YONDA 永达汽车

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

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

Stock Code：03669

# 2016 Annual Report


JAGUAR
RANGE ROVER

# Content

CHINA YONGDA AUTOMOBILES SERVICES HOLDINGS LIMITED
ANNUAL REPORT 2016



# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors**

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

**Non-executive Director**

Mr. WANG Liqun

**Independent Non-executive Directors**

Mr. LYU Wei
Mr. CHEN Xianglin
Ms. ZHU Anna Dezhen

## CORPORATE HEADQUARTER

299 Ruijin Nan Road, Huangpu District
Shanghai
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## REGISTERED OFFICE

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## LEGAL ADVISERS TO HONG KONG LAW

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

## COMPANY SECRETARY

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

## AUTHORIZED REPRESENTATIVES

Mr. WANG Zhigao
Ms. MOK Ming Wai

## AUDIT AND COMPLIANCE COMMITTEE

Ms. ZHU Anna Dezhen *(Chairman)*
Mr. LYU Wei
Mr. CHEN Xianglin

## REMUNERATION COMMITTEE

Ms. ZHU Anna Dezhen *(Chairman)*
Mr. WANG Zhigao
Mr. LYU Wei

## NOMINATION COMMITTEE

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

## HONG KONG SHARE REGISTRAR

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

## STOCK CODE

03669

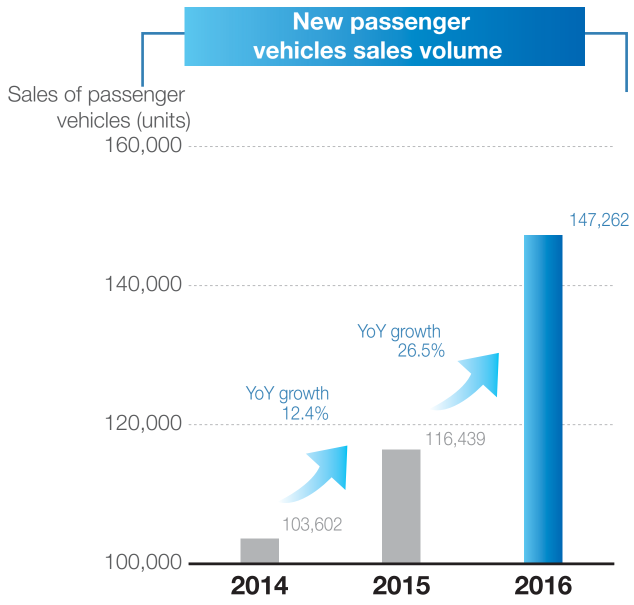
## AUDITOR

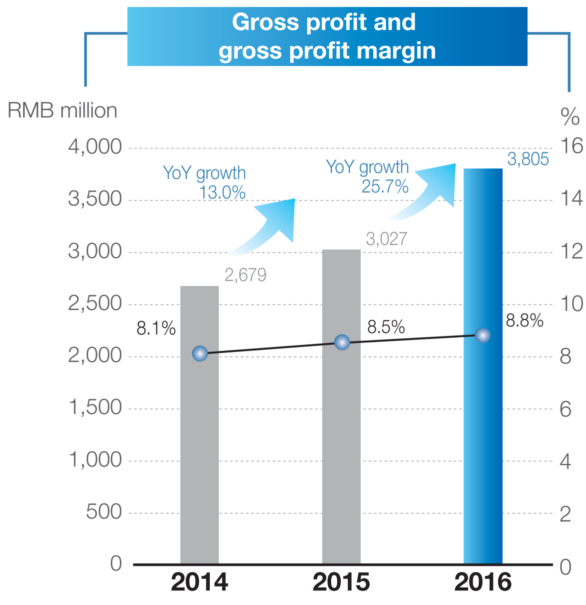
Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

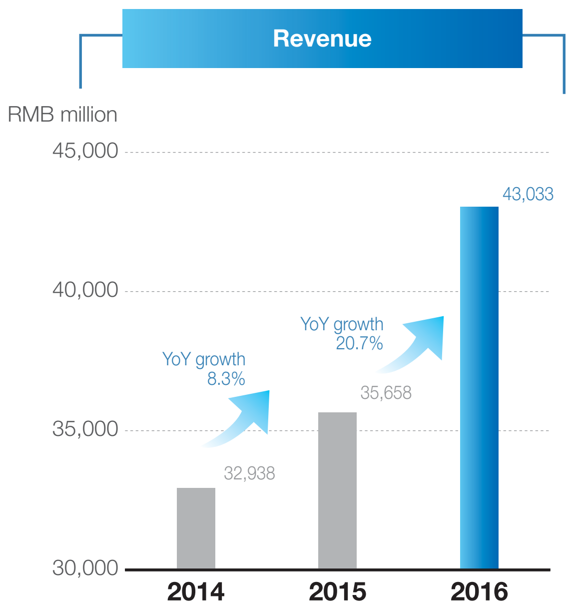
## COMPANY WEBSITE

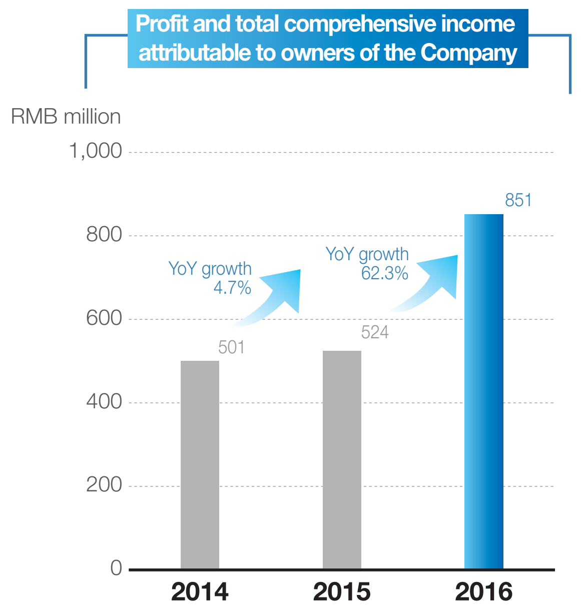
www.ydauto.com.cn

# Financial Highlights



# Chairman's Statement


Dear Shareholders,

On behalf of the Board of Directors (the "Board") and the management of China Yongda Automobiles Services Holdings Limited (the "Company"), I am pleased to present the 2016 Annual Report of the Company and its subsidiaries (collectively referred to as "the Group", or "we", "us").

In 2016, the sales volume of passenger vehicles in China reached 24.38 million units, representing an increase of 14.9% as compared to the same period in 2015, among which, the sales volume of luxury brand vehicles exceeded 2 million units for the first time. With faster growth in total sales volume of new vehicles, the market's retail prices have moderately improved, inventories of dealers have reduced, the passenger vehicles market in China gradually achieved a sustainable and sound growth. Vehicle ownership in China reached 194 million units by the end of 2016, businesses including automobile repair, pre-owned vehicles transactions and automobile finance presented a strong growth trend.

Benefiting from sound market environment, in 2016, the Group achieved consolidated revenue of RMB43.739 billion and consolidated gross profit of RMB4.512 billion, representing an increase of 21.2% and 30.8%, respectively, compared to the same period in 2015. The Group also achieved consolidated gross profit margin of 10.31% in 2016, representing an increase of 0.75 percentage point as compared to the same period in 2015. In

2016, the Group achieved net profit of RMB908 million and net profit attributable to owners of the Company of RMB851 million, representing an increase of 60.0% and 62.3%, respectively as compared to the same period in 2015, enjoying unprecedentedly significant growth in profits.

## I. KEY OPERATING RESULTS AND MANAGEMENT PERFORMANCE DURING THE REPORTING PERIOD:

1. Our sales volume of new vehicles reached 147,262 units, representing an increase of 26.5% as compared to the same period in 2015, and our sales revenue of new vehicles reached RMB37.304 billion;

2. Our after-sales services business, which included mainly repair and maintenance services and automobile extended products and services, achieved a revenue of RMB5,446 million, representing an increase of 31.7% as compared to the same period in 2015. Our gross profit margin for after-sales services business was 45.72%, representing a modest growth of 45.56% as compared to the same period in 2015;

3. Our sales volume of pre-owned vehicles from agency sales services reached 25,384 units, representing an increase of 41.0% as compared to the same period in 2015. The revenue from pre-owned vehicle agency sales services was RMB129 million, representing an increase of 42.1% as compared to the same period in 2015;

4. The revenue from the automobile finance and insurance agency services was RMB712 million, representing an increase of 64.7% as compared to the same period in 2015. Our finance leasing business achieved additional interest-bearing assets of RMB2,232 million, representing an increase of 53.1% as compared to the same period in 2015;

5. Our automobile rental services achieved a revenue of RMB364 million, representing an increase of 10.2% as compared to the same period in 2015;

6. The Group has made new improvements in the refined management of all aspects of our operating businesses, and also initiated long-term strategies in professional business areas, such as our automobile finance and pre-owned vehicle businesses, etc.;

7. The Group continued to promote the construction of the automobile industry network. Apart from building its own network, the Group also completed the acquisition and merger of 18 4S dealerships in 2016.

## II. FUTURE PROSPECTS

The Group considers that China's luxury brand vehicles sales and services industry has since the end of 2015 gradually stepped out of a period of market adjustment over the past few years, and its physical channels with 4S dealerships as the key form continues to demonstrate greater vitality after years of tempering by the market annealing. We continue to keep an optimistic judgment upon the development of the sales and after-sales market in the passenger vehicle industry. The Group plans to focus on the following aspects in our future development:

1. We will adhere to our refined business management tradition, and enhance the management of all aspects of our main businesses such as sales and after-sales services;

2. We will actively promote the long-term layout of our professional business segments including automobile finance, pre-owned vehicle business and automobile rental services, in order to achieve breakthrough development and to foster new robust economic growth point for the Group's future;

3. We will strive to continuously expand our physical network, in particularly the network construction of the main brands including BMW, Porsche and Audi, and to actively capture high-quality merger and acquisition opportunities;

4. We will strengthen our information system, promote the management of big data and improve the quality of the customer service level of the Group. Besides, we will strive to build an integrated online and offline service system and to create the Yongda Auto Life Ecosystem;

5. We will strengthen cooperation with leading enterprises in the industry, such as internet platforms, vertical e-commerce businesses, financial institutions, insurance companies and leasing platforms, so as to achieve powerful alliances and mutual complementarity;

6. We will strengthen the education and cultivation of our core team to create core competitiveness for the Group's sustainable development.

On behalf of the Board, I would like to express our sincere gratitude to all of the staff for their efforts and to various parties in the community for their supports towards the steady development of the Group.

**CHEUNG Tak On**
*Chairman*

March 28, 2017

# Management Discussion & Analysis

## MARKET REVIEW

In 2016, China's passenger vehicles presented a relatively higher growth in sales volume as compared to 2015. According to the information of China Association of Automobile Manufacturers, the sales volume of passenger vehicles in China was 24.38 million units for 2016, representing an increase of 14.9% compared to the same period in 2015, among which, the sales volume of sport utility passenger vehicles recorded a faster growth at a growth rate of 44.6%, representing 37.1% of the passenger vehicle market share. In 2016, benefiting from the continuity of China's preferential policies on vehicle purchases and the cyclical adjustments in the passenger vehicle market over the past years, the passenger vehicle market in China had turned the corner, resulting in higher price and sales volumes. As the Chinese macro-economic conditions further stabilize, it is expected that the sales volume of passenger vehicles in China would continue to grow in 2017 and the profitability of the automobile dealers would continue to improve.

In 2016, under the guidance of the national supply-side reform policy, a substantial number of luxury brand passenger vehicles manufacturers took the initiative to reduce their sales volume growth targets for the year in order to stabilize retail prices of new vehicles and to reduce the inventories of dealers for the purpose of achieving a sustainable and sound growth in sales volume. As a result, in 2016, the channel inventories of luxury and ultra-luxury brand passenger vehicles in China experienced continuous reduction, the price of new vehicles tended to stabilize and exhibited a trend of recovery in the second half of the year. The overall sales volume recorded a faster growth in the second half of the year. In the medium- to long-term, driven by the strong demand for product updating and upgrading and the rising permeability rate of automobile finance, it is anticipated that the growth of the sales volume of luxury and ultra-luxury brand passenger vehicles in China will continue to be faster than that of the overall growth of passenger vehicles in China, and that the proportion of sales volume of luxury and ultra-luxury brand passenger vehicles contributing to the sales volume of the passenger vehicles in China would further increase.

According to the statistics of the Traffic Management Bureau of the Ministry of Public Security, vehicle ownership in China reached 194 million units by the end of 2016, making it the second largest in the world, only after the United States of America (the "US"). With the continuous rise in passenger vehicle ownership and the aging of vehicles in China, the after-sales services market for passenger vehicles in China has maintained its fast growing pace in 2016. According to the results released by AutoNation for the fourth quarter of 2016, the largest automobile dealer in the US, the revenue and gross profit generated from new vehicle sales in 2016 only accounted for 57% and 19% of its total revenue and gross profit, respectively, while the remaining revenue and gross profit were generated from after-market services, such as automobile repair and maintenance, accessories, finance and insurance services, and pre-owned vehicles services. Compared to the data from China Automobile Dealers Association, the proportion of revenue of China's listed automobile dealership groups derived from new vehicle sales decreased by an average of 1.25 percentage points from 2014 to 2015, while the proportion of revenue derived from after-sales business increased by 1.1 percentage points, representing 9.75% of the total revenue. The gross profit derived from vehicles sales services decreased by an average of 5.33 percentage points, but the gross profit generated from the business of after-sales services recorded an average growth of 5.85 percentage points as compared to last year. On the basis of the foregoing, as a result of the industrial cyclical adjustments over the past years, the composition of revenue and gross profit of the automobile dealers had experienced a structural transformation. As the proportion of gross profit generated from new vehicles sales continued to mature and remained stable, the rapid growth of the extended services businesses such as after-sales services, pre-owned vehicles services and finance and insurance services has started to stimulate the improvement of profitability.

According to the data from China Automobile Dealers Association, the transaction volume of pre-owned vehicles in China reached 10.39 million units in 2016. With the increase in the vehicle ownership in China and the speeding up of product updating and upgrading, the growth of the pre-owned vehicle market in China has accelerated. China Automobile Dealers Association forecasts that the transaction volume of pre-owned vehicles in China is expected to exceed 12.5 million units in 2017, representing a year-on-year increase of approximately 20%.

According to the data from China Automobile Dealers Association, the permeability rate of automobile consumer finance was approximately 38% in 2016, representing a significant increase over the previous years. However, there remains significant room for the growth of the permeability rate of China's automobile consumer finance as compared to the developed countries and regions, such as the US and Europe. Benefiting from the higher level of acceptance of automobile consumer finance among the younger generations and the wider variety of automobile finance products, it is expected that the permeability rate of China's automobile consumer finance will rise further in the future, creating huge potential for growth. Deloitte Touche Tohmatsu forecasts in the White Paper on Automobile Finance in China (2015) that the permeability rate of automobile consumer finance in China will reach 50% by 2020, and the market size is expected to exceed RMB2 trillion.



According to the data from www.chyxx.com, in terms of income, the highly fragmented long-term automobile rental market accounts for the largest portion of China's automobile rental market. The long-term automobile rental market increased from RMB7 billion in 2009 to RMB35.5 billion in 2015 with a compound annual growth rate (CAGR) of 31%. Driven by factors such as increased car use by enterprises, financial optimization of enterprises and reform policies of government vehicles, the long-term automobile rental market in China is expected to maintain a relatively fast growth with further integration in the future. According to the forecast by Deloitte Touche Tohmatsu in the White Paper on Automobile Finance in China (2015) as mentioned above, it is expected that the market size of China's automobile rental market will amount to RMB58 billion by 2018.

According to the data from China Association of Automobile Manufacturers, the production and sales volume of new energy vehicles in 2016 in China reached 517,000 units and 507,000 units, respectively, representing a year-on-year increase of 51.7% and 53%, respectively. The sales of pure electric vehicles accounted for 81% of the new energy vehicles sales, taking the lead in the new energy vehicles industry. With the rapid launch of competitive new energy vehicle models, the introduction of supportive national policies and the continuous improvement of infrastructures of the new energy vehicles industry, it is believed that new energy vehicles business will enjoy great potential for growth in the future.

## BUSINESS REVIEW

As a leading passenger vehicle retailer and comprehensive service provider in China, we achieved a strong growth in 2016. In 2016, our consolidated revenue and consolidated gross profit, taking into account the revenue from finance and insurance agency services, were RMB43,739 million and RMB4,512 million, respectively, representing an increase of 21.2% and 30.8%, respectively, compared to the same period in 2015. Taking into account the revenue from finance and insurance agency services, our consolidated gross profit margin for 2016 was 10.31%, representing an increase of 0.75 percentage point compared to 9.56% for the same period in 2015. In 2016, our net profit was RMB908 million, representing an increase of 60.0% as compared to the same period in 2015.

# Management Discussion & Analysis

Net profit attributable to owners of the Company was RMB851 million, representing an increase of 62.3% as compared to the same period in 2015. Set forth below is a summary of major developments of our businesses in 2016:

**Steady and Fast Growth in New Vehicle Sales**

The passenger vehicle sales market in China exhibited a steady and fast growth in 2016. Against this backdrop, our sales volume of new vehicles exhibited a fast growth and reached 147,262 units, representing a 26.5% increase compared to the same period in 2015. Our sales revenue of new vehicles from our passenger vehicle sales and services segment was RMB37,304 million in 2016, representing a 19.4% increase compared to the same period in 2015. Our gross profit margin for new vehicles sales from our passenger vehicle sales and services segment was 3.10% in 2016, representing a slight increase as compared to 3.06% for the same period in 2015.

In respect of the management and marketing of new vehicle sales, we strengthened the comprehensive management on sales quality of new vehicles and implemented our enterprise tracking and assessment model focusing on the consolidated gross profit of sales in order to improve the comprehensive profitability of new vehicle per unit and ensured a rapid growth in the consolidated gross profit of new vehicle sales. We further enhanced the retail rate of new vehicles and continued to improve the permeability rate of our extended services businesses, such as automobile finance, automobile insurance and automobile accessories, and hence ensured the fast growth in the profitability of our extended services businesses. In addition, we also carried out a comprehensive management of new vehicle inventories and reinforced the tracking of the composition of the vehicle models in stock and the overdue inventories to ensure the continuous optimization of the inventory structure of new vehicle that effectively reduced cost of sales. Meanwhile, we continued to expand our sales channels and cooperated with a number of industry-leading leasing companies and vehicle sharing platforms and proactively tapped into the nationwide leaseable vehicle procurement markets in light of the lessons learned in the established international automobile markets. At the same time, we extensively carried out efficient integration and sharing of enterprise resources within the Group to enhance marketing capability and brand effect. In addition, we improved internal refined management and reinforced the effective use of customer resources, thus achieving the rapid growth in new vehicle sales volume in 2016.

**Fast Growth in After-sales Services**

In 2016, our after-sales services business (including repair and maintenance services and automobile extended products and services) achieved healthy and rapid growth, recording a revenue of RMB5,446 million, representing an increase of 31.7% compared to the same period in 2015. In 2016, our gross profit margin for after-sales services was 45.72 %, representing a modest growth as compared to 45.56 % for the same period in 2015.

In respect of the optimization of internal management, the per capita repair and maintenance service income and service efficiency of our repair and maintenance workforce were further increased through the continuous adjustment and optimization of our after-sales services management structure and internal business processes. By doing so, we enhanced our sensitivity and response to market changes, such that we are able to capitalize on the market opportunities and secure more market resources, whereby ensuring the rapid development of our after-sales services.

In respect of attracting and retaining customers, we continued to strengthen the promotion of our self-owned after-sales service booking platform system, deepen the collaboration with third party internet platforms such as Tmall, and strengthen the customized services such as delivery and pick-up service. At the same time, we launched in time a series of customized services and products to meet the needs of our customers and win their recognition, thereby enhancing our customer loyalty and achieving good results, contributing to the increasing enhancement of our customer loyalty.

In respect of cost control, we have drawn on the advantages of our ever-expanding size, thereby further strengthening efforts in the centralized procurement of spare parts and decoration materials. We further reduced the procurement cost of spare parts and decoration materials by increasing the size of centralized procurement of parallel imported spare parts and major supplies. We continuously improved the market coverage of our professional care and maintenance products series under our proprietary “QUICKACT” brand to meet the needs of various companies and customers. The sales of our own “QUICKACT” brand care and maintenance products continued to improve, which effectively increased the gross profit of the after-sales services and


enhanced our competitiveness. In addition, the external sales volume of our parallel imported spare parts and our own "QUICKACT" brand professional care and maintenance products series continued to improve, achieving recognisable results.

