii) The bank deposits pledged for the standby letter of credit (see note 26) will be released upon the maturity day of the standby letter of credit or to be replaced by other pledged property, plant and equipment or lease prepayments.

(iii) Balances with central bank is the statutory deposit reserve placed by the financial services company with the People's Bank of China, calculated at 7.0% (2015: 7.5%) of RMB deposits received. The rate of statutory deposit reserves is determined by the People's Bank of China and cannot be used for daily operation.

22 CASH AND CASH EQUIVALENTS

	At 31 December 2016 RMB'000	2015 RMB'000
Deposit with banks within 3 months of maturity	**13,400**	8,000
Cash at banks and on hand	**1,611,728**	1,591,117
Cash and cash equivalents in consolidated cash flow statements	**1,625,128**	1,599,117

23 LOANS AND BORROWINGS

The analysis of the carrying amount of loans and borrowings is as follows:

	Note	At 31 December 2016 RMB'000	 2015 RMB'000
Current			
Loans and borrowings for financial services			
Unsecured bank loans	(i)	3,064,885	950,000
Unsecured long-term bank loans repayable within 1 year	(i)	120,000	–
Secured long-term bank loans repayable within 1 year	(iii)	68,000	219,500
		3,252,885	1,169,500
Loans and borrowings for non-financial services			
Unsecured bank loans	(i)	3,927,766	3,006,000
Unsecured long-term bank loans repayable within 1 year	(i)	56,000	–
Unsecured short-term commercial paper	(ii)	700,000	1,100,000
		4,683,766	4,106,000
Secured bank loans	(iii)	417,529	199,550
Secured borrowings from other financial institutions	(iv)	291,289	176,032
		5,392,584	4,481,582
Sub-total		8,645,469	5,651,082
Non-current			
Loans and borrowings for financial services			
Unsecured bank loans	(i)	–	120,000
Secured bank loans	(iii)	–	68,000
		–	188,000
Loans and borrowings for non-financial services			
Unsecured bank loans		224,000	–
Sub-total		224,000	188,000
Total		8,869,469	5,839,082

23 LOANS AND BORROWINGS (continued)

(i) Unsecured bank loans carried interest at annual rates ranging from 2.63% to 7.80% as at 31 December 2016 (2015: from 4.40% to 6.85%).

(ii) The Group had issued two (2015: three) batches of one year short-term commercial papers in National Association of Financial Market Institutional Investors in 2016 with RMB350 million, and RMB350 million, respectively (2015: RMB350 million, RMB350 million, and RMB400 million). These short-term commercial papers bears interest rate of 5.50%, and 5.49% (2015: 6.5%, 6.7%, and 6.5%), respectively.

(iii) Secured bank loans carried interest at annual rates ranging from 4.26% to 5.66% as at 31 December 2016 (2015: from 4.35% to 6.69%).

(iv) Borrowings from other financial institutions mainly represent loans obtained from the auto finance companies of the respective automobile manufacturers for purchase of motor vehicles, which are secured, interest-bearing with annual rates ranging from 4.08% to 7.50% as at 31 December 2016 (2015: from 6.30% to 8.25%).

(v) As at 31 December 2016, the following assets of the Group had been pledged to secure for the Group's banking facilities totalling to RMB2,205,500,000 (2015: RMB1,661,500,000):

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Inventories	**185,451**	112,089
Pledged bank deposits	**277,804**	85,996
Trade and other receivables	**32,808**	33,585
Receivables from financial services	**249,505**	449,486
Total	**745,568**	681,156

As of 31 December 2016, the above banking facilities were utilised to the extent of RMB776,818,000 (2015: RMB663,082,000).

Certain banking facilities of the Group's subsidiaries are subject to the fulfilment of covenants relating to the subsidiaries' balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the subsidiaries were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 31(b). As at 31 December 2016, none of the covenants relating to drawn down facilities had been breached (2015: None).