We continued to actively develop and deploy our independent after-sales services business and achieved satisfactory performance in certain regions which consolidated and increased the market share of our after-sales services. For each of the extended services businesses that we have always valued, we improved the product offerings of automobile decoration and modifications services and offered a variety of flexible product solutions to meet the personalized needs of existing after-sale services customers and other new customers, which further promoted the development of our automobile extended products and services business and strengthened the gross profit margin of our overall after-sales services.

**Rapid Growth of the Pre-owned Vehicle Business**

In 2016, the sales volume of pre-owned vehicles effected by us were 25,384 units, representing an increase of 41.0 % as compared to 18,002 units in the same period in 2015. The revenue from pre-owned vehicle agency service amounted to RMB129.35 million, representing an increase of 42.1 % as compared to RMB91.04 million in the same period in 2015.

In line with the industry development trend and with reference to the excellent experience in the established market, we have determined the development direction of our business to consumer (B2C) retail business in respect of our business models. On the one hand, we have proactively implemented the official certified pre-owned vehicle business in respect of the brands surrogated by us to maximize the value of pre-owned vehicles through our existing 4S channels; on the other hand, in respect of non-agency brands, we collaborated with TUV, a global leading German third-party testing institution, to launch the standardized testing system, and implemented Yongda certified pre-owned vehicle business. Fast turnaround and disposal of pre-owned vehicles which failed to meet the retail requirements were achieved through third-party platforms. We expect to raise the retail rate of pre-owned vehicles to over 70% within the next three years. The development of the retail business will effectively promote the growth of high value-added products, such as finance, insurance and extended warranty of pre-owned vehicles, as well as the after-sales services and replacement businesses, so as to perform better customer relationship management and form a perfect closed-loop business.

In 2016, we continued to expand the procurement channels of pre-owned vehicles by improving the management capacity of pre-owned vehicle pricing and salvage value. Firstly, by fully utilizing our existing 4S channels and broad customer base, we continuously increased the pre-owned vehicle replacement ratio of our existing customer base for updating and upgrading through replacement of new cars and successful after-sales services. Secondly, we secured steady and high-quality pre-owned vehicle resources each year by propelling the vehicle buy-back business with large leasing companies and group users, along with the sales of new vehicles. Lastly, we also focused on the cooperation with third-party platforms in respect of vehicle sourcing, and were able to offer instant professional quote services to individual or corporate car owners so as to gain access to the most favorable resources.

In 2016, we continued to speed up the construction of our pre-owned vehicles sales network, which consisted of two pre-owned vehicles retail channels, namely the online and offline channels. For our online channels, we have achieved real-time connection with the pre-owned vehicles inventory resources through connecting with third-party Internet platform companies at the system level, whereby end customers are provided with appraisal and quotations for car-sale and exhibition and enquiries services for car-purchase. In respect of our offline channels, we have carried out the appraisal, replacement and retail businesses of pre-owned vehicles through the existing 4S sales outlets of the Group on the one hand, and have implemented Yongda certified pre-owned vehicle business independently through Yongda Pre-owned Vehicle Malls on the other. Currently, we have established 103 pre-owned vehicle retail outlets across the country, including 16 business outlets certified by OEM brands, 71 4S sales outlets and 16 Yongda Pre-owned Vehicle Malls.

Yongda Pre-owned Vehicle Mall, the independent pre-owned vehicle chain brand under the Group, is one of the leading pre-owned vehicle brands in China. Leveraging on the strategic branding management, we established the regional repair and reconditioning center under centralized management, and implemented Yongda certified pre-owned vehicle system covering 178 items of 15 categories of professional inspection, built an all-process quality control system characterized with product standardization and processed management, and we strived to expand the business scale of the pre-owned vehicle chain operation in order to provide consumers with cost effective and quality assured professional pre-owned vehicle products and relevant extended services, as well as car-purchase experience characterized with "assured car-purchase, comfortable services and worry-free car use". We have initially achieved a brand new business landscape combining pre-owned vehicle, Internet and finance.

**Record High Results from Automobile Finance**

In 2016, we steadily promoted the industry-finance integration in our automobile finance business to discern industrial demands from a financial perspective, and achieved comprehensive connection between financial services and the automobile industry, resulting in significant synergies. Following the completion of the construction of finance and insurance business sectors, we launched several innovative financial products, such as "Drive New Cars" (開新車), "Installment Settlement" (達分期) and "Cloud+ Intelligent POS" (雲+智能POS). We have made new breakthroughs as compared to last year in terms of business scale and profitability. In terms of scale, our permeability rate of finance exceeded 50% in 2016, representing an increase of 41.7% as compared to the same period in 2015, far higher than the average market level. In terms of profitability, the contribution of finance and insurance business to the gross profit of the Group increased by 17.8% from 15.2% in 2015 to 17.9%, serving as a key driving force for the Group's rapid business growth.

With respect to our automobile finance agency business, we cooperated with major financial institutions on a headquarter-to-headquarter basis, securing more resources and support for the Group and sustaining the continuous growth of the business. In 2016, the total revenue generated from our finance and insurance agency business was RMB712 million, representing an increase of 64.7% as compared to the same period last year, among which, the revenue from our finance agency service was RMB423 million, representing an increase of 76.0% as compared to RMB240 million in the same period last year; the revenue from our insurance agency service was RMB289 million, representing an increase of 50.6% as compared to the same period last year.

With respect to our proprietary business, we focused on expanding our assets scale and increasing our income while also emphasizing on the development of products and regional markets as well as making great efforts to explore new marketing methods. In 2016, we achieved additional interest-bearing assets of RMB2,560 million, including RMB2,232 million derived from the increase in the finance leasing business, representing an increase of 53.1% as compared to the same period last year, and the rest was derived from our small loan company officially commenced operations since September last year. Our finance leasing companies recorded a net profit of RMB53.42 million in 2016, representing an increase of 15.5% as compared to RMB46.26 million in the same period last year, and our small loan company also broke-even over the year. For our product design, we launched certain insurance installment products through the cooperation with a number of insurance agencies to perform the financing function in supporting the automobile industry, such products would be a driving force to strengthen our new insurance and renewal insurance businesses by installment financing with small amounts and specific usages.

With respect to the information construction, we completed the renewal for our Group's conventional cashier mode and achieved the full connection between sales and capital information in an intelligent and technological way by "Cloud + Intelligent POS", laying a solid foundation for future large data analysis. In addition, we implemented a centralized management model to complete the formation and layout of information system which aligns with the centralized management model in the finance industry. We established a credit facilities factory system as our core business processing center, achieving the integration of information input, risk assessment and assets management into a comprehensive end-to-end system. With respect to our sales channels, we had completed the first phase of the construction of our mobile exhibition platform, materializing real-time linkage between the foreground, middle-ground and background. At customers' side, our "Golden Touch" online platform (點車成金線上平台) had become more full-fledged, which was featured by simulation scenes as entry points, such as car-purchase, maintenance and sale. It would provide our customers with a brand new experience in the total integration of finance and insurance and automobile life.

With respect to asset quality, 2016 is the third full year after the Group launched the finance leasing business, with a positive trend maintained in its asset quality. According to the relevant data, the delinquency ratio of the Group's overall risky businesses has always been kept below 0.2%, and the Group has not incurred any substantive underperforming assets. The premium quality of assets is attributable to the Group's established risk management system. In 2016, we have already set up a vertical risk management system featuring "risk prevention at an earlier stage, policies first, uniform authorization and independent examination and approval", so as to ensure steady business growth in circumstances where risks are controllable.

**Sustainable Increase of Automobile Rental Services**

In 2016, our automobile rental services recorded a revenue of RMB364 million, representing an increase of 10.2% as compared to the same period in 2015.

In 2016, the domestic automobile rental services industry continued to develop by leaps and bounds, with many opportunities arising in Eastern China and the Shanghai regional market. With respect to the long-term rental business, we continued to maintain our existing predominance, with an increasing number of long-term rental contract customers ranging from the world's top 500 and large state-owned enterprises and private enterprises


in finance, manufacturing, public utilities, media entertainment and high-tech sectors. We had constantly acquired long-term rental businesses from a number of large customers, such as SGCC, FAW Audi, Jaguar Land Rover and Qoros. The total number of contracts and orders grew by 15% as compared to that at the beginning of the year. The fleet size serving the Shanghai Disneyland Park increased by threefold.

With respect to the short-term rental business for high-end businesses and conferences, we kept forging ahead to become the designated automobile service provider of numerous influential international conferences, major sports and cultural events, such as the Global Exhibition CEO Shanghai Summit 2016, F1 Shanghai Grand Prix, China International Medical Equipment Fair, the opening ceremony of Shanghai Disneyland, WGC-HSBC Champions 2016, China Shanghai International Arts Festival 2016, and The American Chamber of Commerce in Shanghai Independence Day Celebration. We have also officially stationed in China National Convention Center, the world's largest convention center located in the central business district, Hongqiao District, Shanghai, and achieved positive economic returns and exciting marketing effect.

In 2016, we have been designated by government authorities, such as the People's Governments of Pudong New District, Xuhui District, Yangpu District, Hongkou District and Putuo District, and Public Security Bureau, Shanghai Public Security Bureau Baoshan Branch and Yangpu Branch to offer government service vehicles, and have launched the vehicle steward services for government civil servants in response to the public vehicle reform policy of Shanghai Government. Specifically, our vehicle steward services cover new vehicle purchases, repair and maintenance services, accident rescue and management, automobile insurance agency services, vehicle inspection agency services, old vehicle disposal, automobile service and decoration, agency of traffic peccancy processing, etc. This project will further strengthen our leading position in the sphere of automobile rental services in Shanghai.

In 2016, we actively promoted the business management information systemization. We completed our preliminary needs assessment study before the phased construction of sub-systems, and perfected the client's service booking system, service execution by drivers and management's compliance with regulatory measures, to meet the needs of long-term business development.

In 2016, we continued to conduct the layout of rental network in provinces and cities outside Shanghai. Currently, we have set up rental companies or developed operations in 20 cities nationwide. The vehicles in operation outside Shanghai accounted for 15% of our total number of vehicles. Meanwhile, we actively explored opportunities for cooperation with companies and agencies with established customer base and license resources in the markets across the country, including Beijing, Tianjin, Guangzhou, Shenzhen and Hainan.

**Fast Growth in New Energy Automobile Industry**

According to the information from China Association of Automobile Manufacturers, after the first explosive growth of the new energy automobile industry in China in 2015, the industry had maintained its fast development in 2016, with the production and sales volume of new energy vehicles over 500,000 units, which increased by more than 50% as compared to 2015. In 2016, the sales volume of new energy vehicles in China was below the annual target, due to the impact of the investigation in swindling subsidies, delay in the regional subsidies and the regulatory policies on import of batteries. However, driven by the industry favourable policies, as well as the concentrated implementation of new energy vehicle models by joint ventures and self-owned brands in the second half of the year, the production and sales volume of new energy vehicles continued to maintain fast growth. Meanwhile, according to the information from this association, as the production scale of new energy vehicles dealers, rental service companies and vehicle charging service providers was expanded significantly, it is expected that a consumption market for new energy vehicles with an annual sales volume of more than one million units will soon be developed in China.

We actively captured such industry trend and incorporated a new energy vehicle investment and development company in 2015. 2016 was the first year of commencement and development of our new energy automobile industry. We focused on exploring areas such as the sales and services of new energy vehicles, the oil to electricity conversion for service cars, charging station network layout, fully contribute to making new energy vehicle industry as an important field of our future business.

In 2016, we obtained the agency authorization from major domestic new energy vehicles brands (namely, SAIC, BAIC BJEV, JAC and DENZA). We completed the construction of the first six new energy vehicles sales and service centers and they were put into operation. The sales and services business of new vehicles recorded fast growth, which enabled us to win the procurement bidding from some group users, such as Global Car Rental (環球租車). Meanwhile, the oil to electricity conversion for service cars was implemented smoothly, which significantly lowered costs and had a good demonstration effect. In 2016, we accelerated the construction of our self-built charging station, officially launched the management platform of charging stations, and actively formulated the parallel cooperation with other renowned charging station operation platforms.

In 2016, we established business connection and cooperation relationships with a number of well-known companies or entities at home and abroad, including manufacturers that engaged in research and development of new energy vehicles, manufacturers and operators of charging stations, International Grid, China New Energy Vehicles Industry Association (國家新能源汽車產業協會), and Shanghai New Energy Vehicles Industry and Charging Industry Alliance (上海市新能源汽車產業和充電行業聯盟), laying a solid foundation for an all-round development of the new energy vehicles business of the Group in the future.

**Information Technology and Internet E-commerce Platforms**

We proposed "Internet + automobile" as a transformative concept in the automobile e-commerce field in 2014, aiming to improve the operating efficiency while enhancing customer service experience by building online to offline (O2O) channels, thus constructing our self-owned vertical service platform, building an automobile service industry ecosystem and creating "Yongda Auto Life Ecosystem".

In 2016, we have substantially completed the construction of the core data of customers, and completed the data consolidation and collection of all brand customers. We basically realized the big data intelligent analysis on customers' information, based on actual business scenarios involving the business of new vehicles sales, after-sales services, pre-owned vehicles and automobile finance. Meanwhile, we officially launched "永達汽車達人匯", a member service platform specially designed for the users of Yongda Automobile, so as to enhance level of members' loyalty by providing our members with customized activities, care and value-added services. The members of "永達汽車達人匯" exceeded 100,000 in the first half year after operation, with over 70% active members. In respect of external cooperation, we continued to strengthen cooperation with vertical and platform e-commerce players, such as Alibaba Automobile, Meituan Dianping (美團點評), BitAuto and Autohome, which facilitated stable online and offline integration in terms of sales of new vehicles and after-sales maintenance. We formally entered into a strategic cooperation agreement with Autohome at the end of 2016, pursuant to which, both parties will deepen their cooperation in automobile sales, e-commerce service, automobile finance and application of users' big data.

We have currently initiated another three-year information technology planning. Looking forward, we will adhere to the strategic guiding ideology of taking management of customers' assets as the core, together with synergy of diversified industries of the Group, and eventually digitalize the operation and management process and channelize customer services, thus driving the transformation and upgrading of the industry through data.

**Continuous Optimization and Improvement of Our Network**

In 2016, we adhered to continuously optimize the structure of authorized network of manufacturers and actively promoted our strategy to develop self-owned outlets in relation to our outlets construction and layout.

In respect of developing the outlets authorized by manufactures, the Group continuously prioritized important markets for the development of important brands and new energy brands under the "streamlining, modularization and intensification" principle. We focused on the functionality and scalability of our new outlets and further controlled our investment cost while planning to implement optimization and improvement measures by closing out, disposing of or otherwise transforming outlets without strong profit-making capability.

In 2016, we obtained authorization to open 13 new passenger vehicles sales and services outlets, mainly focusing on luxury and ultra-luxury and new energy brands, including one Jaguar/Land Rover 4S dealership, one Lincoln 4S dealership, one Volvo 4S dealership, two Roewe 4S dealerships, one Skoda 4S dealership, one FAW-Volkswagen 4S dealership, one Shanghai-Volkswagen 4S dealership, one BAIC BJEV 4S dealership, one JAC 4S dealership, one Porsche city showroom and two BMW motorcycle city showrooms.

In 2016, we opened ten new passenger vehicles sales and services outlets, mainly focusing on luxury and ultra-luxury and new energy brands, including one Jaguar/Land Rover 4S dealership, one Bentley 4S dealership, two Volvo 4S dealerships, one Aston Martin 4S dealership, one Buick 4S dealership, one DENZA electric vehicles 4S dealership, one BAIC BJEV 4S dealership, one JAC 4S dealership and one BMW express service center.

With respect to self-owned outlets construction, we paid more attention on the layout and development of pre-owned vehicles, comprehensive showrooms, comprehensive repair and maintenance, automobile finance and rental services, so that we could fully utilize the efficacy of our existing and future outlets. In 2016, we opened 12 branch companies for finance leasing services, eight pre-owned vehicle comprehensive showrooms, three passenger vehicle comprehensive showrooms and four “Auto Repair (車易修)”.

Meanwhile, we adhere to our low-cost acquisition and merger strategy and actively seized opportunities for mergers and acquisitions. In the first half of 2016, we successfully acquired the 100% equity interest in JS Baozun Investment Group Co., Ltd. and its 18 4S dealerships, mainly for luxury brands, including BMW, Cadillac and Buick. For details, please refer to the announcement of the Company dated April 8, 2016.

We continued to operate our extensive network with the Yangtze River Delta as the center and have expanded our network to other regions in China, such as Northern China, Northeast China, Central China and Southern China. We have a total of 271 outlets opened and authorized to open, which are located across four municipalities and 60 cities in 20 provinces in China as of December 31, 2016, including 147 opened outlets with manufacturers' authorization, 108 opened self-owned outlets and 16 outlets with authorizations to be opened.

**Continuously Improving Management Capability**

We firmly adhered to management with integrity and preeminent culture, and integrated our automobile industry experience in over the past twenty years with the demand of current industry development so as to continuously achieve management innovation. In 2016, along with our continuous and steady business expansion, we continued to carry out our customer demand oriented and employee development management concept, and emphasized on customer service as the driving force of management. We continued our efforts in reform and innovation, to improve our process efficiency and service standards. We took the training and development of our employees as the core factor for sustainable development, aiming at building our talent team, especially the construction of the youth talent team. We continued to optimize our management through the following measures so as to create our core competitiveness:

**Channel Reforms:** We continually promoted channel reforms which focus on customer connection and experience and implemented comprehensive channel development strategy. We also expanded the monotonic offline physical automobile sales and service outlets into channel outlets which consist of related automobile industrial chain, including automobile sales and services, pre-owned vehicles, automobile finance and automobile lifestyle commodities such that our customers could enjoy the comprehensive one-stop auto life services. Meanwhile, we focused on constructing online mobile terminal entrance by online and offline integration, to provide our customers with convenient scene-mode service experience.

**Industry Convergence:** Relying on our competitive edge in the automobile industry, we proactively developed our automobile finance business and pre-owned vehicle business to meet the industry demand. On the one hand, we will provide sales and service enterprises and end-customers with competitive automobile finance products along the downstream of automobile industrial chain so as to create a leading automobile industry finance brand. On the other hand, with a clear B2C pre-owned vehicle pattern, we target to become a leading pre-owned vehicle retail service brand through online and offline integration. We will close the loop of automobile service industry chain at user end by way of automobile finance and pre-owned vehicle together with the original new vehicle and services.

**Brand Building:** We firmly believe in the principle of "brand is the life of an enterprise". With over twenty years' of our industry experience and persistence in conducting business with integrity, we strive to achieve transformation from automobile authorized agency sales and services to self-owned service business. We continuously improve our service quality and fully utilize the advantages of our large user base to shape the Group into one of the national leading passenger vehicle sales and service provider brands, by adhering to the concept of service expert and customer-driven operations.

**Organization Optimization:** We strengthened our efforts in the introduction of external talents and cultivation of internal talents to satisfy business management needs resulting from industrial chain expansion. We also satisfied the young characteristics and consumption trend of our customer base through echelon building of our young talents. Meanwhile, we combined the advantages of the industrial scale and diversified characteristics of the Group, adopted sub-brand division or regional management mode according to circumstances. With the coordination of remuneration and performance management and capital management, we reduced operation costs and improved management efficiency. On the basis of the aforesaid, we developed an organization form and response mechanism where enterprise and group management serves as our strong anchor and we present ourselves as the forerunner of a top-tier service team.

**Digital Management:** With the information and Internet technology developing dramatically, as a traditional automobile dealership group, we had initiated to fully improve the management of our industrial entities by information-based means, constructed our clear digital management mode through consolidating the operation, supporting and monitoring platforms with the data centre, realized agile operation of businesses leveraging on the flexible allocation of resources and control, and maximize the customers' value through lifecycle management of customers, thus eventually promoting the transformation and upgrading of businesses by constant innovations driven by data.