(vi) The non-current unsecured loan bear interest rate at 4.15% per annum, will be mature on 23 December 2018.

24 OBLIGATIONS UNDER FINANCE LEASES

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Obligations under finance leases	**101,720**	–

Obligations under finance leases mainly represent financial liabilities from sale and leaseback transactions, which are unsecured, interest-bearing with annual rates 7.45% as at 31 December 2016.

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Total minimum lease within 1 year	**106,215**	–
Less: Total future interest expense	**(4,495)**	–
Present value of lease obligations	**101,720**	–

25 TRADE AND OTHER PAYABLES

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Trade payables	**615,156**	446,018
Bills payable	**3,489,345**	3,431,310
	4,104,501	3,877,328
Receipts in advance	**503,332**	484,462
Other payables and accruals	**887,826**	770,858
Payables due to related parties	**5,644**	–
Trade and other payables	**5,501,303**	5,132,648

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

Bills payable of RMB1,298,850,000 as at 31 December 2016 (2015: RMB1,239,839,000) were secured by pledged bank deposits (see note 21).

Bills payable of RMB2,190,495,000 as at 31 December 2016 (2015: RMB2,191,471,000) were secured by inventories (see note 18).

25 TRADE AND OTHER PAYABLES (continued)

As of the end of reporting period, the ageing analysis of trade and bills payables, based on the invoice date, is as follows:

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Within 3 months	**3,831,245**	3,729,025
Over 3 months but within 6 months	**271,299**	145,251
Over 6 months but within 12 months	**1,957**	3,052
	4,104,501	3,877,328

26 BONDS PAYABLE

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Bonds payable	**2,314,703**	2,158,071
Details of the bonds are as follows:		
Principal amount	**2,044,740**	2,044,740
Discount on issue	**(5,153)**	(5,153)
Bonds issue costs	**(18,618)**	(18,618)
Proceeds received	**2,020,969**	2,020,969
Accumulated amortised amounts of discount on issue and issue costs	**16,236**	10,608
Exchange differences	**277,498**	126,494
As at 31 December	**2,314,703**	2,158,071

On 16 September 2013, the Company issued credit enhanced bonds with an aggregate principal amount of USD335,000,000 (the "Bonds"). The Bonds bear interest from 16 September 2013 (inclusive) at the rate of 4.5% per annum and were issued at a price of 99.748% of their principal amount. Interest on the Bonds is payable semi-annually in arrears. Payments of principal and interest in respect of the Bonds have the benefit of an irrevocable standby letter of credit (the "Standby Letter of Credit") denominated in U.S. dollars and issued by Bank of China Limited, Macau Branch (the "LC Bank"). The bonds have been listed on The Stock Exchange of Hong Kong Limited. The Bonds will be mature on 16 June 2018 at their principal amount.

26 BONDS PAYABLE (continued)

As at 31 December 2016, the following assets of the Group had been pledged to secure for the Standby Letter of Credit:

	Note	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Pledged bank deposits	(i)	**251,000**	151,000
Property, plant and equipment		**114,871**	118,580
Lease prepayments		**64,873**	67,391
Shares of subsidiary	(ii)	**5,027,805**	3,566,044
Total		**5,458,549**	3,903,015

(i) The pledged bank deposits will be released upon the maturity date of the Standby Letter of Credit or to be replaced by other pledged property, plant and equipment or lease prepayments.

(ii) The Standby Letter of Credit was secured by the Group's entire equity interest in Wuhan Zhengtong United Industrial Investment Group Co., Ltd., which is a wholly foreign-owned enterprise incorporated in the PRC. Total net asset value of Wuhan Zhengtong United Industrial Investment Group Co., Ltd. and its subsidiaries as at 31 December 2016 was approximately RMB7,089,205,000.