## FINANCIAL REVIEW

### Revenue

Revenue was RMB43,032.5 million in 2016, a 20.7% increase from RMB35,657.6 million in 2015, which was primarily due to the growth of sales of passenger vehicles and after-sales services. The table below sets forth a breakdown of our revenue and relevant information of various business segments for the periods indicated:

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Amount (RMB'000) | Sales Volume (Units) | Average Selling Price (RMB'000) | Amount (RMB'000) | Sales Volume (Units) | Average Selling Price (RMB'000) |
| Passenger Vehicle Sales | | | | | | |
| Luxury and ultra-luxury brands | **29,409,498** | **83,456** | **352** | 25,226,251 | 68,664 | 367 |
| Mid to high end brands | **7,894,651** | **63,806** | **124** | 6,003,948 | 47,775 | 126 |
| Subtotal | **37,304,149** | **147,262** | **253** | 31,230,199 | 116,439 | 268 |
| After-sales services | **5,446,431** | **–** | **–** | 4,135,496 | – | – |
| Automobile rental services | **363,991** | **–** | **–** | 330,183 | – | – |
| Finance leasing and small loan services | **122,313** | **–** | **–** | 126,666 | – | – |
| Less: inter-segment eliminations | **(204,382)** | **–** | **–** | (164,951) | – | – |
| **Total** | **43,032,502** | **–** | **–** | **35,657,593** | **–** | **–** |

The sales volume of passenger vehicle sales and services segment was 147,262 units in 2016, a 26.5% increase from 116,439 units in 2015, among which the sales volume of luxury and ultra-luxury brand passenger vehicle in 2016 was 83,456 units, a 21.5% increase from 68,664 units in 2015.

Revenue of sales of passenger vehicles from the passenger vehicle sales and services segment was RMB37,304.1 million in 2016, a 19.4% increase from RMB31,230.2 million in 2015, among which the revenue from luxury and ultra-luxury brand passenger vehicle sales was RMB29,409.5 million in 2016, a 16.6% increase from RMB25,226.3 million in 2015.

Revenue of after-sales services from the passenger vehicle sales and services segment was RMB5,446.4 million in 2016, a 31.7% increase from RMB4,135.5 million in 2015.

Revenue from the automobile rental services segment was RMB364.0 million in 2016, a 10.2% increase from RMB330.2 million in 2015.

Revenue from the finance leasing and small loan services segment was RMB122.3 million in 2016, a 3.4% decrease from RMB126.7 million in 2015.

**Cost of Sales and Services**

Cost of sales and services was RMB39,227.1 million in 2016, a 20.2% increase from RMB32,630.6 million in 2015, which was generally in line with the growth of our revenue.

Cost of sales for sales of passenger vehicles of the passenger vehicle sales and services segment was RMB36,148.4 million in 2016, a 19.4% increase from RMB30,276.1 million in 2015, which was generally in line with the growth in our revenue from passenger vehicle sales.

Cost of after-sales services from the passenger vehicle sales and services segment was RMB2,956.5 million in 2016, a 31.3% increase from RMB2,251.5 million in 2015, which was generally in line with the growth in our revenue from after-sales services.

Cost of services for the automobile rental services segment was RMB260.1 million in 2016, a 17.3% increase from RMB221.7 million in 2015. The increase was slightly higher than the increase in our revenue from automobile rental services.

Cost of services for the finance leasing and small loan services segment was RMB26.5 million in 2016, a 26.4% decrease from RMB36.0 million in 2015. The decrease was slightly higher than the decrease in our revenue from the finance leasing and small loan services.

**Gross Profit and Gross Profit Margin**

As a result of the foregoing, gross profit was RMB3,805.4 million in 2016, a 25.7% increase from RMB3,026.9 million in 2015. Gross profit margin increased to 8.84% in 2016 from 8.49% in 2015.

Gross profit of sales from the sales of passenger vehicles of the passenger vehicle sales and services segment was RMB1,155.8 million in 2016, a 21.1% increase from RMB954.1 million in 2015. Gross profit margin for passenger vehicle sales increased to 3.10% in 2016 from 3.06% in 2015.

Gross profit of after-sales services from the passenger vehicle sales and services segment was RMB2,489.9 million in 2016, a 32.2% increase from RMB1,883.9 million in 2015. Gross profit margin for after-sales services increased to 45.72% in 2016 from 45.56% in 2015.

Gross profit from the automobile rental services segment was RMB103.9 million in 2016, a 4.2% decrease from RMB108.5 million in 2015. Gross profit margin for automobile rental services was 28.55% in 2016, representing a slight decrease compared to 32.85% in 2015.

Gross profit from the finance leasing and small loan services segment in 2016 was RMB95.8 million, a 5.7% increase from RMB90.7 million in 2015. Gross profit margin for finance leasing and small loan services was 78.35% in 2016, representing an increase compared to 71.60% in 2015, due to the decrease in the financing costs.

**Other Income and Other Gains and Losses**

Other income and other gains and losses were RMB760.4 million in 2016, a 83.4% increase from RMB414.6 million in 2015. The increase was primarily due to the fact that revenue of our after-market finance and insurance agency related services of the passenger vehicle sales and services segment amounted to RMB711.8 million in 2016, a 64.7% increase from RMB432.1 million in 2015.

**Distribution and Selling Expenses**

Distribution and selling expenses were RMB1,915.1 million in 2016, a 27.4% increase from RMB1,503.4 million in 2015, which was primarily due to the expansion of our sales and services network and sales scale. As a percentage of revenue, our distribution and selling expenses increased from 4.22% in 2015 to 4.45% in 2016, which was primarily due to the fact that the newly opened outlets in the second half of 2015 and in 2016 were still in the early development stage.

**Administrative Expenses**

Administrative expenses were RMB1,052.1 million in 2016, a 44.1% increase from RMB730.1 million in 2015, which was primarily due to the expansion of our sales and services network and sales scale. As a percentage of revenue, our administrative expenses increased from 2.05% in 2015 to 2.44% in 2016, which was primarily due to the fact that the newly opened outlets in the second half of 2015 and in 2016 were still in the early development stage.

**Finance Costs**

Finance costs were RMB479.5 million in 2016, a 7.3% increase from RMB447.1 million in 2015, which was primarily due to the increased average balance of financing as a result of the expansion in sales and services network and business scale. As a percentage of revenue, the rate of finance costs decreased from 1.25% in 2015 to 1.11% in 2016.

**Profit before Tax**

As a result of the foregoing, profit before tax was RMB1,152.0 million in 2016, a 48.4% increase from RMB776.5 million in 2015.

**Income Tax Expense**

Income tax expenses were RMB244.2 million in 2016, a 16.7% increase from RMB209.2 million in 2015.

**Profit and Total Comprehensive Income**

As a result of the foregoing, profit and total comprehensive income was RMB907.8 million in 2016, a 60.0% increase from RMB567.3 million in 2015.

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

As a result of the foregoing, profit and total comprehensive income attributable to the owners of the Company was RMB851.3 million in 2016, a 62.3% increase from RMB524.5 million in 2015.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow

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

In 2016, our net cash from operating activities was RMB571.1 million, a decrease of RMB1,397.1 million compared to net cash from operating activities of RMB1,968.2 million in 2015. The decrease was primarily due to the increase in the net cash outflow from operating activities of RMB353.3 million in 2016 compared to that in 2015, as a result of the payment of income tax made by us, the increase in the net cash outflow from operating activities in the finance leasing and small loan service segment of RMB877.4 million in 2016 compared to that in 2015 and the increase in the receivables of RMB292.8 million in 2016 compared to that of 2015, as a result of the slow repayment made in stages by the finance company of the manufacturers at the end of 2016. The increased receivables have been fully recovered as of the date of this announcement. After deducting all the above factors, our net cash from operating activities was RMB2,094.6 million in 2016, representing an increase compared to our net cash from operating activities of RMB1,968.2 million in 2015.

In 2016, our net cash used in investment activities was RMB1,311.0 million, which mainly included the amounts for purchase of fixed assets, land use rights and intangible assets of RMB987.3 million, the amount for acquisition of subsidiaries of RMB502.8 million, the investment in associates and joint ventures of RMB186.0 million, which was partially offset by the proceeds from the disposal of property, plant and equipment, land use rights and intangible assets of RMB348.3 million, as well as retrieving the overpayment made on land use rights in the previous years of RMB71.2 million. In 2015, our net cash used in investing activities was RMB1,571.1 million.

In 2016, our net cash from financing activities was RMB979.8 million, which mainly included the proceeds from bank loans and other borrowings of RMB28,681.4 million, the proceeds from the issue of corporate bonds of RMB2,000.0 million, and the proceeds from issue of short-term debentures of RMB800.0 million, which was partially offset by the repayment of bank loans and other borrowings of RMB27,783.4 million, the repayment of the medium-term notes of RMB1,160.0 million, the repayment of short-term debenture of RMB800.0 million, the payment of interest of RMB471.0 million, deposit of restricted fund for loan of RMB106.0 million, and the payment of dividends of RMB155.4 million. In 2015, our net cash used in financing activities was RMB739.3 million.

### Inventories and Inventory Prepayments

Our inventories mainly include passenger vehicles and spare parts and accessories. Inventory prepayments are payments made in advance to suppliers for purchases of passenger vehicles, spare parts and accessories.

Our inventories were RMB4,317.4 million as of December 31, 2016, a 5.7% increase from RMB4,083.1 million as of December 31, 2015. The following table sets forth our average inventory turnover days for the periods indicated:

| | For the year ended December 31, 2016 | 2015 |
|---|---|---|
| Average inventory turnover days[1] | **39.1** | 47.0 |

*Note:*

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

Our inventory and inventory prepayments were RMB5,227.9 million as of December 31, 2016, a 10.1% increase from RMB4,746.2 million as of December 31, 2015. The following table sets forth our average inventory and inventory prepayment turnover days for the periods indicated:

| | For the year ended December 31, 2016 | 2015 |
|---|---|---|
| Average inventory and inventory prepayments turnover days[1] | **46.4** | 54.2 |

*Note:*

(1) Average inventory and inventory prepayments turnover days for the period is the average of opening and closing inventories and inventory prepayments balances in aggregate divided by the cost of sales and services for that period and multiplied by 365 days.

Our average inventory and inventory prepayment turnover days in 2016 were 46.4 days, compared to 54.2 days in 2015, which was primarily due to our continuous enhancement of inventory and inventory prepayment turnover management.

### Capital Expenditures and Investment

Our capital expenditures primarily included expenditures on purchase of fixed assets, land use rights, intangible assets, acquisition of subsidiaries and investments in associates and joint ventures. In 2016, our total capital expenditures comprising expenditures on purchase of fixed assets, land use rights and intangible assets and acquisition of subsidiaries and investments in associates and joint ventures were RMB1,676.1 million. The following table sets forth a breakdown of our capital expenditures for the period indicated:

| | For the year ended December 31, 2016 *(RMB in millions)* |
|---|---|
| Expenditures on purchase of property, plant and equipment | **929.1** |
| Expenditures on purchase of land use rights | **16.9** |
| Expenditures on purchase of intangible assets | **41.3** |
| Expenditures on acquisition of subsidiaries | **502.8** |
| Expenditures on investments in associates and joint ventures | **186.0** |
| **Total** | **1,676.1** |

### Borrowings and Bonds

We obtained borrowings consisting of bank loans and other borrowings from designated automobile finance companies of automobile manufactures, bonds and convertible bonds to fund our working capital and network expansion. As of December 31, 2016, the outstanding amount of our borrowings, bonds and convertible bonds amounted to RMB9,245.3 million, a 31.4% increase from RMB7,036.9 million as of December 31, 2015. The following table sets forth the maturity profile of our borrowings and bonds as of December 31, 2016:

| | As of December 31, 2016 *(in RMB millions)* |
|---|---|
| Within one year | **7,097.4** |
| One year to two years | **103.5** |
| Two to five years | **2,044.4** |
| **Total** | **9,245.3** |

As of December 31, 2016, our gearing ratio (being net debt divided by the aggregate amount of total equity and net debt) was 68.7% (as of December 31, 2015: 68.1%). The net debt was total debt net of cash and cash equivalents, time deposits, pledged bank deposits and cash in transit.

As of December 31, 2016, certain of our borrowings were secured by mortgages or pledges over our assets. Our assets subject to these mortgages or pledges as of December 31, 2016 consisted of (i) inventories of RMB670.1 million; (ii) property, plant and equipment of RMB234.8 million; (iii) land use rights of RMB239.1 million; and (iv) pledged bank deposits of RMB106.0 million.

### Contingent Liabilities

As of December 31, 2016, we did not have any material contingent liabilities.

### Interest Rate Risk and Foreign Exchange Risk

We are exposed to interest rate risk resulting from fluctuations in the interest rate on our borrowings. Certain of our borrowings were variable-rate borrowings that are mostly linked to the benchmark rates of the People's Bank of China or London Interbank Offered Rate. Increases in interest rates could result in an increase in our cost of borrowing, which in turn could adversely affect our finance costs, profit and our financial condition. We do not currently use any derivative financial instruments to hedge our exposure to interest rate risk.

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

### Use of Proceeds

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

In July 2014, we issued 1.5% US dollar settled convertible bonds due 2019 with an aggregate principal amount of RMB1 billion, and the funds raised were used for establishment of and acquisitions of 4S dealerships and replenishment of working capital.

## FUTURE PROSPECTS AND STRATEGIES

In 2016, benefiting from the government industry and consumption policies, as well as the better communications and cooperation between automobile manufacturers and dealers, the overall automobile market recovered considerably. In particular, driven by the upgrade of consumption structure and the broadened variety of vehicle models in the market, the sales scale of luxury vehicles exceeded 2 million units for the first time, representing an increase of 16.3% as compared to the same period of last year, the average growth rate of which exceeded that of the overall passenger vehicles market. Meanwhile, we also noted that, as the internet E-commerce in automobile sales and service industry is gradually fading out, 4S dealerships returned to become the major, substantial channels for new vehicles purchases and automobile repair. Following the impact of the internet E-commerce over the years, the automobile dealers, especially the large-scale dealership groups, whose principal operations focus on real economy, have made good progress, in aspects such as the expansion and diversion of online channels, refined operation of offline services, improvement of customers' consumption experience, upgrading and transformation of the industry, and expansion of after-sales markets.

Going forward, China's automobile market is expected to maintain a stable growth trend as China's urbanization accelerates and vehicles consumption becomes more sophisticated, especially for the luxury and ultra-luxury automobile market, which is expected to maintain relatively fast growth. Extended services business such as automobile repair, pre-owned vehicles, automobile decoration, care and maintenance, as well as after-market businesses such as automobile finance and insurance services and automobile rental services are expected to have robust development with tremendous business opportunities following a rapid growth over recent years. Meanwhile, the rapid development of new energy vehicles together with the gradual maturity of the internet of vehicles and auto-pilot techniques will bring along great changes and new opportunities to the future automobile industry. Hence, we will continue to adhere to our "customer-oriented" belief and continue to focus on the automobile industry.

Currently, the automobile retail service market in China is undergoing a period of merger, acquisition and integration, with gradually strengthened centralization. Leveraging on the strength in bargaining and consolidation throughout the upstream and downstream of the industry chain, as well as the output management capability, powerful dealership groups are able to capture opportunities to expand the market share and coverage of business segements through merger and acquisition on capital platforms, so as to realize the synergy from sizable resources, and play a leading role in the end markets. Meanwhile, we firmly believe that, the 4S dealership model will remain as the mainstream of the automobile sales and service markets in China in the next decade. As a result of the foregoing, we will continue our work in the layout of domestic automobile sales service network, and expand our sales outlets of the major luxury brands through self-built network and merger and acquisition, thereby forming the national network with equal emphasis on scale and quality.

We noted the robust growth of the performance of Benz in 2016, and we recognized that the powerful luxury brands are enjoying tremendous opportunities in the market of China throughout the powerful product life cycle. Therefore, we will focus on and proactively push for the expansion of the network of top-tier powerful luxury brands, such as BMW, Audi and Porsche. In particular, BMW will release new products and will update and upgrade its heavyweight products in 2017, with more than 10 brand new products and upgraded products to be launched in the coming two years. Powerful products including the brand new 2017 BMW 1 Series and 5 Series, the 2018 upgraded BMW X3 and X5, as well as the brand new 2018 BMW X7, X2 and 8 Series, will set new benchmarks for competitors of the same category, and meet the greater demand of different market segments, leading to a new product cycle. At the same time, the BMW manufacturers adjusted the dealers' rebate policies, including increasing the number of wholesale and retail outlets, speeding up the payback term, which will definitely give a powerful impetus to the enhancement of our business and cost reduction. Audi will also unveil its new products and its upgraded products in 2018. Hence, from 2017 and onwards, an important priority of our strategy is to continuously strengthen and increase the number of outlets and the market share of the Group as the largest BMW dealership group in China, along with the expansion of business scale of major luxury brands such as BMW.

We will realize refined management and standard operation in traditional automobile sales and services business through continuous in-depth digitalization, and provide strong support and extensive platform for growing our business segments including automobile finance, pre-owned vehicles and automobile rental. Leveraging on the construction and integration of marketing, operational management, support and data platforms, we will continue to reduce operating costs, enhance efficiency and optimize the allocation of resources, simultaneously forming a professional vertical Internet E-commerce platforms for marketing services focusing on customer experience. These will include location-based real-time product information services, social media based promotion and marketing, full scenario-based mobile payment, and big data access and analysis based on mobile phones and automobiles connected to car internet, thus forming an internally and externally integrated digital ecosystem applying the big data. Going forward, the intelligent application scenarios of big data will run throughout the whole lifecycle of automobile owned by customers, enabling us to provide personalized point-to-point services and experience featuring instant interactions and precise predictions.

Our recent development will also focus on our pre-owned vehicle business. We will develop front-end asset light physical chain outlets through building the middle-ground and background system which has the functions of uniform quotation, appraisal and certification, and focus on the pre-owned vehicles retail business by using the O2O business model of the one-stop online mall. In terms of channels, we will adopt a business model that utilises standardized chain stores, focusing on regions where pre-owned vehicles are actively traded, such as the East China. We will undertake purchase, consignment and exhibition, and sales of pre-owned vehicles in such regions, with plans to reach 200 outlets nationwide in 2020. In respect of procurement, we will constantly increase the replacement ratio of our chain outlets, and strategically cooperate with major leasing companies, such as eHi Car Services Limited, thereby achieving bulk repurchase and securing sufficient, steady and high-quality pre-owned vehicle resources. In respect of sales, we will integrate the high value-added businesses, such as finance and insurance of pre-owned vehicles, warranty and extended warranty, to provide our customers with a wider variety of value-added services. Meanwhile, we will continue to build our Yongda certified pre-owned vehicle brand in the retail market, and adopt a standard certification process featured by stringent inspections, appraisal and servicing and repair of pre-owned vehicles, thus establishing our market reputation and integrity. Meanwhile, we will leverage on the internet platform to construct our online exhibition and sales platform, forming the virtual exhibition and transaction center of pre-owned vehicles which assembles nationwide resources. Our transaction volume of pre-owned vehicles is expected to reach 100,000 units in 2020, the retail of which will account for not less than 80%.

Relying on our innovation driving force, we will further enhance the layout of our automobile finance business, expand our channel network and continually optimize and upgrade our products and services to further improve the synergies between the financial services and the automobile industry. We will also stably develop our proprietary business while actively expanding our agency business. With respect to our agency business, we will increase the permeability rate of finance by virtue of more financial instruments and establish the strategic cooperation model with domestic financial institutions on headquarter-to-headquarter basis by integrating advantageous resource, so as to obtain more resources and supports. On the other hand, we will also actively change our insurance agency business concept to continually upgrade and optimize our products and services. In respect of our proprietary business, leveraging on the advantage of the industrial chain and our remaining value management, we will strive to develop our rent consignment products with low monthly payments and mainly promote the installment sales model, to create various installment-paid products in the automobile industrial chain and meet the multiple demands of the customers.

Meanwhile, we will take advantage of the transition to favourable policies in the automobile industry, to actively expand the businesses with huge growth potential and scale effect, including independent after-sales repair, parallel import business, proprietary maintenance product business and automobile rental services. We will integrate the scale effect of insurance agency business and the advantages of maintenance resources, to expand two independent after-sales business models, i.e., community chain services and concentrated local sheet metal painting centers. We will also further expand our parallel import business, cooperate with other automobile manufacturers in bulk parallel import of personalized finished vehicles and reinforce the marketing of parallel imported parts and automobile maintenance in the end markets, so that these become new sources of profit in addition to our principal businesses. With respect to automobile rental business, we will strengthen our long-term rental business, develop our commercial, conferences, tourism and service short-term rental business, and actively explore fleet management services of internet booking. We will continue to closely follow and propel relevant industrial cooperation in areas of new energy vehicle and car internet, preparing for the future development opportunities in automobile industry.

We will continue to make all attempts to cooperate strategically with the leading players from all sectors of the society and all industries, and we always pursue innovation with the aim to achieve cooperation, mutual sharing and a win-win situation for all. In particular, we will establish multi-level and holistic cooperation with industry giants along the industry chain that complements and brings synergy to our businesses, in fields such as the internet platforms, vertical E-commerce businesses, financial institutions, insurance companies and leasing and travel platforms, with a view to jointly construct the eco-system of automobile industry, and to achieve win-win cooperation, ensuring complementarities, and deepening the cooperation in the capital market when opportunities materialize.

We will continue to pursue the Group's initiatives in capital markets, and at the same time, leverage on the financing platform of the capital markets, turning such advantages into a powerful driving force to realize the Group's development strategies mentioned above. We will persistently pursue the "industry + capital" development concept, continuously upgrade and transform our existing businesses based on current efforts, accumulate the advantageous resources of social capital and enhance the strategic layout and development of new-emerging businesses, so that we can further consolidate our leading position in the automobile industry and ensure the profitability and sustainable development as well as realize a win-win situation for our shareholders, employees, customers and the community.

# Directors and Senior Management

## DIRECTORS

### Executive Directors

**CHEUNG Tak On (張德安)**, age 50, is our Chairman and was appointed as our executive director on January 18, 2012 and is a current committee member of the Shanghai Municipal Committee of the Chinese People's Political Consultative Conference and the vice-president of the Shanghai Federation of Industry and Commerce in China. Mr. Cheung has extensive experience in the passenger vehicle dealership sector and is responsible for setting the strategic vision, direction and goals of our Group and he participates in our Group's strategic and key operational decision-making processes. Mr. Cheung was brought up in the PRC. From November 1999 to February 2005 and from November 2005 to present, Mr. Cheung has been the chairman of Shanghai Yongda Holding (Group) Limited (上海永達控股(集團)有限公司) ("Yongda Holding") as well as its president since November 1999, where he has been mainly responsible for overseeing its overall development and formulating corporate and business strategies. He is also currently the chairman of Shanghai Yongda Group Company Limited (上海永達(集團)股份有限公司) ("Yongda CLS"). From September 1991 to June 1998, Mr. Cheung was the general manager of Yongda CLS.

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

| Award | Awarding institutions |
|---|---|
| 2015 National Model Worker (二零一五年全國勞動模範) | Central Committee of the Communist Party of China (中國共產黨中央委員會)<br>State Council of the PRC (中華人民共和國國務院) |
| 2014 Youth Entrepreneur Contribution Award (二零一四年青年企業家貢獻獎) | China Youth Entrepreneurs Association (中國青年企業家協會) |
| 2014 Shanghai "TWO NEW" Organisation Public Service Counterparty Individual Outstanding Contribution (二零一四年上海「兩新」組織公益同行個人突出貢獻獎) | Human Resources Department of CPC Shanghai Social Work Committee (中共上海市社會工作委員會人力資源部) |
| 2013 National Outstanding Business Entrepreneur (二零一三年全國商業優秀企業家) | China Business Enterprises Management Association (中國商業企業管理協會) |
| 2013 Business Outstanding Contribution Award (二零一三年度事業突出貢獻獎) | Shanghai Youth Federation (上海市青年聯合會) |
| 2012 Business Outstanding Contribution Award (二零一二年度事業突出貢獻獎) | Shanghai Youth Federation (上海市青年聯合會) |
| 2012 Outstanding Entrepreneur (二零一二年傑出企業家) | Pudong New Area, Shanghai Businesses, Entrepreneurs Association (上海市浦東新區企業、企業家聯合會) |
| Person of the Year, 2012 China Automobile Dealing Industry (二零一二年中國汽車流通行業風雲人物獎) | China Automobile Dealers Association (中國汽車流通協會) |
| 2011 National May Day Labor Medal (二零一一年全國五一勞動獎章) | All China Federation of Trade Union (中華全國總工會) |
| Outstanding Entrepreneur of China of 2009 (二零零九年中國卓越企業家) | The research centre of the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會研究中心) and China Enterprise News Agency (中國企業報社) |
| Shanghai Labor Model of 2007 to 2009 (二零零七年至二零零九年度上海市勞動模範) | The people's government of Shanghai City(上海市人民政府) |

Mr. Cheung obtained an adult higher education training certificate in economic law jointly granted by The Open

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

**CAI Yingjie (蔡英傑)**, age 49, is our Vice-chairman and was re-designated from our President to Chief Executive Officer on March 23, 2015 and was appointed as our executive director on January 18, 2012. Mr. Cai is responsible for overseeing our operations and investment, managing our relationships with automobile manufacturers and exploring new business opportunities for our Group. Mr. Cai is also responsible for guiding the operation and management of Shanghai Yongda Automobile Group Co., Ltd. (上海永達汽車集團有限公司) ("Yongda Automobile Group"), which is an indirect wholly-owned subsidiary of our Company, and he is the chairman or a director of several of our subsidiaries. From November 1998 to December 2011, he was the director of Yongda CLS and its general manager from November 1999 to December 2011. Mr. Cai was the deputy chief executive officer and a director of Yongda Holding from November 1999 to December 2011. From September 1991 to June 1998, Mr. Cai was the deputy general manager of Yongda CLS, where he was responsible for its business development. From September 1984 to July 1990, Mr. Cai worked in Shanghai Shenbao Automobiles Factory (上海申寶汽車廠) (later known as Shanghai Shenbao Automobiles Co., Ltd. (上海申寶汽車有限公司)), where he was responsible for automobiles inspection and management of the fleet of automobiles. Mr. Cai is currently a vice-chairman of the Shanghai Association of Automobile Manufacture (上海市汽車銷售行業協會) and he had also been a vice-president of the China Auto Dealers Chamber of Commerce (中華全國工商業聯合會汽車經銷商商會). Mr. Cai received the Executive Management Education Certificate from the Chinese Enterprise CEO Program at Cheung Kong Graduate School of Business in 2016 and graduated from Nanjing Army Command College (南京陸軍指揮學院) with an adult higher education bachelor diploma in law in 2002.

**WANG Zhigao (王志高)**, age 48, is our Vice-chairman and was re-designated from our non-executive director to executive director on March 23, 2015. Mr. Wang is responsible for managing our strategies, remuneration and work in relation to professional capital market institutions and guiding the financial management and legal affairs of our Group. Mr. Wang has been our non-executive director from January 2012 to March 2015, the deputy chief executive officer of Yongda Holding since January 2004 and its director since January 2005, where he is responsible for its finance, audit, investment and legal affairs, and a director of Yongda CLS since December 2003. Mr. Wang has been the chairman of Yongda Automobile Group since February 2016. Mr. Wang is also currently a director of Sea of Wealth International Investment Company Limited and Grouprich International Investment Holdings Limited and the chairman or a director of several of our subsidiaries. He also serves as a director of Shanghai Shoujia Investment Co., Ltd (上海首佳投資有限公司) and Shanghai Shouhao Information and Technology Co., Ltd (上海首浩信息科技有限公司), the chairman of Shanghai Yongda Asset Management Company Limited (上海永達資產管理股份有限公司) and Shanghai Yongda Investment Management Co., Ltd. (上海永達投資管理有限公司). From February 2006 to April 2016, Mr. Wang was an executive director of Shanghai Yongda Property Development Co., Ltd. (上海永達置業發展有限公司). From March 1998 to December 2003, Mr. Wang was a lawyer at Shanghai Jin Shi Law Firm (上海金石律師事務所) and from January 1997 to February 1998, a lawyer at Shanghai Xin Cheng Law Firm (上海信誠律師事務所) and from August 1992 to December 1996, a lecturer at East China University of Political Science and Law (華東政法大學). Mr. Wang graduated from East China University of Politics and Law with a bachelor degree in economic law in 1992 and a master degree in law in 1999. Mr. Wang also received a master degree in business administration from China Europe International Business School (中歐國際工商學院) in 2007.

**XU Yue (徐悅)**, age 41, was appointed as our executive director on March 23, 2015 and is responsible for our operation and management and the same of automobile group. Mr. Xu was our President from March 2015 to February 2016 and was re-appointed as our President since September 12, 2016. Mr. Xu joined our Group in 1999 and has more than 16 years of experience in the passenger vehicle dealership sector. Mr. Xu is also currently the vice-chairman and president of Yongda Automobile Group and the chairman or a director of several of our subsidiaries. He has been the executive vice-president of the Company from January 2012 to March 2015 and the assistant to the chief executive officer of Yongda Holding from January 2009 to December 2011. From June 2004 to January 2009, Mr. Xu was the deputy general manager of Yongda CLS and the general manager of Shanghai Baozen Automobile Sales and Services Co. Ltd. (上海寶誠汽車銷售服務有限公司). Between February 2002 and March 2004, Mr. Xu was the secretary to the chief executive officer of Yongda Holding, where he was mainly responsible for assisting the chief executive officer with daily administration. From November 2000 to February 2002, Mr. Xu was the general manager of Shanghai Yongda International Trading, Ltd. (上海永達國際貿易有限公司), where he was mainly responsible for the import of passenger vehicles. Between October 1999 and November 2000, Mr. Xu was the assistant to the general manager of Shanghai Yongda Automobile Pudong Sales and Services Co., Ltd. (上海永達汽車浦東銷售服務有限公司). Mr. Xu received a bachelor diploma in practical English and a secondary college diploma in international business and finance management from Shanghai Normal University (上海師範大學) in June 1997, and a master of science degree in business administration (leadership studies) from Madonna University, Michigan in December 2005. Mr. Xu also completed the Senior Seminar on MSBA Shanghai Program organized by Shanghai Institute of International Finance (上海國際金融學院), School of Business, Madonna University, Michigan and International Financial Center Association (國際金融中心協會) from October 2003 to July 2005. In 2015, Mr. Xu obtained a master degree in Business Administration at China Europe International Business School (中歐國際工商學院).

**CHEN Yi (陳昳)**, age 44, was appointed as our executive director on March 23, 2015 and is responsible for overseeing the operation and management of the Group of finance and involvement in our management. Ms. Chen was our Vice-president and the general manager of the financial innovation department from March 2014 to February 2016, and was re-appointed as our Vice-president since September 12, 2016. She has been a director and vice-president of Yongda Automobile Group since February 2016. She has over 20 years of experience in the banking and financial industry. Prior to joining us, Ms. Chen was the senior assistant to the president of the Transportation Finance Division and the director of Eastern China Automobile Business Division of China Minsheng Bank Corp., Ltd. (中國民生銀行股份有限公司) (Shanghai Stock Exchange ("SSE") stock code: 600016 and the Hong Kong Stock Exchange stock code: 01988) ("CMBC") from April 2013 to January 2014. From February 2004 to April 2013, Ms. Chen held several managerial positions in CMBC, including the senior customer manager of CMBC, Shanghai Branch, Anting Sub-branch (中國民生銀行股份有限公司上海分行安亭支行), the general manager of the Industrial and Commercial Enterprises Finance Division Two of CMBC, the general manager of the Automobile Finance Department and the president of CMBC, Shanghai Branch, Jiading Sub- branch (中國民生銀行股份有限公司民生銀行上海分行嘉定支行) and the president of CMBC, Shanghai Branch, Gubei Sub-branch (中國民生銀行股份有限公司上海分行古北支行). From July 1995 to February 2004, she worked at the Credit Card Division, Personal Banking Division and Customer Service Division of Bank of Communications Co., Ltd. (交通銀行股份有限公司) (SSE stock code: 601328 and the Hong Kong Stock Exchange stock code: 03328). Ms. Chen obtained a college diploma in International Finance from Shanghai Finance University (上海金融學院) (previously known as Shanghai Advanced Institute of Finance (上海金融高等學院)) in 1995, a bachelor degree in Money and Banking from Shanghai Jiao Tong University (上海交通大學) in 2000 and a master degree in Executive Master of Business Administration from Shanghai Advanced Institute if Finance (上海高級金融學院) of Shanghai Jiao Tong University (上海交通大學) in 2014.

# Directors and Senior Management

### Non-executive Directors

**WANG Liqun (王力群)**, age 63, was appointed as our non-executive director on January 18, 2012, and is responsible for formulating major policies of our Group. Mr. Wang has been the chairman of the board of Shanghai Stone Capital Co., Ltd (上海磐石投資有限公司) since 2008 and participating in Shanghai Stone Capital Co., Ltd's material business decisions and strategic planning; has been an independent director of Pengxin International Mining Co., Ltd (鵬欣環球資源股份有限公司) (SSE stock code: 600490) since May 20, 2015; has been an independent director of Shanghai Jiao Yun Group Co., Ltd. (上海交運集團股份有限公司) (SSE stock code: 600676) since November 18, 2014; has been an independent director of Huayi Brothers Media Corporation (華誼兄弟傳媒股份有限公司) (Shenzhen Stock Exchange ("SZSE") stock code: 300027) since 2014; has been the director of Shanghai Xintonglian Packaging Co., Ltd. (上海新通聯包裝股份有限公司) (SSE stock code: 603022) since 2010; and has been the director of Shanghai Fortune Techgroup Co., Ltd. (上海潤欣科技股份有限公司) (SZSE stock code: 300493) since 2011. Mr. Wang has served a number of positions, including a director, general manager and senior consultant of Shanghai Bashi Industrial (Group) Co., Ltd. (上海巴士實業(集團)股份有限公司) (now known as Huayu Automotive Systems Company Limited (華域汽車系統股份有限公司)) (SSE stock code: 600741). From 1999 to 2007, Mr. Wang was the chairman of Shanghai Urban Rail System Corporation (上海現代軌道交通股份有限公司). From 1999 to 2001, Mr. Wang was the general manager of Shanghai Chengtou Corporation (上海市城市建設投資開發總公司). From 2010 to 2016, Mr. Wang was the independent director of Talkweb Information System Co., Ltd (拓維信息系統股份有限公司) (SZSE stock code: 002261). Mr. Wang was qualified as a senior economist (高級經濟師) in 1992 by the Shanghai Economic (Production Area) Senior Professional and Technical Qualifications Committee (上海市經濟系列(生產領域)高級專業技術職務任職資格評審委員會) and was awarded the title of "Outstanding Young Entrepreneur" (傑出青年企業家) by the Youth Communist League Committee of Shanghai (共青團上海市委員會) and Shanghai Youth Entrepreneurs Association (上海市青年企業家協會). Mr.Wang obtained a college diploma in economics management from the School of Construction and Management of the University of Shanghai Urban Construction College (上海城市建設學院) in 1987.

### Independent Non-executive Directors

**LYU Wei (呂巍)**, age 52, was appointed as our independent non-executive director on January 18, 2012. Mr. Lyu is currently a professor of Management Department of Antai College of Economics and Management (安泰經濟與管理學院) at Shanghai Jiao Tong University (上海交通大學). From November 2014 to May 2015, Mr. Lyu has been the head of preparatory group of the Faculty of the Cultural and Creative Industry of University of Southern California and Shanghai Jiao Tong University (上海交通大學美國南加州大學文化創意產業學院). From 2003 to November 2014, Mr. Lyu has been the Associate Dean of the Antai College of Economics and Management at Shanghai Jiao Tong University. Between February 1997 and March 2003, Mr. Lyu was an assistant to the Dean of the School of Management of Fudan University (復旦大學) and a professor in its Department of Marketing from November 2001 to March 2003. From 1996 to 1997, Mr. Lyu was a visiting scholar at the Sloan School of Management of Massachusetts Institute of Technology. From 1994 to 1996, Mr. Lyu was a visiting scholar at the University of Southern California.

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

| Companies | Positions | Duration |
|---|---|---|
| Shandong Wohua Pharmaceutical Co., Ltd. (山東沃華醫藥科技股份有限公司) (SZSE stock code: 002107) | Independent Director | January 2016 — present |
| Foshan Electrical and Lighting Co Ltd (佛山電器照明股份有限公司) (SZSE stock code: 000541) | Independent Director | December 2015 — present |
| Shanghai Shibei Hi-Tech Co., Ltd (上海市北高新股份有限公司) (SSE stock code: 600604) | Independent Director | September 2012 — present |
| Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. (陸家嘴金融貿易開發區股份有限公司) (SSE stock code: 600663) | Independent Director | May 2015 — present |
| Shanghai Guangdian Electric Group Co., Ltd. (上海廣電電器(集團)股份有限公司) (SSE stock code: 601616) | Director | May 2015 — present |
| Luolai Home Textile Co., Ltd. (羅萊家紡股份有限公司) (SZSE stock code: 002293) | Independent Director | November 2007 — October 2013 |
| Shanghai Yaohua Pilkington Glass Co., Ltd. (上海耀華皮爾金頓玻璃股份有限公司) (SSE stock code: 600819) | Independent Director | June 2006 — April 2012 |
| China Minsheng Financial Holding Corporation Limited (中國民生金融控股有限公司) (formerly known as China Seven Star Holdings Limited (中國七星控股有限公司) and China Seven Star Shopping Limited (中國七星購物有限公司)) (stock code: 245) (listed on the Hong Kong Stock Exchange) | Independent Non-executive Director | June 2005 — present |
| Giti Tire Corporation (佳通輪胎股份有限公司) (formerly known as Hualin Tire Corporation (樺林輪胎股份有限公司)) (SSE stock code: 600182) | Independent Director | July 2003 — May 2009 |

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

# Directors and Senior Management

**CHEN Xianglin (陳祥麟)**, age 72, was appointed as our independent non-executive director on January 18, 2012. From 1995 to 2006, Mr. Chen had been the chairman of Shanghai Automobile Industry (Group) Limited (上海汽車工業(集團)總公司). Between April 2004 and June 2008, Mr. Chen was the chairman of the supervisory committee of Shanghai Automotive Co., Ltd. (上海汽車集團股份有限公司) (SSE stock code: 600104), where his main responsibilities included monitoring the board and management activities and the internal control of the company. Mr. Chen has held a number of senior positions in the government, including the deputy secretary general of the Shanghai People's Government (上海市人民政府), deputy head of the Shanghai First Electromechanical Bureau (上海市第一機電工業局) and director of Shanghai Planning Committee (上海市計劃委員會). He had also been the vice-chairman of the Shanghai Federation of Economic Organization (上海市經濟團體聯合會) and Shanghai Federation of Industrial Economics (上海市工業經濟聯合會). In 1989, Mr. Chen obtained accreditation as senior economist (高級經濟師) from the Shanghai Economic (Production Area) Senior Professional and Technical Qualifications Committee (上海市經濟系列(生產領域)高級專業技術職務任職資格評審委員會). Mr. Chen was admitted as a senior economist (高級經濟師) in 1994, and was later promoted as a senior international business engineer (高級國際商務師) in 1995 by the Shanghai Professional Titles Reform Work Leading Group (上海市職稱改革工作領導小組) and the Economic Professional Qualifications Committee of Shanghai University of Finance and Economics (上海財經大學經濟專業職務評審委員會). Mr. Chen graduated with a bachelor diploma in mathematics from Fudan University (復旦大學) in 1967, and has also completed a training course on independent directors organized by the SSE in 2008 and a training course on directors and supervisors of listed company organized by the Shanghai Securities Regulatory Bureau under the China Securities Regulatory Commission.

**ZHU Anna Dezhen (朱德貞)**, age 59, was appointed as our independent non-executive director on 8 May 2015, and is currently the chairman of the board of Xiamen De Yi Equity Investment Management Co., Ltd. (廈門德屹股權投資管理有限公司), where she is mainly responsible for operation and management of investment. Ms. Zhu has over 30 years of extensive experience in financial analysis, market analysis, investment management and general corporate management. Before joining Xiamen De Yi Equity Investment Management Co., Ltd., Ms. Zhu was a senior manager of China National Offshore Oil Corporation, where she was mainly responsible for analysis of crude oil market, from October 1982 to September 1988. From March 1992 to June 1993, Ms. Zhu was an analyst at The Bank of New York Company, Inc., where she was mainly responsible for systems analysis. From June 1993 to September 1999, Ms. Zhu was the vice-chairman of business of JP Morgan Investment Bank of the United States, where she was mainly responsible for establishing the financial model. Ms. Zhu was a manager of Strategic Planning of Micron Technology, Inc. (New York Stock Exchange stock code: MU), where she was mainly responsible for strategic planning, from May 2000 to October 2001; the chief operating officer of Xiangcai Securities Co., Ltd. (湘財證券有限責任公司), from October 2001 to June 2003; and the president of Fortune CLSA Securities Limited (formerly known as China Euro Securities Co., Ltd.), where she was mainly responsible for operations management, from June 2003 to May 2008. From May 2008 to December 2010, Ms. Zhu was the chief investment officer and president of the private banking department of China Minsheng Banking Corp., Ltd., a PRC commercial bank, where she was mainly responsible for the operation and management of investment. From December 2010 to June 2016, Ms. Zhu was the president of Shanghai Guohe Modern Services Industries Equity Investment Management Co., Ltd.. Ms. Zhu has also been serving as a non— executive director of Fuyao Glass Industry Group Co., Ltd. (SSE stock code: 600660 and the Hong Kong Stock Exchange stock code: 03606) since November 2011, an independent non-executive director of Bright Dairy & Food Co., Ltd. (SSE stock code: 600597) since April 2015 and an independent director of Hunan TV & Broadcast Intermediary Co. Ltd. (SHE stock code: 000917) since August 2016. In the area of professional qualification, Ms. Zhu is a member of the consulting committee of the Securities Association of China, a director of the Chinese Economists 50 Forum, a director of Heren Charitable Foundation and a director of the Western Returned Scholars Association. With respect to the academy, Ms. Zhu is a part-time professor in the School of Management of Xiamen University (廈門大學). Ms. Zhu received a bachelor degree in literature from Xiamen University in 1982, a bachelor degree in economics from College of Saint Elizabeth in 1990 and a master degree in business administration from Pace University in 1992. Ms. Zhu obtained a doctor degree in economics from Xiamen University in 2013.