27 EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Company participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal government authorities where the subsidiaries are registered whereby these PRC subsidiaries are required to make a contribution at the respective local rates of the eligible employees' salaries to the Schemes. The Group has accrued for the required pension fund contributions which are remitted to the respective social security offices when the contributions become due. The social security offices are responsible for making the benefit payments to the retired employee covered under the Schemes.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pursuant to a resolution passed on 9 August 2010, the Company adopted a pre-IPO employee share option scheme (the "Option Scheme") whereby 93 employees of the Group were granted the rights to subscribe for share options of the Company. A total number of 23,435,900 share options were granted on 10 August 2010, 20 August 2010 and 10 November 2010 respectively, and are then exercisable within a period of seven years. The exercise price are equivalent to RMB1.5, RMB2.0 and RMB2.5 for type 1, type 2 and type 3 correspondingly.

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

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

	Number of instruments	Vesting conditions
Options granted to employees on		
10 August 2010 including:		
Type 1	17,540,700	50% on 1 January 2012, 25% on 1 January 2013, 25% on 1 January 2014
Type 2	2,062,400	50% on 1 April 2012, 25% on 1 April 2013, 25% on 1 April 2014
Type 3	1,452,000	50% on 1 July 2012, 25% on 1 July 2013, 25% on 1 July 2014
20 August 2010 including:		
Type 3	2,018,800	50% on 1 July 2012, 25% on 1 July 2013, 25% on 1 July 2014
10 November 2010 including:		
Type 3	362,000	50% on 1 July 2012, 25% on 1 July 2013, 25% on 1 July 2014
Total share options granted	23,435,900	

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

	2016		2015	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**RMB1.5**	**6,231,580**	RMB1.6	6,481,980
Exercised during the year	**RMB1.5**	**–**	RMB2.0	(150,000)
Forfeited during the year	**RMB1.5**	**(70,600)**	RMB1.6	(100,400)
Outstanding at the end of the year	**RMB1.5**	**6,160,980**	RMB1.5	6,231,580
Exercisable at the end of the year	**RMB1.5**	**6,160,980**	RMB1.5	6,231,580

The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 0.61 years (2015: 1.61 years).

29 DEFERRED TAX ASSETS AND LIABILITIES

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

	Fair value adjustment arising from business combination RMB'000	Depreciation allowances in excess of depreciation charges RMB'000	Future benefits of tax losses RMB'000	Deferred revenue RMB'000	Capitalisation of interest RMB'000	Total RMB'000
Deferred tax assets/(liabilities) arising from:						
At 1 January 2015	(880,474)	(7,243)	64,192	4,297	(16,909)	(836,137)
Credited/(charged) to profit or loss (note 7(a))	24,757	538	46,238	(176)	(10,192)	61,165
At 31 December 2015 and 1 January 2016	(855,717)	(6,705)	110,430	4,121	(27,101)	(774,972)
Credited/(charged) to profit or loss (note 7(a))	24,643	261	40,113	748	(5,509)	60,256
At 31 December 2016	**(831,074)**	**(6,444)**	**150,543**	**4,869**	**(32,610)**	**(714,716)**

	At 31 December	
	2016 RMB'000	2015 RMB'000
Representing:		
Net deferred tax assets	**154,912**	113,208
Net deferred tax liabilities	**(869,628)**	(888,180)
	(714,716)	(774,972)

Deferred tax liabilities not recognised:

The PRC Corporate Income Tax Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings 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 2016 in respect of undistributed earnings of RMB4,164,381,000 (2015: RMB4,249,514,000) as the Company controls the dividend policy of the subsidiaries and it has been determined that these profit will not be distributable in the foreseeable future.