## SENIOR MANAGEMENT

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

**TANG Liang (唐亮)**, aged 38, was appointed as our Vice-president since September 12, 2016 and appointed as our Chief Information Officer since January 1, 2017. Mr. Tang was the assistant to our President from March 2015 to February 2016 and he is also the executive vice-president of Yongda Automobile Group. Mr. Tang joined us on May 4, 2010 and served as the deputy general manager and the general manager of Shanghai Baozen Automobile Sales and Services Co. Ltd. (上海寶誠汽車銷售服務有限公司) and the vice director of Baozen Business Division. Mr. Tang has over 11 years of working experience in the automobile industry. Prior to joining us, Mr. Tang worked at SGM Automobile Manufacturing Department (上海通用汽車製造部) from April 2004 to the end of 2008, during which period he held a number of managerial positions in respect of engineering and production, and later served as the assistant to the vice-president of SGM Automobile Marketing (上海通用汽車營銷) from the end of 2008 until he joined our Group. Mr. Tang graduated from the Material Science and Engineering Institute of Shanghai Jiao Tong University (上海交通大學) in 2001 with a bachelor's degree in material science and engineering, and obtained a master's degree in the same major in 2004. Mr. Tang received a master degree in Executive Master of business administration at China Europe International Business School (中歐國際工商學院) in September 2016.

**YE Ming (葉明)**, age 39, was our Vice-president from January 2012 to February 2016 and was re-appointed as our Vice-president since September 12, 2016. He is responsible for managing the internal operation of our Group. Mr. Ye is also currently the vice-president of Yongda Automobile Group and a director of several of our subsidiaries. From January 2009 to December 2011, Mr. Ye simultaneously held the offices of the assistant to chief executive officer of Yongda Holding and the deputy general manager of Yongda CLS. Mr. Ye held a number of managerial positions at Yongda CLS between 2003 and 2008, including the director of the business development department and assistant to the general manager. In 2002, Mr. Ye held the office of assistant to the general manager of Shanghai Yongda Automobile Rental Company (永達汽車租賃有限公司). Mr. Ye received a bachelor degree in law from Shanghai University (上海大學) in 2001.

**DONG Ying (董穎)**, age 47, was our Vice-president from January 2012 to February 2016 and was re-appointed as our Vice-president since September 12, 2016. He is also the vice-president of the Yongda Automobile Group. Mr. Dong joined our Group in November 2011 and has been responsible for our financial management. Mr. Dong has 22 years of experience in corporate finance, accounting, auditing, risk management and internal control. Mr. Dong was the deputy head of financial control center of Yongda Holding between November 2011 and December 2011. Prior to joining us, Mr. Dong was the financial controller of China Huiyuan Juice Group Limited (中國匯源果汁集團有限公司) (stock code: 1886) from 2006 to 2011, a company whose shares are listed on the Hong Kong Stock Exchange. Mr. Dong worked at PricewaterhouseCoopers Zhong Tian Limited Company CPAs (普華永道中天會計師事務所有限公司) from 2003 to 2006 as a senior manager in its risk management and internal control service department and from 1994 to 2003 as a senior manager in its audit department. He is a member of the Chinese Institute of Certified Public Accountants, the American Institute of Certified Public Accountants and the Institute of Chartered Accountants in Australia. Mr. Dong obtained a bachelor degree in fine chemical engineering and a secondary diploma in international corporate management from East China University of Science and Technology (華東理工大學) in July 1993.

**TANG Hua (唐華)**, aged 44, was our Vice-president from March 2015 to February 2016 and was re-appointed as our Vice-president since September 12, 2016. He is responsible for the overall marketing and brand promotion of our Group. Mr. Tang is also the vice-president of Yongda Automobile Group and the director of our certain subsidiaries. After joining us in 2002, Mr. Tang held various positions in our Group, such as the press spokesman, the director of brand and PR office, the secretary of the Youth League Committee of our Group, the director of Jaguar & Land Rover Business Division of Yongda (永達捷豹路虎事業部), and the general manager of Shanghai Oriental Yongda Automobile Sales Co., Ltd. (上海東方永達汽車銷售公司), a non-wholly owned subsidiary of our

Company. Mr. Tang is also the vice-president of Shanghai Automoblie Maintenance and Repair Trade Association (上海市汽車維修行業協會), the vice-president of Shanghai Automobile Sales Trade Association (上海汽車銷售行業協會), and the deputy secretary general of Shanghai Young Entrepreneurs' Association (上海青年企業家協會), who has made positive efforts for the development of the industry. Prior to joining our Group, Mr. Tang has been working in Saic Motor Corporation Limited (上海汽車集團股份有限公司) and has more than 20 years of experience in the automobile industry. Mr. Tang won many awards in various fields of society and planed a number of influential activities under the leadership of the Group. Mr. Tang obtained double bachelor's degree in economic management from Air Force Political Academy (空軍政治學院) and in administrative management from Fudan University (復旦大學) in 2001, and later obtained a master's degree in public administration from Fudan University (復旦大學) in 2005.

**WEI Dong (衛東)**, age 47, was our Vice-president from January 2012 to February 2016 and was re-appointed as our Vice-president since September 12, 2016. He is responsible for managing the sales, pre-owned vehicle business and extended services of our Group. Mr. Wei is also currently the vice-president of Yongda Automobile Group and a director of several of our subsidiaries. Mr. Wei has more than 16 years of experience in sales management. From January 2008 to December 2011, Mr. Wei was the deputy general manager of Yongda CLS. From November 2004 to December 2008, Mr. Wei was the general manager of Shanghai Yongda Automobile Trade Center Co., Ltd. (上海永達汽車貿易中心有限公司). From April 2002 to October 2004, he was the deputy general manager of Shanghai Number One Yongda Automobile Trading Co., Ltd. (上海一百永達汽車貿易有限公司). Between April 2000 and March 2002, he was the deputy general manager of the Songjiang store of the Shanghai Number One Department Store Co., Ltd. (上海第一百貨松江店有限公 司). From October 1989 to July 1998, Mr. Wei was a salesman, deputy secretary and secretary of the Youth League Committee at the Shanghai Number One Department Store Co., Ltd. (上海市第一百貨商店股份有限公司). Mr. Wei obtained an adult higher education bachelor diploma in business administration from Shanghai Second Polytechnic University (上海市第二工業大學) in 2002.

**ZHANG Hong (張虹)**, aged 33, was appointed as the assistant to our president on September 12, 2016. From January 2008 to February 2016, Ms. Zhang served different positions in the Group including our assistant officer and the deputy officer of the general office of the Group, and the officer of the administrative office and the office of the Board, and the director of the legal department of the Group from January 2011. Ms. Zhang joined us in July 2006. She has since then held a number of positions in the Group, such as the assistant director, the deputy director, and the executive director of the legal department of the Group. In January 2015, Ms. Zhang was appointed as the assistant general manager of Yongda Automobile Group. From June 30, 2015 to February 29, 2016, Ms. Zhang served as our joint company secretary. Ms. Zhang has nearly 10 years of experience in automobile sales and service industry. She has been working in the legal department of the Group, mainly responsible for legal matters and risks management and control. With extensive working experience, Ms. Zhang is familiar with the PRC laws, and the operation and procedure of legal matters of the Company. Having participated, as a core team member, in the whole process of the preparation for the listing of the Group in Hong Kong, Ms. Zhang has gained a good understanding of the Listing Rules and regulatory requirements in Hong Kong. In particular, she has been engaged in the preparation of the interim reports and annual reports of the Company, and the organization of and preparation for the board meetings, committee meetings and shareholders' meetings, since she took office as the officer of the office of the Board in January 2012. Ms. Zhang graduated from the department of economic laws of East China University of Political Science and Law (華東政法大學) with a bachelor degree in Laws in June 2006.

## COMPANY SECRETARY

**MOK Ming Wai (莫明慧)**, aged 45, is a director of KCS Hong Kong Limited. She has around 20 years of professional and in-house experience in the company secretarial field. She is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She currently acts as the sole company secretary and joint company secretary of various publicly listed companies.

## PRINCIPAL ACTIVITIES

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

The principal activities of the Group are as follows:

(i) new passenger vehicle sales;

(ii) repair and maintenance services;

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

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

(v) pre-owned vehicle business;

(vi) automobile rental services; and

(vii) finance leasing and small loan services.

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

## RESULTS

The results of the Group for the year ended December 31, 2016 are set out in the Financial Statements on pages 75 to 163 of this annual report.

## FINAL DIVIDEND

The Board resolved to propose to the shareholders of the Company (the "Shareholders") in the forthcoming annual general meeting on May 26, 2017 (Friday) (the "AGM") for the distribution of a final dividend of HK$0.19 per share (approximately RMB0.17 per share) for the year ended December 31, 2016. The final dividend is expected to be paid on or about June 30, 2017 (Friday) to the Shareholders whose names are listed in the register of members of the Company on June 2, 2017 (Friday). On the basis of the total issued share capital of 1,480,122,000 shares of the Company as of December 31, 2016, it is estimated that the aggregate amount of final dividend would be approximately HK$281.2 million. The actual total amount of final dividends to be paid will be subject to the total number of issued share capital of the Company as at the record date for determining the entitlement of Shareholders to the final dividend. The proposal for the distribution of the final dividend above is subject to the consideration and approval of the Shareholders at the forthcoming annual general meeting of the Company.

## SHARE CAPITAL

Details of the issued shares of the Company during the year are set out in note 33 to the Financial Statements.

## RESERVES

Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 78 of this annual report.

## DISTRIBUTABLE RESERVES

As at December 31, 2016, the Company has distributable reserves of RMB844.0 million in total available for distribution, of which HK$281.2 million has been proposed as final dividend payment for the year.

## FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 164 of this annual report.

## BANK LOANS AND OTHER BORROWINGS

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

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the Financial Statements.

## CONTINGENT LIABILITIES

As at December 31, 2016, our Group had no significant contingent liabilities.

## SUFFICIENCY OF PUBLIC FLOAT

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

## PRE-EMPTIVE RIGHTS

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

## BUSINESS REVIEW

### Overview and performance of the Year

A review of the business of the Group and analysis of the Group's performance using financial key performance indicators is provided in the Management's Discussion and Analysis section on pages 7 to 30 of this annual report.

### Environmental Policies and Performance

The Group is committed to environmental protection, energy conservation and emissions reduction, and the rational use of resources and energy. Centering on the targets of energy saving, consumption reduction, pollution reduction and efficiency enhancement, the Company has actively participated in and promoted the development of new energy vehicles. Adhering to the concept of green environmental protection, the Group has also promoted green operations and advocated the concept of green office. Environmental protection, energy conservation and emissions reduction and reasonable and efficient utilization of resources have been consistently implemented during daily operation activities of the Group. In addition, under the pressure of resources scarcity and environmental protection, the Group has been paying great attention to develop the sales of new energy vehicles and continuing to launch more and more developed new energy car models. During the reporting period, the Group proactively planned its new energy vehicles sales and services outlets, and made sustainable progress in new energy vehicle business, which clearly illustrates the Group's sustainable development strategy and determination for environmental protection.

The Group appreciates the importance of understanding the Group's environmental impact and thrives to take action to reduce its footprint and raise environmental awareness. The Group has been encouraging the recycling of used parts of repair and maintenance tools and oil and liquid products, and strengthening the utilization of waste materials to raise the environmental awareness of our employees. The Group has also been working on reducing its energy use, consumption and wastage by actively promoting recycling concept, using less paper and saving electric power and use of water. Going forward, the Group will continue to develop sustainable policies and designs to reduce its environmental impact not only internally within its offices but also externally in the regions it operates in.

**Compliance with Relevant Laws and Regulations**

On intellectual property protection — The Group's passenger vehicle sales business is subject to Measures for Implementation of the Administration of Branded Automobiles Sales (the "Measures"). The Group, an "automobile dealer" as classified under the Measures, has taken particular care to comply with the supplier's requirements relating to the intellectual property rights associated with its brand, such as trademarks, labels and store, and has also adhered to the relevant regulations of local municipal and commercial development authorities.

On product quality and customer protection — The Group's passenger vehicle sales business and automobile rental business is subject to the Product Quality Law of People's Republic of China and the Customer Protection Law of People's Republic of China. The Group adopted measures to keep products for sale and rental in good quality, and monitored the labeling of products, making sure not to forge or falsely use another manufacturer's authentication marks. In relation to customer protection, the Group had been observing the provisions of the Customer Protection Law and other relevant laws and regulations regarding personal safety and protection of property, providing consumers with true information in relation to goods and services, ensuring that the actual quality of goods and services is consistent with the relevant advertisements, product descriptions or samples.

On labor protection — The Group has been committed in complying with the requirements of the Labor Law of People's Republic of China, the Law of People's Republic of China on Employment Contracts and the Social Insurance Law of People's Republic of China in order to safeguard all employee rights and interests. All employees of the Group in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC, and are entitled to an annual pension. The Group has made annual contributions to the state-managed retirement benefit as required under the relevant law. The Group has also made contributions to a defined contribution mandatory provident fund for all employees in Hong Kong. Further, the Group has been committed in complying with relevant laws and regulations on work and occupational safety of employees of the Group. The Company believes that all of our facilities and operations are in material compliance with the relevant labor and safety laws and regulations.

On taxation — The Group is subject to various taxation. Details of such taxes and compliance of the Group with such applicable tax laws are set out in note 22 to Consolidated Financial Statements in this annual report.

On corporate compliance level, the Group has complied with the requirements under the Companies Ordinance, the Listing Rules, the Securities and Futures Ordinance (the "SFO") and the Corporate Governance Code (the "CG Code") for, among other things, the disclosure of information and corporate governance. The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

**Key Relationships with Stakeholders**

With the goal of developing into a preeminent international enterprise, trustworthy public company and a green enterprise, the Company actively fulfill its social responsibility. The Group, with high quality products and services, is committed to create good internal and external corporate relationships, build a harmonious enterprise and serve the harmonious society to undertake its responsibilities for employees, customers, suppliers and the Shareholders.

With respect to human resources management, the Group has been devoting continuous efforts in three aspects, namely, talent introduction, talent training and performance appraisal. A description of the Group's policies on human resources management is set out in the Management' Discussion and Analysis section from page 20 of this annual report.

With respect to customer retention management, the Group has been committed in providing personalized, comprehensive, innovative and convenient services with high quality to our customers. Adhering to the concept of enhancing customer experience, the Group has provided services and launched e-commerce platforms to improve customers' satisfaction and attract new customers to visit the Group's outlets. Details of which are set out in the Management Discussion and Analysis section from page 19 of this annual report.

The Group has been successful in establishing a strong cooperation relationship with automobile manufacturers and has been entering into stable agreements including dealership and authorization agreements with them. In order to maintain a strong cooperation relationship, the Group will continue to focus on promoting win-win philosophy and encouraging experience, resources and knowledge sharing with the manufacturers. The Group also aims to further strengthen their communications with the manufacturers by engaging with them through business negotiations, business meetings, visits, gatherings, relationship-building events and project cooperation.

The Group recognizes the importance to protect the interests of Shareholders and the importance of having an effective communication with them. The Group believes communication with the Shareholders is a two-way process and has thrived to ensure the quality and effectiveness of information disclosure, maintain regular dialogue with the Shareholders and listen carefully to the views and feedback it receives from the Shareholders. This has been done through annual general meetings, extraordinary general meetings, corporate communications, interim and annual reports and results announcements.

**Key Risks and Uncertainties**

***Risk of fluctuation in financial conditions and operating results of automobile manufacturers***

The Group being a passenger vehicle retail services provider operating 4S dealerships and providing after-sale, rental and comprehensive services, relies on and is subject to significant influence from automobile manufacturers. If there are fluctuations in the financial conditions and operating results of the automobile manufacturers, the manufacturers may not, among other things, enter into or renew dealership and authorization agreements on terms that are reasonable or acceptable to the Group. Or if there are labor disputes involving automobile manufacturers, it could result in an interruption in the delivery of new passenger vehicles to the outlets, shortage of new passenger vehicles and may significantly increase the labor costs as a result of negotiations to resolve the labor disputes. All of these factors could in turn impose a downward pressure on the Group's margins which could reduce and affect the Group's revenue and profitability as well as its financial conditions and operating results.

In order to manage the Group's exposure to the aforementioned risk, the Group will continue to maintain and further develop the diversity of its brand portfolio by strengthening the communication between the Group and the automobile manufacturers.

***Risk of damage to brand recognition***

Although the Group has successfully established the Group's "永達(Yongda)" brand and registered it with the Trademark Office of State Administration for Industry and Commerce in 2005, the Group may have difficulties in maintaining brand recognition if there are, among other things, a deterioration in service quality and dealership management, a decline in premium in value attributed to the Group's business compared to that of the competitors, and unauthorized use and infringement of the Group's brand, trademarks and other related intellectual property rights. In such event, the Group may not be able to effectively compete for customers and new authorizations from automobile manufacturers to open outlets and the Group's business, financial condition, results of operations and growth aspects may be materially and adversely affected. In order to maintain and ensure there is adequate protection for the Group's brand, trademarks and other related intellectual property rights, the Group will continue to develop goodwill for the Group's name (including its brand name, logos etc.), monitor for infringers, develop and establish policies and strategies for all the Group's intellectual property including all trademarks and brand names.

***Risk of amendments to government policies, vehicle consumption policies and fiscal policies***

The PRC's Government policies on passenger vehicle purchases and ownership may materially affect the Group's business because of their influence on the automobile industry and consumer behavior. Changes in the fiscal regimes in the PRC such as the introduction of new taxes and increases in tax rates, may affect the profitability of the Company. The PRC Government speeding up the promotion and application of new energy vehicles may also bring an impact on the automobile industry.

On the other hand, passenger vehicle sales may be affected by quotas or other measures imposed by local government to control the number of passengers vehicles in the cities where the Group's network are located. These policies may lead to changes in local economic conditions, the competitive environment and ability of potential customers to purchase passenger vehicles and may have an impact on the Group's business, financial condition, results of operations and growth prospect.

In order to minimize the impact of the aforementioned risks, the Group has started launching the sale of new energy vehicles and aims to strengthen its communication with the local municipals and regulators in relation to possible amendments to relevant policies.

***Market Risks***

The Group is exposed to various types of market risks, including currency risk, interest rate risk, credit risk and liquidity risk. Details of such risks are set out in note 39 to the Financial Statements in this annual report.

## PROSPECTS

A description of the future development in the Company's future business is provided in the Chairman's statement and the Management Discussion and Analysis section on page 4 and page 27 of this annual report.

## THE PROPOSED SPIN-OFF

On April 14, 2016, Shanghai Yongda Investment Holdings Group Company Limited ("Yongda Investment"), an indirect wholly-owned subsidiary of the Company, entered into a series of agreements with Suzhou Yangtze New Materials Co., Ltd. (the "A-share Listco"), Shanghai Qinshuolai Investment Co., Ltd. and Mr. Hu Weilin, in relation to a proposed spin-off and separate listing on the Shenzhen Stock Exchange of Shanghai Yongda Automobile Group Co., Ltd., an indirect wholly-owned subsidiary of the Company (the "Automobile Group") (the "Proposed Spin-off"), including the (i) share issuance and asset purchase agreement; (ii) share transfer agreement; (iii) material asset disposal agreement; and (iv) profit compensation agreement ("Asset Restructuring Agreements"). The Proposed Spin-off and the transactions contemplated thereunder are subject to, among other things, approvals of the relevant PRC regulatory authorities.

On June 22, 2016, the A-share Listco submitted the relevant application materials for the application in relation to the Proposed Spin-off and the transactions contemplated thereunder to the China Securities Regulatory Commission ("CSRC"), and on August 4, 2016, the Company was informed by the A-share Listco that, after careful consideration by the board of the A-share Listco, the A-share Listco decided to temporarily withdraw the application materials due to the substantial workload required in preparing for the submission of the supplementary application materials as requested by the CSRC. On September 8, 2016, Yongda Investment, the A-share Listco and the A-share Listco's direct and ultimate controlling shareholders entered into an agreement to terminate the Asset Restructuring Agreements.

For further details of the Proposed Spin-off and the transactions contemplated thereunder, please refer to the announcements of the Company published during April to September 2016.