30 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in component 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 premium RMB'000	**Capital reserve** RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
Balance at 1 January 2015	4,548,765	85,068	(541,151)	4,092,682
Shares issued pursuant to pre-IPO employee share option scheme	468	(179)	–	289
Total comprehensive income for the year	–	–	(239,536)	(239,536)
Dividends (note 30(b))	–	–	(174,201)	(174,201)
Balance at 31 December 2015 and 1 January 2016	**4,549,233**	**84,889**	**(954,888)**	**3,679,234**
Shares issued pursuant to pre-IPO employee share option scheme				
Total comprehensive income for the year	–	–	(222,022)	(222,022)
Dividends (note 30(b))	–	–	(187,209)	(187,209)
Balance at 31 December 2016	**4,549,233**	**84,889**	**(1,364,119)**	**3,270,003**

(b) 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 end of the reporting period of HK$0.10 (2015: HK$0.10 per ordinary share)	**197,705**	185,162

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(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 HK$0.10 per share (2015: HK$0.10 per ordinary share)	**187,209**	174,201

(iii) Other dividends

During the year of 2016, certain subsidiaries of the Group declared and paid dividends of RMB13,868,000 (2015: RMB24,002,000) in cash to non-controlling shareholders.

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital

Movements in the authorised share capital of the Company during the year are as follows:

	2016		2015	
	Number of shares (thousand)	Amount HK$('000)	Number of shares (thousand)	Amount HK$('000)
Ordinary shares, authorised:				
Ordinary shares of HK$0.10 each	**20,000,000**	**2,000,000**	20,000,000	2,000,000
Ordinary shares, issued and fully paid:				
At 1 January	**2,210,200**	**221,020**	2,210,050	221,005
Shares issued pursuant to pre-IPO employee share option scheme	**–**	**–**	150	15
At 31 December	**2,210,200**	**221,020**	2,210,200	221,020
RMB equivalent ('000)		**188,788**		188,788

(d) Nature and purpose of reserves

(i) PRC statutory reserves

PRC 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. Appropriations to the reserves were approved by the respective boards of directors' meetings.

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 investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(ii) Exchange reserves

Foreign currency translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations which are dealt with in accordance with the accounting policies as set out in note 2(u).

(iii) General reserve

Pursuant to the relevant notices issued by regulatory bodies, certain subsidiaries in the financial services segment in the Mainland China are required to set aside a general reserve to cover potential losses.

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Distributability of reserves

The Company was incorporated on 9 July 2010. Under the Companies Law of the Cayman Islands, all reserves of the Company may be applied for payment of distributions or dividends to equity holders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

At 31 December 2016, distributable reserves of the Company amounted to RMB3,270,003,000 (31 December 2015: RMB3,679,234,000). After the end of the reporting period, the directors proposed a final dividend of HK$0.1 (RMB0.09) per ordinary share (2015: HK$0.10 (RMB0.08) per share), amounting to RMB197,705,000 (2015: RMB185,162,000 (note 30(b)). This dividend has not been recognised as a liability at the end of reporting date.

(f) Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services 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 shareholders 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 the Group defines net debt as interest-bearing loans and borrowings, bills payable, bonds payable and unaccrued proposed dividends less cash and cash equivalents, time deposits and pledged bank deposits, and capital is defined as the total equity less unaccrued proposed dividends.

The adjusted net debt-to-capital ratios at 31 December 2016 and 31 December 2015 were as follows:

		At 31 December	
	Note	**2016 RMB'000**	2015 RMB'000
Loans and borrowings	23	**8,869,469**	5,839,082
Obligations under finance leases	24	**101,720**	–
Bonds payable	26	**2,314,703**	2,158,071
Bills payable	25	**3,489,345**	3,431,310
Total borrowings		**14,775,237**	11,428,463
Add: Proposed dividends	30(b)	**197,705**	185,162
Less: Pledged bank deposits	21	**(1,831,934)**	(1,481,308)
Cash and cash equivalents	22	**(1,625,128)**	(1,599,117)
Adjusted net debt		**11,515,880**	8,533,200
Total equity		**8,942,161**	8,689,338
Less: Proposed dividends	30(b)	**(197,705)**	(185,162)
Adjusted total equity		**8,744,456**	8,504,176
Adjusted net debt-to-capital ratio		**1.32**	1.00

The Group is subject to capital requirements imposed by certain banks as disclosed in note 23(v).