## EVENTS AFTER THE REPORTING PERIOD

Details of the significant subsequent event are set out in note 46 to the Financial Statements.

## DIRECTORS

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

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

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

**Independent Non-executive Directors**
Mr. LYU Wei
Mr. CHEN Xianglin
Ms. ZHU Anna Dezhen

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

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

Details of the Directors to be re-elected at the AGM are set out in the circular to Shareholders dated April 25, 2017.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 31 to 38 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

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

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

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

We have received from each of the independent non-executive Directors, namely Mr. LYU Wei, Mr. CHEN Xianglin and Ms. ZHU Anna Dezhen, the confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has duly reviewed the confirmation of independence of each of these Directors. We consider that our independent non-executive Directors have been independent from the date of their appointments to December 31, 2016 and remain so as of the date of this annual report.

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

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

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

| Name of Director | Capacity/Nature of Interest | Total number of shares | Approximate Percentage of Shareholding (%) |
|---|---|---|---|
| Mr. CHEUNG Tak On[1] | Founder of a discretionary trust | 384,000,000 (long position) | 25.865 |
| | Interest of controlled corporation | 267,080,000 (long position) | 17.989 |
| | Beneficial owner | 1,803,000 (long position) | 0.121 |
| Mr. CAI Yingjie[2] | Interest of controlled corporation | 108,288,000 (long position) | 7.294 |
| | Beneficial owner | 674,500 (long position) | 0.045 |
| Mr. WANG Zhigao[3] | Interest of controlled corporation | 57,160,000 (long position) | 3.850 |
| | Beneficial owner | 910,500 (long position) | 0.061 |
| Mr. XU Yue | Beneficial owner | 1,261,000 (long position) | 0.085 |
| Ms. CHEN Yi | Beneficial owner | 900,000 (long position) | 0.061 |

*Notes:*

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

(ii) Asset Link Investment Limited ("Asset Link") is wholly-owned by Mr. CHEUNG Tak On and he is deemed to be interested in the 267,080,000 shares held by Asset Link.

(iii) Mr. CHEUNG Tak On also holds 1,803,000 shares of the Company as beneficial owner.

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

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

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

| Name of Director | Capacity | Number of underlying shares in respect of the share options granted | Percentage of underlying shares over the Company's issued share capital (%) |
|---|---|---|---|
| Mr. XU Yue | Beneficial owner | 3,000,000 | 0.202 |
| Ms. CHEN Yi | Beneficial owner | 1,300,000 | 0.088 |
| Mr. WANG Liqun | Beneficial owner | 200,000 | 0.013 |
| Mr. LYU Wei | Beneficial owner | 200,000 | 0.013 |
| Mr. CHEN Xianglin | Beneficial owner | 200,000 | 0.013 |
| Ms. ZHU Anna Dezhen | Beneficial owner | 200,000 | 0.013 |

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

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

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

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

| Name of Shareholder | Capacity/Nature of Interest | Total number of shares | Approximate Percentage of Shareholding (%) |
|---|---|---|---|
| Palace Wonder(1) | Beneficial owner | 384,000,000 (long position) | 25.865 |
| Regency Valley(1) | Interest of controlled corporation | 384,000,000 (long position) | 25.865 |
| HSBC International Trustee Limited(1) | Trustee | 385,913,568 (long position) | 25.993 |
| Asset Link(2) | Beneficial owner | 267,080,000 (long position) | 17.989 |
| Ample Glory(3) | Beneficial owner | 108,288,000 (long position) | 7.294 |
| Runda Holdings Limited ("Runda Holdings")(4) | Beneficial owner | 76,800,000 (long position) | 5.173 |
| Sun Moon China Investment Company Limited ("Sun Moon")(4) | Beneficial owner | 24,440,000 (long position) | 1.646 |
| | Interest of controlled corporation | 76,800,000 (long position) | 5.173 |
| Mr. GU Mingchang(4) | Interest of controlled corporation | 101,240,000 (long position) | 6.819 |
| Baring Private Equity Asia V Holding (7) Limited(5) | Beneficial owner | 94,136,500 (long position) | 6.341 |

| Name of Shareholder | Capacity/Nature of Interest | Total number of shares | Approximate Percentage of Shareholding (%) |
|---|---|---|---|
| The Baring Asia Private Equity Fund V, L.P.[5] | Interest of controlled corporation | 94,136,500 (long position) | 6.341 |
| Baring Private Equity Asia GP V, L.P.[5] | Interest of controlled corporation | 94,136,500 (long position) | 6.341 |
| Baring Private Equity Asia GP V Limited[5] | Interest of controlled corporation | 94,136,500 (long position) | 6.341 |
| Jean Eric SALATA[5] | Interest of controlled corporation | 94,136,500 (long position) | 6.341 |

*Notes:*

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

(2) Asset Link is wholly-owned by Mr. CHEUNG Tak On and he is deemed to be interested in the 267,080,000 shares held by Asset Link.

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

(4) Runda Holdings is wholly-owned by Sun Moon and Sun Moon is deemed to be interested in the 76,800,000 Shares held by Runda Holdings. Sun Moon is in turn wholly-owned by Mr. GU Mingchang, the brother of Ms. GU Lifang (being the wife of Mr. CHEUNG Tak On) and he is deemed to be interested in the 24,440,000 shares held by Sun Moon as well as 76,800,000 shares held by Runda Holdings.

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

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## CONVERTIBLE BONDS

Pursuant to the announcement of the Company dated June 25, 2014 in relation to the proposed issue of the RMB1,000,000,000 1.5% USD settled convertible bonds due in 2019 (the "Bonds"), all conditions precedent under the subscription agreement have been satisfied (or waived) and completion of the subscription agreement took place on July 18, 2014. The net proceeds from the issue of the Bonds, after deduction of expenses, amount to approximately RMB977,000,000, will be used by the Group for establishing and acquiring 4S dealerships, and working capital. Assuming full conversion of the Bonds at the initial conversion price of HK$7.958 per share, the Bonds would be convertible into approximately 158,259,610 ordinary share of HK$0.01 each.

Approval was granted by the Hong Kong Stock Exchange for the listing of the Bonds and the conversion shares. For further details and principal terms of the Bonds, please refer to note 32 to the Financial Statements and the above-mentioned announcement.

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

## ISSUANCE OF DEBT SECURITIES

On September 22, 2013, Yongda Investment issued a single tranche medium term notes in the PRC with an aggregate principal amount of RMB1.16 billion, for the purpose of raising funds for repayment of bank loans and as working capital of Yongda Investment and its subsidiaries. For further details, please refer to note 30 to the Financial Statements.

On October 20, 2015, Yongda Investment issued the first tranche short-term debentures in the PRC with an aggregate principal amount of RMB0.8 billion and on March 16, 2016, it issued another tranche short-term debentures in the PRC with an aggregate principal amount of RMB0.8 billion. The issuance of short-term debentures is for the purpose of raising funds for repayment of bank loans and as working capital of Yongda Investment and its subsidiaries. For further details, please refer to note 29 to the Financial Statements.

On November 2, 2016, Yongda Investment issued the first tranche corporate bonds of 2016 in the PRC with an aggregate principal amount of RMB2.0 billion for the purpose of raising funds for repayment of bank loans and as working capital of Yongda Investment and its subsidiaries. For further details, please refer to note 31 to the Financial Statements.

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

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

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

## DIRECTORS AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in the section headed "Our History and Reorganisation — Onshore Reorganisation" in our prospectus dated June 29, 2012 and save for their respective interests in the Group, none of the Directors and controlling shareholders of the Company was interested in any business which competes or is likely to compete with the businesses of the Group for the year ended December 31, 2016.

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

Our independent non-executive Directors have reviewed the compliance with the Deed of Non-competition during the financial year ended December 31, 2016 based on the information and confirmation provided by or obtained from the controlling shareholders, and were satisfied that our controlling shareholders, including Mr. CHEUNG Tak On and Asset Link, have duly complied with the Deed of Non-competition.

## CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

Among the related party transactions disclosed in note 40 to the Financial Statements, the following transactions constitute continuing connected transactions for the Company under Rule 14A.76 of the Listing Rules and are required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules. Please see below the information required to be disclosed in compliance with Chapter 14A of the Listing Rules.

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

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

The aggregate sum of rental payable under the New Properties Leasing Agreement for each of the three years ended/ending December 31, 2015, 2016, 2017 are RMB22,967,300, RMB23,253,600 and RMB24,314,200 respectively. The rental payable was determined with reference to the historical rental amounts and the prevailing market rates of properties with similar locations and sizes. The annual caps for each of the three years ended/ending December 31, 2015, 2016, 2017 are RMB25,264,000, RMB25,578,900 and RMB26,745,700 respectively. As one or more of the applicable percentage ratios for the annual caps under the New Properties Leasing Agreement for the three years ending December 31, 2017 are more than 0.1% but less than 5%, the continuing connected transactions contemplated under the New Properties Leasing Agreement are exempted from the circular (including independent financial advice) and shareholders' approval requirements but subject to the reporting and announcement requirements as set out in Chapter 14A of the Listing Rules. The lease properties are for the purpose of the Group's operation of passenger vehicles dealership business which are used for 4S dealerships, city showrooms, repair and maintenance service centres and finance leasing outlets. For details of the New Properties Leasing Agreement and the transactions contemplated thereunder, please refer to the announcement of the Company dated December 23, 2014 and note 40 to the Financial Statements on page 157.

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

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

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

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT AND CONTRACT OF SIGNIFICANCE

Saved as disclosed in "Connected and Continuing Connected Transactions", no Director or an entity connected with a Director was materially interested, either directly or indirectly, in any transactions, arrangement or contract which is significant in relation to the business of our Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during the year ended December 31, 2016 or at the end of the year ended December 31, 2016.

## CONTRACT OF SIGNIFICANCE

Save as disclosed in the "Connected and Continuing Connected Transactions" section above, no contract of significance was entered into between the Company, or one of its subsidiary companies, and a controlling Shareholder or any of its subsidiaries during the year ended December 31, 2016.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year and up to the date of this annual report between the Company and a person other a Director or any person engaged in the full-time employment of the Company.

## DIRECTORS' PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, the Company shall indemnify and hold harmless out of the assets of the Company, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any Director (including alternate Directors or person serves at the request of the Company as a Director) who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative in which judgment is given in his favour, or in which he is acquitted, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such Director. The Company has arranged appropriate directors' liability insurance coverage for the Directors of the Group during the year ended December 31, 2016.

## REMUNERATION POLICY AND DIRECTORS' REMUNERATION

As at December 31, 2016, we had 11,267 employees. The remuneration of our employees includes salaries and allowances. We provide training to our staff to enhance technical and product knowledge. Our Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. Our Group offers competitive remuneration packages to our Directors, and the Directors' remuneration are subject to shareholders' approval at general meeting. Other emoluments are determined by the Company's Board with reference to Directors' duties, responsibilities and performance and the results of our Group.

Details of the Directors' remuneration during the year are set out in note 10 to the Financial Statements.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme pursuant to Chapter 17 of the Listing Rules on October 10, 2013 (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide incentive or reward to eligible persons for their contribution to, and continuing efforts to promote the interests of, the Group and for such other purposes as the Board may approve from time to time. Eligible persons include (a) any Director (whether executive or non-executive, including any independent non-executive Director) or employee (whether full time or part time) of the Group; (b) any supplier to the Group; (c) any customer of the Group; (d) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to the Group; (e) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group; (f) any joint venture partner, business or strategic alliance partner, in each case, of any member of the Group; and (g) any discretionary trust whose discretionary objects may be any person belonging to any of the above classes (a) to (f) (the "Eligible Persons"). The Share Option Scheme shall be valid and effective for a period of 10 years commencing from October 10, 2013, being the date on which the Shareholders approved the Share Option Scheme, and shall expire on October 13, 2023, after which period no further share option shall be granted. Therefore, as at December 31, 2016, the remaining life of the Share Option Scheme was approximately six years and ten months.

Under the Share Option Scheme, the Remuneration Committee will from time to time propose for the Board's approval for grant of share options and the number of share options to be granted to the relevant grantees. The aggregate number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any new share option scheme of the Company which may be adopted hereafter must not, in aggregate, exceed 10 per cent of the total number of issued shares as at the date of adoption of the Share Option Scheme or any new share option scheme (as the case may be). The maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company, must not, in aggregate, exceed 30 per cent of the total number of shares in issue from time to time. As at the date of this annual report, the number of shares of the Company available for issue under the Share Option Scheme amounts to 148,002,200 Shares, representing 9.97% of the total issued shares of the Company.

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

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

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

On July 26, 2016, the Company cancelled the outstanding share options previously granted to certain individuals (the "Existing Grantees") to subscribe for a total of 29,700,000 shares at the exercise price of HK$6.950 per share with validity period from December 30, 2013 to December 29, 2018. On the same day, the Company granted a total of 35,000,000 share options under the Share Option Scheme to the Existing Grantees at the exercise price of HK$3.780 per share, subject to their acceptance of cancellation of the outstanding options, and certain new grantees. Further details of the Share Option Scheme are set out in note 34 to the Financial Statements and the circular of the Company dated September 5, 2013 and the announcement of the Company dated July 26, 2016.

Details of movements in the options granted under the Share Option Scheme during the year ended December 31, 2016 are as follows:

| | | | | Number of Share Options | | | | | | | | Weighted average price of the Company's shares | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name of category of grantee | As at January 1, 2016 | Cancelled during the year | Granted during the year | Exercised during the year | Forfeited during the year | Expired during the year | As at December 31, 2016 | Date of grant of share options | Exercise period of share options | Exercise price of share options *HK$ per share* | Price of the Company's shares Immediately before the grant date of options *HK$ per share* | Immediately before the exercise date *HK$ per share* | At exercise date of options *HK$ per share* |
| *Executive Directors* | | | | | | | | | | | | | |
| XU Yue | 3,000,000 | (3,000,000) | 3,000,000 | – | – | – | 3,000,000 | July 26, 2016 | July 26, 2016 to December 31, 2020 | 3.780 | 3.690 | – | – |
| CHEN Yi | 1,300,000 | (1,300,000) | 1,300,000 | – | – | – | 1,300,000 | July 26, 2016 | July 26, 2016 to December 31, 2020 | 3.780 | 3.690 | – | – |
| *Non-executive Director* | | | | | | | | | | | | | |
| WANG Liqun | 200,000 | (200,000) | 200,000 | – | – | – | 200,000 | July 26, 2016 | July 26, 2016 to December 31, 2020 | 3.780 | 3.690 | – | – |
| *Independent Non-executive Directors* | | | | | | | | | | | | | |
| LYU Wei | 200,000 | (200,000) | 200,000 | – | – | – | 200,000 | July 26, 2016 | July 26, 2016 to December 31, 2020 | 3.780 | 3.690 | – | – |
| CHEN Xianglin | 200,000 | (200,000) | 200,000 | – | – | – | 200,000 | July 26, 2016 | July 26, 2016 to December 31, 2020 | 3.780 | 3.690 | – | – |
| ZHU Anna Dezhen | – | – | 200,000 | – | – | – | 200,000 | July 26, 2016 | July 26, 2016 to December 31, 2020 | 3.780 | 3.690 | – | – |
| Other Employees in aggregate | 24,600,000 | (24,600,000) | 29,700,000 | 100,000 | – | – | 29,600,000 | July 26, 2016 | July 26, 2016 to December 31, 2020 | 3.780 | 3.690 | 4.100 | 4.260 |
| Other grantees/ participants in aggregate* | 200,000 | (200,000) | 200,000 | – | – | – | 200,000 | July 26, 2016 | July 26, 2016 to December 31, 2020 | 3.780 | 3.690 | – | – |

* Other grantee, Mr. WANG Zhiqiang, is interested in 200,000 share options granted to him by the Company, representing 0.014% of the total issued share capital of the Company. On May 8, 2015, Mr. WANG Zhiqiang resigned as an independent non-executive Director.

## AMENDED EMPLOYEE PRE-IPO INCENTIVE SCHEME

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

The Remuneration Committee has full power and authority to (a) propose, select or determine which beneficiary is entitled to an award; (b) determine the amount of the award for each selected beneficiary; and (c) make the relevant award to the beneficiaries under the Employee Pre-IPO Incentive Scheme. Only the dividend payments on the shares held by HSBC Trustee (Hong Kong) Limited ("HSBC HK Trustee") via special purpose vehicle under the Employee Pre-IPO Incentive Scheme (the "Scheme Shares") will be distributed to the beneficiaries, and the Scheme Shares themselves will not be vested in the beneficiaries of the Employee Pre-IPO Incentive Scheme. Under the Pre-IPO Employee Incentive Scheme, the total number of Shares underlying the restricted Shares to be granted from time to time must not be, in any event, exceed 5% of the number of the Shares in issue on such date without the Board's prior approval.

Unless terminated earlier by a resolution of the Board made in accordance with the terms of the trust deed, the Employee Pre-IPO Incentive Scheme has a term of 80 years from the listing date of the Company. Therefore, as at December 31, 2016, the remaining life of the Employee Pre-IPO Incentive Scheme was approximately 75 years and six months. On termination of the Employee Pre-IPO Incentive Scheme, HSBC HK Trustee will transfer the Scheme Shares to Yongda Holding, unless the board of directors of Yongda Holding request the Scheme Shares to be transferred to such other employee incentive scheme trust as may be selected by the board of directors of Yongda Holding, provided that such other employee award scheme trust selected by the board of directors of Yongda Holding satisfies the reasonable requirements for the time being of HSBC HK Trustee, the Articles of Association and all applicable laws, failing which the Scheme Shares will be transferred directly to Yongda Holding.

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

During the year and up to the date of this annual report, 3,520,000 restricted shares were awarded to eligible persons in accordance with the terms of the Amended Scheme.

## EQUITY-LINKED AGREEMENT

Save as disclosed in this annual report, there was no equity-linked agreement entered into by the Company during the year ended December 31, 2016.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2016, the respective percentage of purchases attributable to the Group's largest supplier and five largest suppliers in aggregate was 21.4% and 73.2%. The percentage of the total sales attributable to the Group's five largest customers was below 30% of the total sales in the Group.

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

## CHARITABLE DONATIONS

The donations by the Group for the year ended December 31, 2016 amounted to RMB370,000.

## 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 December 31, 2016.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

## AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2016 have been audited by Deloitte Touche Tohmatsu, certified public accountants.

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

## RECORD DATE OF AGM

Shareholders whose names appear on the register of members of the Company at the close of business on May 22, 2017 (Monday) (the "Record Date") will be entitled to attend the AGM to be held on May 26, 2017 (Friday). In order to be eligible to attend and vote at the AGM, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on the Record Date.

## CLOSURE OF REGISTER OF MEMBERS FOR THE PROPOSED FINAL DIVIDEND

The register of members of the Company will also be closed from June 2, 2017 (Friday) to June 6, 2017 (Tuesday), both days inclusive, in order to determine the entitlement of the Shareholders to the final dividend. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on June 1, 2017 (Thursday).

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

PRC, March 28, 2017

# Corporate Governance Report

The Board of the Company is pleased to present this corporate governance report in the Group's annual report for the year ended December 31, 2016.

## CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

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

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

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

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code. The Company regularly reviews its corporate governance practices and the Company was in compliance with the code provisions of the CG Code during the year ended December 31, 2016.

## A. THE BOARD

### 1. Responsibilities

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

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

### 2. Delegation of Management Function

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

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

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

### 3. Board Composition

The Board of the Company comprises the following directors:

| | |
|---|---|
| **Executive Directors** | Mr. CHEUNG Tak On *(Chairman)*<br>Mr. CAI Yingjie *(Vice-chairman and Chief Executive Officer)*<br>Mr. WANG Zhigao *(Vice-chairman)*<br>Mr. XU Yue<br>Ms. CHEN Yi |
| **Non-executive Director** | Mr. WANG Liqun |
| **Independent Non-executive Directors** | Mr. LYU Wei<br>Mr. CHEN Xianglin<br>Ms. ZHU Anna Dezhen |

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

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

During the year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board and at least one independent non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise.

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

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

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

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

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

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

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

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

Each of our Directors has attended training sessions arranged by the Company or has read materials prepared by external professional advisers on the continuing obligations of listed companies and its directors, disclosure obligations of listed companies and update on the Listing Rules.

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

6. **Board Meetings and General Meetings**

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

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

The Board met four times during the year ended December 31, 2016 for discussing and approving, among others, the overall strategies and policies of the Company, reviewing and approving the audited annual results for the year ended December 31, 2015 and unaudited interim results for the six months ended June 30, 2016, approving the appointment of the joint company secretary, approving the delegation of functions of risk management and internal control to the Audit and Compliance Committee and amendment of terms of reference of the Audit and Compliance Committee.