31 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 and receivables from financial services. 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.

In respect of receivables from financial services, a separate risk management department of the financial services company is responsible for organising and coordinating the risk management of the company, including reviewing the policy of credit risk management, monitoring the implementation of the relevant policy and organizing the extension of general credit limit.

According to external regulation and requirement of relevant rules, the financial services company drew up loan classification policy, loan reserve policy, loan approval guide and relevant rules for loan collection. The financial services company's credit risk management runs through three stages as pre-lending investigation, credit approval and post-lending management. In the first stage, the financial services company will investigate the borrower's credit background. In the second stage, all the lending transactions must be approved by specified levels of approvers. In the final stage, the financial services company will continuously monitor all the loans and take appropriate measures to prevent and control credit risk if deterioration of the repayment capacity or credit position of the borrower is noted.

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

(a) Credit risk (continued)

The financial services company adopts the loan risk classification approach to monitor the risk condition of its loan portfolios. Loans are classified by a five-tier grading system: Normal, special mention, substandard, doubtful and loss, according to risk levels. The five-tier grading for loans and advances is defined as follows:

Normal: The borrower is in stable condition and can fulfil the contract at present. There is no doubt that the principal and interest will be overdue.

Special Mention: The borrower can repay the principle and interest, but the potential weakness may result in deterioration of the repayment capacity or credit position of the borrower in the future.

Substandard: Assets so classified must have one or more evident weaknesses that jeopardise the timely repayment of its obligations. Certain losses might incur even if collaterals are realised.

Doubtful: Repayment in full is with significant doubt or even impossible considering the current weakness noted. Great losses might incur even if collaterals are realised.

Loss: Nearly uncollectible or only collectible for minor part even if all the possible measures and legal means have been taken into action, which indicates that it shall no-longer be recognised due to the few recovery.

At the respective balance sheet dates, 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 2016 represented 71% of the total trade and other receivables (2015: 76%), while 40% of the total trade and other receivables were due from the largest single debtor (2015: 25%).

The Group does not provide any other guarantees outside the Group which would expose the Group to credit risk.

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

(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 current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutes to meet its liquidity requirements in the short and longer term.

The following are the contractual maturities of the Group's financial liabilities at 31 December 2016, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

	At 31 December 2016 Contractual undiscounted cash outflow				At 31 December 2015 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Loans and borrowings	8,815,595	229,394	9,044,989	8,869,469	5,798,659	199,884	5,998,543	5,839,082
Obligation from finance lease	103,950	-	103,950	101,720	-	-	-	-
Bonds payable	178,074	2,425,316	2,603,390	2,314,703	169,341	2,442,632	2,611,973	2,158,071
Trade and other payables	5,501,303	-	5,501,303	5,501,303	5,132,648	-	5,132,648	5,132,648
	14,598,922	2,654,710	17,253,632	16,787,195	11,100,648	2,642,516	13,743,164	13,129,801

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

(c) Interest rate risk

(i) Interest rate profile

Cash at bank, pledged bank deposits, and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk. Cash at bank are with floating or fixed interest rates ranging from 0.01% to 3.05% per annum as at 31 December 2016 (2015: 0.01% to 2.17%). Pledged bank deposits are placed to satisfy conditions for issuance of commercial bills and bank loans granted to the Group, with fixed interest rates ranging from 0.30% to 5.66% per annum as at 31 December 2016 (2015: 0.30% to 5.66%)

The Group's interest-bearing borrowings and interest rates as at 31 December 2016 are set as follows:

		At 31 December	
	Interest Rate	**2016**	2015
		RMB'000	RMB'000
Fixed rate borrowings	4.30% to 7.80%	**8,593,584**	6,303,208
Variable rate borrowings	2.63% to 7.50%	**2,692,308**	1,693,945
		11,285,892	7,997,153

(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 rates at the reporting date would not affect profit or loss.