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

| Name of Director | Attendance/ Number of Board Meetings | Attendance/ Number of General Meeting(s)* |
|---|---|---|
| Mr. CHEUNG Tak On | 4/4 | 2/2 |
| Mr. CAI Yingjie | 4/4 | 1/2 |
| Mr. WANG Zhigao | 4/4 | 2/2 |
| Mr. XU Yue | 3/4 | 2/2 |
| Ms. CHEN Yi | 4/4 | 2/2 |
| Mr. WANG Liqun | 4/4 | 1/2 |
| Mr. LYU Wei | 4/4 | 1/2 |
| Mr. CHEN Xianglin | 4/4 | 2/2 |
| Ms. ZHU Anna Dezhen | 4/4 | 1/2 |

* One annual general meeting had been held during the year ended December 31, 2016 on May 9, 2016 and one extraordinary general meeting had been held on June 20, 2016.

***Practices and Conduct of Meetings***

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

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

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

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

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

The Articles of Association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have potential or actual conflicts of interests.

## B. CHAIRMAN AND CHIEF EXECUTIVE

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

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

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

## C. BOARD COMMITTEES

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

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

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

### 1. Remuneration Committee

We have established the Remuneration Committee with written terms of reference in compliance with code provision B.1 of the CG Code. The Remuneration Committee consists of two independent non-executive Directors, being Ms. ZHU Anna Dezhen and Mr. LYU Wei, and one executive Director, being Mr. WANG Zhigao. The chairman of the Remuneration Committee is Ms. ZHU Anna Dezhen.

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

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

The Remuneration Committee held one meeting during the year ended December 31, 2016 to review, among others, the remuneration policy and structure of the Company, and consider and make recommendation to the Board on the remuneration packages of the Directors and senior management.

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

| Name of Director | Attendance/ Number of Meeting(s) |
|---|---|
| Ms. ZHU Anna Dezhen | 1/1 |
| Mr. WANG Zhigao | 1/1 |
| Mr. LYU Wei | 1/1 |

Details of the Directors' remuneration are set out in note 10 to the Financial Statements. In addition, the remuneration of each member of our senior management (except for members who are also Directors) for the year ended December 31, 2016 is below RMB1,711,000.

2. **Audit and Compliance Committee**

We have established the Audit and Compliance Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules as well as code provisions C.3 and D.3 of the CG Code. The Audit and Compliance Committee consists of three independent non-executive Directors, being Ms. ZHU Anna Dezhen, Mr. LYU Wei and Mr. CHEN Xianglin. The chairman of the Audit and Compliance Committee is Ms. ZHU Anna Dezhen, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

In compliance with the Hong Kong Stock Exchange's implementation of the revised Listing Rules relating to the risk management and internal controls for accounting periods beginning on or after January 1, 2016, the terms of reference of the Audit and Compliance Committee were revised by the Board on December 30, 2015. The revised terms of reference setting out the Audit and Compliance Committee's authority, duties and responsibilities are available on the websites of the Hong Kong Stock Exchange and the Company.

The primary duties of the Audit and Compliance Committee include, but are not limited to: (i) reviewing and monitoring the relationship of the external auditor and the Group, particularly the independence and objectivity and effectiveness of the external auditor; (ii) providing an independent view of the effectiveness of the financial reporting process, internal control, compliance and risk management systems of our Group; (iii) overseeing the audit process and performing other duties and responsibilities as assigned by our Board; (iv) developing, reviewing and monitoring our policies and practices on corporate governance, compliance with legal and regulatory requirements and requirements under the Listing Rules; (v) reviewing the financial information of the Company and ensuring compliance with accounting standards and reviewing significant adjustments resulting from audit; (vi) developing, reviewing and monitoring the code of conduct applicable to our employees and Directors; (vii) overseeing and monitoring the risk management and internal control systems of the Company on an ongoing basis and review with the Company's external auditors and senior management at least annually; (viii) reviewing the risk management and internal control systems with the management to ensure that the management has performed its duty to have effective systems; and (ix) reviewing the Company's internal audit function to ensure co-ordination within the Group and between the Company's internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and to review and monitor its effectiveness.

The Audit and Compliance Committee has considered and reviewed the accounting principles and practices adopted by the Group and discussed matters in relation to risk management, internal control and financial reporting with the management. The Audit and Compliance Committee considers that the annual financial results for the year ended December 31, 2016 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

The Audit and Compliance Committee held two meetings during the year ended December 31, 2016 to review, among others, the unaudited interim results and report for the six months ended June 30, 2016, the financial reporting and the compliance procedures, the corporate governance policy and practice, the audited annual results and financial report for the year ended December 31, 2015, the policies and practices regarding compliance with laws and regulations, the code of conduct and the compliance manuals for employees and directors, the financial, operational and compliance monitoring, the risk management control, the work of the internal and external auditor, the service fees due to the external auditor as well as the misconduct-related reporting measures.

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

| Name of Director | Attendance/ Number of Meeting(s) |
|---|---|
| Ms. ZHU Anna Dezhen | 2/2 |
| Mr. LYU Wei | 2/2 |
| Mr. CHEN Xianglin | 2/2 |
| Mr. WANG Zhigao | 2/2 |

The Company's annual results for the year ended December 31, 2016 have been reviewed by the Audit and Compliance Committee on March 28, 2017.

3. **Nomination Committee**

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

The primary duties of the Nomination Committee include, but are not limited to (i) identifying, selecting and recommending to our Board suitable candidates to serve as Directors and presidents of our Company, and formulating plans for succession for both executive Directors and non-executive

Directors; (ii) reviewing the structure, size, composition and diversity of the Board as well as the Board Diversity Policy; (iii) overseeing the process for evaluating the performance of the Board; (iv) developing, recommending to the Board and monitoring nomination guidelines for our Company; and (v) assessing the independence of independent non-executive Directors.

The Nomination Committee held one meeting during the year ended December 31, 2016 to review, among others, the structure, size, composition and diversity (including the skills, knowledge, experience, gender, age, cultural and educational background, ethnicity, professional experience and length of service) of the Board to ensure that the Board has a balance of expertise, skills and experience appropriate for the requirements of the business of our Company, to assess the independence of the independent non-executive Directors, and to discuss the Directors who retired by rotation in accordance with the Articles of Association, being eligible, had offered themselves for re-election at the 2016 annual general meeting of the Company and the trainings and continous professional developments of directors and management.

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

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

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

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

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

| | |
|---|---|
| Measurable Objectives: | Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. |

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

## D. MODEL CODE FOR SECURITIES TRANSACTIONS

Our Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code during the year ended December 31, 2016.

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

## E. DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

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

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

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

## F. EXTERNAL AUDITOR AND AUDITOR REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on page 73.

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

During the year, the remuneration paid to the external auditor of the Company in respect of audit services for the year ended December 31, 2016 amounted to RMB6,500,000.

## G. RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is its responsibility to ensure that the Company establishes and maintains sound risk management and internal control systems within the Group and to review the effectiveness of the systems. Such systems are designed to manage and mitigate risks inherent in the Group's business faced by the Group to an acceptable level, but not eliminating the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement, loss or fraud.

The Board has delegated the Audit and Compliance Committee with the responsibility to oversee the risk management and internal control systems of the Group on an on-going basis and to review the effectiveness of the systems annually. The review covers all material controls, including financial, operational and compliance controls.

Under the Company's risk management and internal control structure, the management is responsible for the design, implementation and maintenance of risk management and internal control systems to ensure, amongst others, (i) appropriate policies and control procedures have been designed and established to safeguard the Group's assets against improper use or disposal; (ii) relevant laws, rules and regulations are adhered to and complied with; and (iii) that reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements.

The main features of risk management and internal control structure of the Company are as follows:

- Heads of major operation units or departments manage risks through identification and mitigating risks identified in accordance with the internal guidelines approved by the Board and the Audit and Compliance Committee;

- The management ensures appropriate actions are taken on major risks affecting the Group's businesses and operations; and

- Internal auditors provide independent assurance to the Board, the Audit and Compliance Committee and the management concerning the effectiveness of risk management and internal control systems.

During the reporting period, major works performed by the management in relation to risk management and internal control include the following:

- each major operation unit or department was responsible for daily risk management activities, including identifying major risks that may impact on the Group's performance; assessing and evaluating the identified risks according their likely impacts and the likelihood of occurrence; formulating and implementing measures, controls and response plans to manage and mitigate such risks;

- the management, together with the controller's department, monitored and reviewed the risk management and internal control systems on an ongoing basis and reported to the Audit and Compliance Committee regarding the status of the systems;

- the management periodically followed-up and reviewed the implementation of the measures, controls and response plans to major risks identified in order to make sure that sufficient attention, monitor and responses were paid to all major risks identified;

- the management reviewed the risk management and internal control systems periodically to identify process and control deficiencies, and designed and implemented corrective actions to address such deficiencies; and

- the management ensured appropriate procedures and measures such as safeguarding assets against unauthorized use or disposition, controlling capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publications, etc. are in place.

The internal audit function of the Company monitored the internal governance of the Company and provided independent assurances as to the adequacy and effectiveness of the Company's risk management and internal control systems. The senior executive in charge of the internal audit function reported directly to the Audit and Compliance Committee. The internal audit reports on control effectiveness were submitted to the Audit and Compliance Committee in line with agreed audit plan approved by the Board. During the reporting period, the internal audit function carried out an analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Company through, amongst others, examination of risk-related documentation prepared by operation units and the management and conducting interviews with employees at all levels. The senior executives in charge of the internal audit function attended meetings of the Audit and Compliance Committee to explain the internal audit findings and responded to queries from members of the Audit and Compliance Committee.

The Company has maintained internal guidelines for ensuring that inside information is disseminated to the public in an equal and timely manner in accordance with the applicable laws and regulations. Senior executives of the investor relations, corporate affairs and financial control functions of the Group are delegated with responsibilities to control and monitor the proper procedures to be observed on the disclosure of inside information. Access to inside information is at all times confined to relevant senior executives and confined on "need-to-know" basis. Relevant personnel and other professional parties involved are reminded to preserve confidentiality of the inside information until it is publicly disclosed. Other procedures such as pre-clearance on dealing in Company's securities by Directors and designated members of the management, notification of regular blackout period and securities dealing restrictions to Directors and employees, and identification of project by code name have also been implemented by the Company to guard against possible mishandling of inside information within the Group.

The Company has adopted arrangement to facilitate employees and other stakeholders to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters. The Audit and Compliance Committee reviewed such arrangement regularly and ensured that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

During the reporting period, the Audit and Compliance Committee reviewed the effectiveness of the risk management and internal control systems of the Company. The annual review included works such as (i) review of reports submitted by heads of operation units or departments and the management regarding the implementation of the risk management and internal control systems; (ii) periodic discussions with the management and senior executives regarding the effectiveness of the risk management and internal control systems and the works of the internal audit function. Such discussions include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions; (iii) evaluation on the scope and quality of management's ongoing monitoring of the risks management and internal control systems; (iv) review of the effectiveness of the internal audit function to ensure coordination within the Group and between the Company's internal and external auditors and to ensure the internal audit function is adequately resourced and has appropriate standing within the Group; and (v) made recommendations to the Board and the management on the scope and quality of the management's ongoing monitoring of the risk management and internal control systems.

On the basis of the aforesaid, the Audit and Compliance Committee was not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the risk management and internal controls of the Company.

## H. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the best investment decisions.

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

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

## I. SHAREHOLDERS' RIGHTS

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

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

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

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

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

## J. COMPANY SECRETARY

Ms. MOK Ming Wai ("Ms. MOK") of KCS Hong Kong Limited, external service provider and Ms. ZHANG Hong ("Ms. ZHANG") (whose appointment as joint company secretary of the Company has been effective on June 30, 2015), the head of legal department of the Company, were engaged by the Company as joint company secretaries during the year. Ms. ZHANG resigned as joint company secretary of the Company on February 29, 2016, and Ms. MOK has remained in office as the sole company secretary of the Company since February 29, 2016.

Mr. WANG Zhigao and Ms. MOK have been engaged by the Company as authorized representatives. During the year, Ms. MOK have undertaken over 15 hours of professional training to update their skill and knowledge.

## K. PRIMARY CONTACT PERSON

Mr. Wang Zhigao, our executive Director and Vice-chairman, is the key contact person of our company secretary.

## L. GOING CONCERN

Our Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. There are no material uncertainties relating to events or conditions that cast significant doubt upon the Company's liability to continue as a going concern.

# Independent Auditor's Report

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

## OPINION

We have audited the consolidated financial statements of China Yongda Automobiles Services Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 75 to 163, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 December 31, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and have been properly prepared in accordance 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"). 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 Hong Kong Institute of Certified Public Accountants' Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with 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 judgment, 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.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Impairment assessment of goodwill</td></tr>
<tr><td>We identified the impairment assessment of goodwill arising from acquisitions of businesses as a key audit matter due to significance of the Group's goodwill in the context of the Group's consolidated financial statements, combined with the judgments involved in management's impairment assessment of goodwill.<br><br>As disclosed in Note 15 to the consolidated financial statements, as at December 31, 2016, the carrying amounts of goodwill were approximately RMB478,860,000.<br><br>As set out in Note 4 to the consolidated financial statements, the impairment assessment of goodwill is dependent on certain significant inputs and estimations that involve management's judgments. Details of such judgements are disclosed in Note 15.</td><td>Our procedures in relation to the impairment assessment of goodwill arising from acquisitions included:<br><br>√ Understanding the processes and testing of the controls over the impairment assessment of goodwill;<br><br>√ Assessing the methodology used by the Group to determine the recoverable amounts which are the value in use of cash-generating units to which goodwill has been allocated;<br><br>√ Challenging key inputs and assumptions used by management in estimations of value in use, including discount rates applied, growth rates, selling prices and direct costs;<br><br>√ Comparing cash flow projections to supporting evidence, such as approved budgets, and evaluating the reasonableness of these budgets with reference to the past performance and future prospects of respective cash-generating units as well as our knowledge of the business.</td></tr>
</table>

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 those charged with governance, 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 the independent auditor's report is Jacky Wong Suk Hung.

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

March 28, 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2016

| | NOTES | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| Revenue | 5 | **43,032,502** | 35,657,593 |
| Cost of sales and services | | **(39,227,078)** | (32,630,645) |
| Gross profit | | **3,805,424** | 3,026,948 |
| Other income and other gains and losses | 6 | **760,367** | 414,569 |
| Distribution and selling expenses | | **(1,915,093)** | (1,503,417) |
| Administrative expenses | | **(1,052,121)** | (730,091) |
| Finance costs | 7 | **(479,492)** | (447,070) |
| Share of profits of joint ventures | | **8,109** | 12,530 |
| Share of profits of associates | | **24,809** | 3,066 |
| Profit before tax | 8 | **1,152,003** | 776,535 |
| Income tax expense | 9 | **(244,227)** | (209,201) |
| Profit and total comprehensive income for the year | | **907,776** | 567,334 |
| Profit and total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **851,272** | 524,468 |
| Non-controlling interests | | **56,504** | 42,866 |
| | | **907,776** | 567,334 |
| Earnings per share — basic | 12 | **RMB0.58** | RMB0.35 |
| Earnings per share — diluted | 12 | **RMB0.56** | RMB0.35 |

# Consolidated Statement of Financial Position

At December 31, 2016

| | NOTES | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **3,941,738** | 3,578,068 |
| Prepaid lease payments | 14 | **1,115,713** | 978,275 |
| Goodwill | 15 | **478,860** | 286,624 |
| Intangible assets | 16 | **827,440** | 530,053 |
| Deposits paid for acquisition of property, plant and equipment | | **29,292** | 118,683 |
| Deposits paid for acquisition of land use rights | | **16,000** | 24,607 |
| Available-for-sale investments | 17 | **94,690** | 91,845 |
| Interests in joint ventures | 18 | **99,085** | 80,109 |
| Interests in associates | 19 | **354,989** | 166,068 |
| Finance lease receivables | 20 | **301,751** | 207,719 |
| Loan receivables | 21 | **7,687** | — |
| Amount due from a related party | 40 | **32,356** | — |
| Deferred tax assets | 22 | **83,793** | 92,756 |
| | | **7,383,394** | 6,154,807 |
| **Current assets** | | | |
| Prepaid lease payments | 14 | **31,487** | 28,504 |
| Inventories | 23 | **4,317,443** | 4,083,064 |
| Finance lease receivables | 20 | **788,934** | 569,926 |
| Loan receivables | 21 | **275,951** | — |
| Trade and other receivables | 24 | **4,362,340** | 3,533,562 |
| Amounts due from related parties | 40 | **89,353** | 67,382 |
| Cash in transit | 25 | **214,666** | 99,817 |
| Time deposits | 26 | **21,000** | — |
| Pledged bank deposits | 26 | **1,118,744** | 1,138,209 |
| Bank balances and cash | 26 | **1,771,813** | 1,531,993 |
| | | **12,991,731** | 11,052,457 |
| **Current liabilities** | | | |
| Trade and other payables | 27 | **5,201,419** | 4,682,769 |
| Amounts due to related parties | 40 | **3,665** | 2,508 |
| Income tax liabilities | | **127,659** | 442,789 |
| Borrowings | 28 | **5,319,251** | 3,902,214 |
| Short-term debentures | 29 | **799,333** | 797,422 |
| Medium-term note | 30 | **—** | 1,157,472 |
| Convertible bonds | 32 | **978,837** | — |
| | | **12,430,164** | 10,985,174 |

(Continued)

# Consolidated Statement of Financial Position

At December 31, 2016

| | NOTES | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| **Net current assets** | | **561,567** | 67,283 |
| **Total assets less current liabilities** | | **7,944,961** | 6,222,090 |
| **Non-current liabilities** | | | |
| Borrowings | 28 | **157,521** | 250,928 |
| Corporate bonds | 31 | **1,990,344** | — |
| Convertible bonds | 32 | **—** | 928,911 |
| Other liabilities | 27 | **207,137** | 337,398 |
| Deferred tax liabilities | 22 | **187,026** | 104,418 |
| | | **2,542,028** | 1,621,655 |
| **Net assets** | | **5,402,933** | 4,600,435 |
| **Capital and reserves** | | | |
| Share capital | 33 | **12,066** | 12,065 |
| Reserves | | **4,949,693** | 4,225,130 |
| Equity attributable to owners of the Company | | **4,961,759** | 4,237,195 |
| Non-controlling interests | | **441,174** | 363,240 |
| **Total equity** | | **5,402,933** | 4,600,435 |

The consolidated financial statements on pages 75 to 163 were approved and authorised for issue by the Board of Directors on March 28, 2017 and are signed on its behalf by:

**CHEUNG Tak On**
DIRECTOR

**WANG Zhigao**
DIRECTOR

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2016

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Paid-in Issued share capital RMB'000 | Share premium RMB'000 | Statutory surplus reserve RMB'000 (note a) | Special reserve RMB'000 (note b) | Share-based payments reserve RMB'000 | Convertible bonds reserve RMB'000 (Note 32) | Retained profits RMB'000 | Subtotal RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At January 1, 2015 | 12,065 | 1,207,885 | 347,765 | 253,250 | 28,272 | 62,490 | 1,932,164 | 3,843,891 | 331,799 | 4,175,690 |
| Profit for the year | – | – | – | – | – | – | 524,468 | 524,468 | 42,866 | 567,334 |
| Capital injection | – | – | – | – | – | – | – | – | 40,072 | 40,072 |
| Acquisition of non-controlling interests of subsidiaries | – | – | – | 826 | – | – | – | 826 | (6,272) | (5,446) |
| Recognition of equity-settled share-based payments | – | – | – | – | 16,012 | – | – | 16,012 | – | 16,012 |
| Transfer to statutory reserve | – | – | 129,030 | – | – | – | (129,030) | – | – | – |
| Dividends recognized as distributions *(Note 11)* | – | (148,002) | – | – | – | – | – | (148,002) | – | (148,002) |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | (45,225) | (45,225) |
| At December 31, 2015 | 12,065 | 1,059,883 | 476,795 | 254,076 | 44,284 | 62,490 | 2,327,602 | 4,237,195 | 363,240 | 4,600,435 |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **–** | **851,272** | **851,272** | **56,504** | **907,776** |
| Capital injection | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **32,696** | **32,696** |
| Acquisition of a subsidiary *(Note 45)* | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **20** | **20** |
| Disposal of subsidiaries *(Note 36)* | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(17,502)** | **(17,502)** |
| Disposal of partial equity interests in subsidiaries *(Note 37)* | **–** | **–** | **–** | **5,103** | **–** | **–** | **–** | **5,103** | **102,220** | **107,323** |
| Acquisition of non-controlling interests of subsidiaries | **–** | **–** | **–** | **1,228** | **–** | | | **1,228** | **(40,388)** | **(39,160)** |
| Recognition of equity-settled share-based payments | **–** | **–** | **–** | **–** | **22,036** | **–** | **–** | **22,036** | **–** | **22,036** |
| Exercise of share options | **1** | **325** | | | | | | **326** | | **326** |
| Transfer to statutory reserve | | | **137,289** | **–** | **–** | **–** | **(137,289)** | **–** | **–** | **–** |
| Dividends recognized as distributions *(Note 11)* | **–** | **(155,401)** | **–** | **–** | **–** | **–** | **–** | **(155,401)** | **–** | **(155,401)** |
| Dividends paid to non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(55,616)** | **(55,616)** |
| At December 31, 2016 | **12,066** | **904,807** | **614,084** | **260,407** | **66,320** | **62,490** | **3,041,585** | **4,961,759** | **441,174** | **5,402,933** |

Notes:

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

b. The special reserve mainly consisted of:

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

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

   (iii) an amount of RMB5,103,000 representing the difference between the fair value of the consideration received and the carrying amount of the non-controlling interests upon disposal of partial interests in subsidiaries in 2016, and;

   (iv) an amount of RMB1,228,000 representing the difference between the fair value of consideration paid and the carrying amount of the non-controlling interests upon acquisition of partial interests in subsidiaries in 2016.