A general decrease/increase of 100 basis points in interest rates prevailing at 31 December 2016, with all other variables held constant, would decrease/increase the Group's profit after tax and retained earnings by approximately RMB20,192,312 (2015: RMB12,704,590).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2015.

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

(d) Foreign currency risk

The Group is exposed to currency risk primarily through borrowings and cash balances that are dominated in a foreign currency. The currencies giving rise to this risk are primarily United States dollars and Hong Kong dollars.

(i) Exposure to currency risk

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 RMB, translated using the spot rate at the end of reporting period.

	2016			2015		
	United Sates Dollars RMB'000	**Euro RMB'000**	**Hong Kong Dollars RMB'000**	United Sates Dollars RMB'000	Euro RMB'000	Hong Kong Dollars RMB'000
Trade and other receivables	**341**	**–**	**1,087**	11,812	24,342	1,867
Cash and cash equivalents	**55,489**	**210**	**4,323**	49,842	205	8,176
Loans and borrowings	**69,370**	**–**	**486,343**	–	–	–
Bonds payable	**(2,314,703)**	**–**	**–**	(2,158,071)	–	–
Net exposure	**(2,189,503)**	**210**	**491,753**	(2,096,417)	24,547	10,043

(ii) Sensitivity analysis

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 if foreign exchange rates 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 Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States Dollars	**5%**	**(110,042)**	5%	(106,214)
	(5)%	**110,042**	(5)%	106,214
Euro	**5%**	**11**	5%	1,227
	(5)%	**(11)**	(5)%	(1,227)
Hong Kong Dollars	**5%**	**24,567**	5%	477
	(5)%	**(24,567)**	(5)%	(477)

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

(d) Foreign currency risk (continued)

(ii) Sensitivity analysis (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the profit after tax and retained profit of each entity of the Group measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

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 as at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis has been performed on the same basis for 2015.

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

The fair value of the Group's financial instruments are categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair Value measurement. The level, into which a fair value measurement is classified, is determined with the reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets and liabilities at the measurement date.

– Level 2 valuations: Fair values measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data at not available.

– Level 3 valuations: Fair values measured using significant unobservable inputs.

The following table presents the Group's assets that are measured at fair value.

	Fair value at 31 December	Fair value measurement as at 31 December 2016 categorised into			Fair value at 31 December	Fair value measurement as at 31 December 2015 categorised into		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements								
Assets:								
Derivative financial instruments:								
Capped cross currency swap	143,456	-	143,456	-	27,041	-	27,041	-

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the capped cross currency swap is determined by discounted-cash flow method and Black-Scholes model. The discount rate used is the rate of market yield for financial instruments with substantially identical contract terms and characteristics.

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

(e) Fair value measurement (continued)

(ii) Fair value of financial assets and liabilities carried at other than fair value

At 31 December 2016 and 2015, all financial assets and liabilities, except for the derivative financial instrument, are carried at amounts not materially different from their fair values, except for the amounts due to related parties which have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair value of such balances.

32 COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property, plant and equipment outstanding at 31 December 2016 not provided for in the consolidated financial statements were as follows:

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Contracted for	**283,354**	289,931

(b) Operating lease commitments

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Within 1 year	**291,155**	244,287
After 1 year but within 5 years	**706,829**	696,950
After 5 years	**495,464**	571,054
	1,493,448	1,512,291

The Group leases a number of warehouses, lands and office premises under operating leases. The leases typically run for an initial period between 1 and 20 years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

33 CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities.

34 MATERIAL RELATED PARTY TRANSACTIONS

Name of party	Relationship
Wang Muqing 王木清	Controlling Shareholder
Hubei Shengze Industry Co., Ltd. ("Hubei Shengze") 湖北聖澤實業有限公司	Controlled by the Controlling Shareholder
Beijing Baoze Automobile Technology Development Co., Ltd. ("Beijing Baoze Technology") 北京寶澤汽車科技發展有限公司	Controlled by the Controlling Shareholder
Inner Mongolia Shengze Dingjie Automobile Trading Co., Ltd. ("Inner Mongolia Shengze Dingjie") 內蒙古聖澤鼎傑汽車貿易有限公司	Controlled by the Controlling Shareholder
Changsha Shengze Ruibao Electronics Trading Co., Ltd. ("Changsha Shengze Ruibao") 長沙聖澤瑞寶電子產品貿易有限公司	Controlled by the Controlling Shareholder
Wuhan Shengze Jieyun Trading Co., Ltd. ("Wuhan Jieyun") 武漢聖澤捷運貿易有限公司	Controlled by the Controlling Shareholder
Wuhan Shengze Jiezhong Logistics Co., Ltd. ("Wuhan Jiezhong") 武漢聖澤捷眾物流有限公司	Controlled by the Controlling Shareholder
Wuhan Jiangrong Investment Co., Ltd. ("Wuhan Investment") 武漢江融投資有限公司	Controlled by the Controlling Shareholder

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

34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Recurring transactions

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Rental and property management expense:		
Hubei Shengze	**5,594**	5,115
Beijing Baoze Technology	**32,174**	20,402
Inner Mongolia Shengze Dingjie	**23,124**	21,871
Changsha Shengze Ruibao	**2,488**	2,298
Wuhan Jieyun	**14,174**	11,968
Wuhan Jiezhong	**2,544**	2,149
Wuhan Investment	**16,346**	15,136
	96,444	78,939

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) Balances with related parties

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Due to related parties:		
Beijing Baoze Technology	**1,016**	–
Inner Mongolia Shengze Dingjie	**4,628**	–
	5,644	–

(c) Key management personnel remuneration

Key management personnel remuneration is disclosed in note 8 and note 9.

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

The related party transactions in respect of rental expenses above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section Continuing Connected Transactions of the Reports of the directors.

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	At 31 December	
	2016	2015
Non-current assets		
Property, plant and equipment	**76**	216
Interest in subsidiaries	**6,151,075**	5,953,874
Other financial assets	**143,456**	27,041
	6,294,607	5,981,131
Current assets		
Trade and other receivables	**23,783**	28,048
Cash and cash equivalents	**13,258**	19,248
	37,041	47,296
Current liabilities		
Loans and borrowings	**555,719**	–
Trade and other payables	**2,435**	2,334
	558,154	2,334
Net current (liabilities)/assets	**(521,113)**	44,962
Total assets less current liabilities	**5,773,494**	6,026,093
Non-current liabilities		
Bonds payable	**2,314,703**	2,158,071
	2,314,703	2,158,071
NET ASSETS	**3,458,791**	3,868,022
Equity		
Share capital	**188,788**	188,788
Reserves	**3,270,003**	3,679,234
TOTAL EQUITY	**3,458,791**	3,868,022

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that, except as disclosed below, the adoption of the other amendments and new standards is unlikely to have a significant impact on the Group's results of operations and financial position.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

At this stage, the Group is not able to estimate the impact of HKFRS 9 on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 9 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The new standard is based on the principal that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

At this stage, the Group is not able to estimate the impact of HKFRS 15 on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

HKFRS 16, Leases

As disclosed in note 2(i), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

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

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for warehouses, lands and office premises which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 32(b), at 31 December 2016, the Group's future minimum lease payments under non-cancellable operating leases amount to RMB1,493,448,000, the majority of which is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing these consolidated financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these consolidated financial statements.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any, in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(b) Impairment losses on receivables from financial services

Receivables from financial services are regularly reviewed to assess whether there's sign of impairment loss, and evaluate the specific amount of the impairment loss. The objective evidence of impairment loss of individual or portfolios of receivables from financial services includes demonstration of observed data on a sharp decline of the expected future cash flow or deterioration of the repayment capacity or credit position of the borrower. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

(c) Impairment losses on trade and other receivables

Impairment losses on trade and other receivables are assessed and provided based on management's regular review of ageing analysis and evaluation of collectability. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debt would affect the consolidated statement of profit or loss in future years.

(d) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(e) Provision for inventories

The Group reviews the carrying amounts of the inventories at the respective balance sheet dates to determine whether the inventories are carried at lower of cost and net realisable value. Management estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down and affect the Group's net asset value.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(f) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimation of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(g) Useful lives of intangible assets

The intangible assets are depreciated on a straight-line basis by taking into account the residual value. The Group reviews the estimated useful lives periodically to determine the related amortisation charges for its intangible assets. The estimation is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions, with consideration of market condition.

38 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2016, the directors proposed a final dividend. Further details are disclosed in note 30(b).

39 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company as at 31 December 2016 to be Joy Capital Holdings Limited, which was incorporated in the British Virgin Islands.

CORPORATE INFORMATION

BOARD OF DIRECTORS*

Executive Directors

Mr. Wang Muqing *(Chairman)*
Mr. Wang Kunpeng *(Vice Chairman)*
(re-designated on 6 January 2017)
Mr. Koh Tee Choong, Ivan *(Chief Executive Officer)*
(appointed on 21 March 2017)
Mr. Li Zhubo
Mr. Wan To
Mr. Shao Yong Jun
Mr. Li Yi *(resigned on 21 March 2017)*

Independent Non-executive Directors

Dr. Wong Tin Yau, Kelvin
Dr. Cao Tong *(appointed on 8 April 2016)*
Ms. Wong Tan Tan *(appointed on 13 December 2016)*
Mr. Zhao Chunjun *(retired on 13 December 2016)*
Mr. Chang Xiuze *(resigned on 8 April 2016)*

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS

Baoze Plaza
No. 59 West Third-Ring South Road
Beijing
PRC

PLACE OF BUSINESS IN HONG KONG

Unit 5905, 59/F
The Center
99 Queen's Road Central
Hong Kong

WEBSITE ADDRESS

www.zhengtongauto.com

COMPANY SECRETARY

Ms. Luo Xiao Jing

AUTHORIZED REPRESENTATIVES

Mr. Shao Yong Jun
Ms. Luo Xiao Jing

AUDIT COMMITTEE

Dr. Wong Tin Yau, Kelvin *(Chairman)*
Dr. Cao Tong
Ms. Wong Tan Tan

NOMINATION COMMITTEE

Mr. Wang Muqing *(Chairman)*
Dr. Cao Tong
Ms. Wong Tan Tan

REMUNERATION COMMITTEE

Dr. Cao Tong *(Chairman)*
Mr. Wang Muqing
Dr. Wong Tin Yau, Kelvin

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL BANKERS

China Construction Bank Corporation, Hubei Branch
Bank of China, Hubei Branch
Industrial Bank Co., Ltd., Wuhan Branch
China Merchants Bank, Wuhan Branch
China Minsheng Banking Corp., Ltd., Communications
Finance Business Department
China Guangfa Bank, Shanghai Branch
Shanghai Pudong Development Bank Co., Ltd.
DBS Bank (China) Limited
Standard Chartered Bank (China) Limited

AUDITORS

KPMG
Certified Public Accountants

HONG KONG LEGAL COUNSEL

Chiu & Partners
Solicitors

* Details of the changes in members of the Board after the reporting period are set out in the "Events after the Reporting Period" in the section headed "Management Discussion and Analysis" on P. 18 of this annual report.

CHINA ZHENGTONG
AUTO SERVICES HOLDINGS LIMITED
中國正通汽車服務控股有限公司

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