# Consolidated Statement of Cash Flows

For the year ended December 31, 2016

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before tax | **1,152,003** | 776,535 |
| Adjustments for: | | |
| Finance costs | **479,492** | 447,070 |
| Interest income on bank deposits | **(14,649)** | (13,271) |
| Interest income from a related party | **(921)** | — |
| Loss of disposal of subsidiaries | **1,221** | — |
| Depreciation of property, plant and equipment | **440,248** | 366,283 |
| Release of prepaid lease payments | **30,581** | 14,454 |
| Amortization of intangible assets | **19,068** | 12,552 |
| Share-based payment expenses | **22,036** | 16,012 |
| (Gain) loss on disposal of property, plant and equipment | **(423)** | 10,749 |
| Impairment loss on available-for-sale investments | **9,806** | 14,030 |
| Impairment loss on other receivables | **—** | 8,020 |
| Reversal of impairment loss on other receivables | **(1,600)** | — |
| Impairment loss of loan receivables | **2,865** | — |
| Impairment loss of finance lease receivables | **1,440** | — |
| Share of profits of associates | **(24,809)** | (3,066) |
| Share of profits of joint ventures | **(8,109)** | (12,530) |
| Operating cash flows before movements in working capital | **2,108,249** | 1,636,838 |
| (Increase) decrease in inventories | **(15,629)** | 241,103 |
| Increase in trade and other receivables | **(835,552)** | (143,401) |
| (Increase) decrease in finance lease receivables | **(314,480)** | 47,468 |
| Increase in loan receivables | **(286,503)** | — |
| Increase in cash in transit | **(114,849)** | (27,692) |
| Increase in other liabilities | **6,797** | 235,795 |
| Increase (decrease) in trade and other payables | **402,092** | (218,844) |
| (Increase) decrease in amounts due from related parties | **(117)** | 7,313 |
| Increase in amounts due to related parties | **1,157** | 826 |
| Withdrawal of pledged bank deposits | **1,138,209** | 1,515,013 |
| Placement of pledged bank deposits | **(976,917)** | (1,138,209) |
| Cash from operations | **1,112,457** | 2,156,210 |
| Income taxes paid | **(541,365)** | (188,047) |
| NET CASH FROM OPERATING ACTIVITIES | **571,092** | 1,968,163 |

(continued)

# Consolidated Statement of Cash Flows

For the year ended December 31, 2016

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| INVESTING ACTIVITIES | | |
| Additions to and deposits paid for property, plant and equipment | **(929,114)** | (1,026,680) |
| Purchase of intangible assets | **(41,326)** | (46,758) |
| Purchase of available-for-sale investments | **(11,951)** | (105,875) |
| Refund of consideration paid for prepaid lease payments | **71,232** | — |
| Additions to and deposits paid for prepaid land lease payments | **(16,835)** | (410,586) |
| Proceeds on disposal of property, plant and equipment, land use rights and intangible assets | **348,328** | 244,166 |
| Advance to related parties | **(79,933)** | (67,264) |
| Advance to independent third parties | **(20,000)** | — |
| Advance to non-controlling shareholders | **(46,900)** | (32,000) |
| Collection of advance to non-controlling shareholders | **39,550** | 5,750 |
| Collection of advance to related parties | **26,644** | 30,443 |
| Collection of advance to independent third parties | **25,100** | — |
| Acquisition of subsidiaries | **(502,795)** | (36,290) |
| Proceeds on disposal of subsidiaries | **8,984** | — |
| Interest received | **14,649** | 13,271 |
| Dividend received from joint ventures | **10,090** | 8,667 |
| Dividend received from associates | **188** | 2,804 |
| Investment in a joint venture | **(20,957)** | — |
| Investment in associates | **(165,000)** | (150,700) |
| Placement of time deposits | **(21,000)** | — |
| NET CASH USED IN INVESTING ACTIVITIES | **(1,311,046)** | (1,571,052) |

(continued)

# Consolidated Statement of Cash Flows

For the year ended December 31, 2016

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| FINANCING ACTIVITIES | | |
| New borrowings raised | **28,681,407** | 23,286,419 |
| Repayment of borrowings | **(27,783,428)** | (24,187,764) |
| Proceeds on issue of short-term debentures | **800,000** | 800,000 |
| Proceeds on issue of corporate bonds | **2,000,000** | — |
| Repayment of short-term debentures | **(800,000)** | — |
| Repayment of medium-term note | **(1,160,000)** | — |
| Transaction costs arising from issue of medium-term note | **—** | (2,819) |
| Transaction costs arising from issue of corporate bonds | **(10,000)** | — |
| Transaction costs arising from issue of convertible bonds | **(16,912)** | (16,912) |
| Transaction costs arising from issue of short-term debentures | **(4,200)** | (2,200) |
| Capital injection by non-controlling shareholders | **32,696** | 40,072 |
| Acquisition of non-controlling interests of subsidiaries | **(39,160)** | (5,446) |
| Advance from non-controlling shareholders | **8,500** | 2,998 |
| Prepayment of advance from non-controlling shareholders | **(31,789)** | (900) |
| Interest paid | **(470,982)** | (476,367) |
| Placement of deposits to entities controlled by suppliers for borrowings | **(28,723)** | — |
| Withdrawal of deposits to entities controlled by suppliers for borrowings | **11,733** | 14,680 |
| Placement of pledged bank deposits pledged for borrowings | **(106,000)** | — |
| Dividends paid as distribution | **(155,401)** | (148,002) |
| Dividends paid to non-controlling shareholders | **(55,616)** | (33,406) |
| Dividends paid to Shanghai Yongda Group Company Limited | **—** | (9,688) |
| Proceeds from partial disposal of subsidiaries without losing control | **107,323** | — |
| Proceeds from exercise of share options | **326** | — |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | **979,774** | (739,335) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | **239,820** | (342,224) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH | **1,531,993** | 1,874,217 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH | **1,771,813** | 1,531,993 |

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

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

The Company is an investment holding company. The subsidiaries of the Company are principally engaged in the sale of automobiles and provision of after-sales services, provision of automobile rental services, provision of automobile finance leasing and small loan services, and distribution of automobile insurance products and automobile financial products in the People's Republic of China (the "PRC"). The Company and its subsidiaries are collectively referred to as the "Group" hereafter.

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

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

The Group has applied the following amendments to IFRSs issued by International Accounting Standards Board ("IASB") for the first time in the current year:

| | |
|---|---|
| Amendments to IFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations* |
| Amendments to IAS 1 | *Disclosure Initiative* |
| Amendments to IAS 16 and IAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation* |
| Amendments to IAS 16 and IAS 41 | *Agriculture: Bearer Plants* |
| Amendments to IFRS 10, IFRS12 and IAS 28 | *Investment entities: Applying the Consolidation Exception* |
| Amendments to IFRSs | *Annual Improvements to IFRSs 2012–2014 Cycle* |

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 9 | *Financial Instruments*[1] |
| IFRS 15 | *Revenue from Contracts with Customers*[1] |
| IFRS 16 | *Leases*[2] |
| IFRIC 22 | *Foreign Currency Transactions and Advance Consideration*[1] |
| Amendments to IFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[1] |
| Amendments to IFRS 4 | *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1] |
| Amendments to IFRS 15 | *Clarifications to IFRS 15 Revenue from Contracts with Customers and related Amendement*[1] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| Amendments to IAS 7 | *Disclosure Initiative*[4] |
| Amendments to IAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses*[4] |
| Amendments to IAS 40 | *Transfers of Investment Property*[1] |
| Amendments to IFRSs | *Annual Improvements to IFRS Standards 2014–2016 Cycle*[5] |

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

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after a date to be determined

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

5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

### IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

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

**IFRS 9 Financial Instruments** (continued)

Key requirements of IFRS 9 which are relevant to the Group are described as follows:

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

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

Application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

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

**IFRS 15 Revenue from Contracts with Customers**

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

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

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

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

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and more disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group completed the detailed review.

**IFRS 16 Leases**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

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

**IFRS 16 Leases** (continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at December 31, 2016, the Group has non-cancellable operating lease commitments of RMB1,652.82 million. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 41. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In additional, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies as below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

### Basis of consolidation

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

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Basis of consolidation** (continued)

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

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

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

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

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

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

**Business combinations**

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Business combinations** (continued)

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

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Business combinations** (continued)

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

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

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

**Acquisition of a subsidiary not constituting a business**

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

**Goodwill**

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Goodwill** (continued)

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

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

**Investments in associates and joint ventures**

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

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with IFRS 5. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

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

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

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition** (continued)

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognized when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

**Leasing**

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

***The Group as lessor***

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

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

***The Group as lessee***

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the lease term.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Vendor rebates**

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

**Foreign currencies**

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

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

**Borrowing costs**

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

**Government grants**

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

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

**Retirement benefit costs**

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Share-based payment transactions**

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

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

Equity-settled share-based payments to the directors and employees are measured at the fair value of the equity instruments at the grant date.

The fair values determined at the grant-date fair value of the equity-settled payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

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

**Taxation**

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Taxation** (continued)

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

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

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

**Property, plant and equipment**

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leasehold land and building**

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

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

**Intangible assets**

***Intangible assets acquired separately***

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)**

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

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognized immediately in profit or loss.

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

**Inventories**

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

**Financial instruments**

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

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

***Financial assets***

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets ("AFS"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

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

*Loans and receivables*

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Available-for-sale ("AFS") financial assets*

AFS financial assets of the Group are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment of financial assets below).

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

***Financial assets*** (continued)

*Impairment of financial assets*

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

***Financial liabilities and equity instruments***

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

*Equity instruments*

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

*Effective interest method*

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

*Financial liabilities at amortised cost*

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

*Compound instruments*

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

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

*Derecognition*

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

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

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

**Estimated impairment of trade and other receivables**

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash inflows from the outstanding trade and other receivables. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2016 and 2015, the carrying amounts of trade and bills receivables of the Group are approximately RMB828,636,000 and RMB305,247,000, respectively.

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

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

The Group's management determines the estimated useful lives and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the management's experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable. Management will increase the depreciation charge where useful lives are expected to be shorter than expected, or will write off or write down obsolete assets that have been abandoned or impaired. When the actual useful lives or recoverable amounts of property, plant and equipment differ from the original estimates, adjustment will be made and recognized in the period in which such event takes place. As at December 31, 2016 and 2015, the carrying amounts of property, plant and equipment are approximately RMB3,941,738,000 and RMB3,578,068,000, respectively.

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

The Group's management determines the estimated useful lives and the amortization method in determining the related amortization charges for the intangible assets acquired through business combination. The estimation is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions, with consideration of market condition. Management will increase the amortisation charges when useful lives become shorter than previously estimated. As at December 31, 2016 and 2015, the carrying amounts of intangible assets acquired in business combination are approximately RMB655,359,000 and RMB403,416,000, respectively.

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

**Deferred tax asset**

As at December 31, 2016 and 2015, a deferred tax asset of approximately RMB81,466,000 and RMB83,781,000, respectively, in relation to unused tax losses has been recognized in the Group's consolidated statements of financial position. The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

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

Determining whether goodwill and intangible assets acquired through business combinations are impaired requires an estimation of the value in use of the cash generating units (i.e. entities acquired by the Group) to which the relevant goodwill and intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating units and suitable discount rates in order to calculate their present values. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculations are disclosed in Note 15. As at December 31, 2016 and 2015, the carrying amount of goodwill of the Group was approximately RMB478,860,000 and RMB286,624,000, respectively. As at December 31, 2016 and 2015, the carrying amounts of intangible assets acquired in business combination are approximately RMB655,359,000 and RMB403,416,000, respectively.

## 5. REVENUE AND SEGMENT INFORMATION

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

The Group's reportable segments are as follows:

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

- Automobile rental services; and

- Finance leasing and small loan services.

## 5. REVENUE AND SEGMENT INFORMATION (continued)

**Segment revenues and results**

| | Passenger vehicle sales and services *RMB'000* | Automobile rental services *RMB'000* | Financial leasing and small loan services *RMB'000* | Elimination *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| ***For the year ended December 31, 2016*** | | | | | |
| External revenue | 42,586,275 | 363,991 | 82,236 | — | 43,032,502 |
| Inter-segment revenue | 164,305 | — | 40,077 | (204,382) | — |
| Segment revenue *(note a)* | 42,750,580 | 363,991 | 122,313 | (204,382) | 43,032,502 |
| Segment cost *(note b)* | 39,104,843 | 260,054 | 26,486 | (164,305) | 39,227,078 |
| Segment gross profit | 3,645,737 | 103,937 | 95,827 | (40,077) | 3,805,424 |
| Service income | 711,842 | — | — | (5,681) | 706,161 |
| Segment result | 4,357,579 | 103,937 | 95,827 | (45,758) | 4,511,585 |
| Other income and other gains and losses *(note c)* | | | | | 54,206 |
| Distribution and selling expenses | | | | | (1,915,093) |
| Administrative expenses | | | | | (1,052,121) |
| Finance costs | | | | | (479,492) |
| Share of profits of joint ventures | | | | | 8,109 |
| Share of profits of associates | | | | | 24,809 |
| Profit before tax | | | | | 1,152,003 |

## 5. REVENUE AND SEGMENT INFORMATION (continued)

**Segment revenues and results** (continued)

| | Passenger vehicle sales and services RMB'000 | Automobile rental services RMB'000 | Finance leasing services RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| ***For the year ended December 31, 2015*** | | | | | |
| External revenue | 35,235,308 | 330,183 | 92,102 | — | 35,657,593 |
| Inter-segment revenue | 130,387 | — | 34,564 | (164,951) | — |
| Segment revenue *(note a)* | 35,365,695 | 330,183 | 126,666 | (164,951) | 35,657,593 |
| Segment cost *(note b)* | 32,527,648 | 221,722 | 35,968 | (154,693) | 32,630,645 |
| Segment gross profit | 2,838,047 | 108,461 | 90,698 | (10,258) | 3,026,948 |
| Service income | 432,126 | — | — | (10,384) | 421,742 |
| Segment result | 3,270,173 | 108,461 | 90,698 | (20,642) | 3,448,690 |
| Other income and other gains and losses *(note c)* | | | | | (7,173) |
| Distribution and selling expenses | | | | | (1,503,417) |
| Administrative expenses | | | | | (730,091) |
| Finance costs | | | | | (447,070) |
| Share of profits of joint ventures | | | | | 12,530 |
| Share of profits of associates | | | | | 3,066 |
| Profit before tax | | | | | 776,535 |

Notes:

a. The segment revenue of passenger vehicles sales and services for the year ended December 31, 2016 included the sales of passenger vehicles amounting to approximately RMB37,304,149,000 (2015: RMB31,230,199,000) and the after-sales services income amounting to approximately RMB5,446,431,000. (2015: RMB4,135,496,000)

b. The segment cost of passenger vehicles sales and services for the year ended December 31, 2016 included the cost of sales of passenger vehicles amounting to approximately RMB36,148,357,000 (2015: RMB30,276,099,000) and the cost of after-sales services amounting to approximately RMB2,956,486,000 (2015: RMB2,251,549,000). The segment cost of finance leasing and small loan services is mainly composed of finance costs.

c. The balance excludes the service income generated from passenger vehicle sales and services segment, which is included in the segment result above.

## 5. REVENUE AND SEGMENT INFORMATION (continued)

**Segment revenues and results** (continued)

The accounting policies of the operating segments are same as those of the Group as described in Note 3. Segment result represents the profit before tax earned by each segment without allocation of other income and other gains and losses other than service income (Note 6), distribution and selling expenses, administrative expenses, finance costs, share of profits of joint ventures and share of profits of associates. This is the measure reported to the executive directors for the purposes of resource allocation and performance assessment. No analysis of segment assets and liabilities are presented as it is not regularly reviewed by the board of the directors.

**Geographical information**

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

**Information about major customers**

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

**Revenue from major products and services**

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Sale of passenger vehicles: | | |
| — Luxury and ultra-luxury brands *(note a)* | 29,297,654 | 25,128,211 |
| — Mid- to high-end brands *(note b)* | 7,849,887 | 5,977,097 |
| Subtotal | 37,147,541 | 31,105,308 |
| After-sales services | 5,438,734 | 4,130,000 |
| Automobile rental services | 363,991 | 330,183 |
| Finance leasing and small loan services | 82,236 | 92,102 |
| | 43,032,502 | 35,657,593 |

Notes:

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

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

## 6. OTHER INCOME/OTHER GAINS AND LOSSES

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Other income comprises: | | |
| Service income *(note a)* | **706,161** | 421,742 |
| Advertising support received from automobile manufacturers *(note b)* | **1,323** | 14,789 |
| Government grants *(note c)* | **51,363** | 24,845 |
| Interest income on bank deposits | **14,649** | 13,271 |
| Interest income from a related party *(Note 40)* | **921** | — |
| Others | **4,670** | 2,498 |
| | **779,087** | 477,145 |
| Other gains and losses comprise: | | |
| Gain (loss) on disposal of property, plant and equipment | **423** | (10,749) |
| Impairment loss on available-for-sale investments | **(9,806)** | (14,030) |
| Impairment loss on other receivables | **—** | (8,020) |
| Reversal of impairment loss on other receivables | **1,600** | — |
| Impairment loss of loan receivables | **(2,865)** | — |
| Impairment loss of finance lease receivables | **(1,440)** | — |
| Net foreign exchange losses | **(2,196)** | (29,263) |
| Loss on disposal of subsidiaries *(Note 36)* | **(1,221)** | — |
| Others | **(3,215)** | (514) |
| | **(18,720)** | (62,576) |
| Total | **760,367** | 414,569 |

Notes:

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

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

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

## 7. FINANCE COSTS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Interest on borrowings: | | |
| — bank loans | **161,808** | 206,647 |
| — other borrowings from entities controlled by suppliers | **38,226** | 35,972 |
| — reimbursement to suppliers *(note a)* | **89,128** | 91,214 |
| — short-term debentures | **53,488** | 6,223 |
| — medium-term note | **54,221** | 74,240 |
| — convertible bonds *(Note 32)* | **64,926** | 61,075 |
| — corporate bonds | **13,433** | — |
| Release of capitalized transaction cost in relation to issue of short-term debentures *(Note 29)* | **5,111** | 622 |
| Release of capitalized transaction cost in relation to issue of medium-term note *(Note 30)* | **2,528** | 3,790 |
| Release of capitalized transaction cost in relation to issue of corporate bonds *(Note 31)* | **344** | — |
| Less: interest capitalized *(note b)* | **(3,721)** | (32,713) |
| | **479,492** | 447,070 |

Notes:

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

b. Borrowing costs capitalized during the year arose on the general borrowing pool and are calculated by applying a capitalization rate of 5.35% (2015: 6.60%) per annum to expenditure on qualifying assets.

## 8. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Staff costs, including directors' remuneration *(Note 10)*: | | |
| Salaries, wages and other benefits | **894,210** | 761,078 |
| Retirement benefits scheme contributions | **97,586** | 86,782 |
| Share-based payment expenses | **22,036** | 16,012 |
| Total staff costs | **1,013,832** | 863,872 |
| Auditors' remuneration: | | |
| — in respect of audit service for the Company | **6,500** | 6,000 |
| — in respect of the statutory audits for the subsidiaries of the Company | **2,659** | 2,764 |
| Total auditors' remuneration | **9,159** | 8,764 |
| Cost of inventories recognized as an expense | **38,916,997** | 32,356,696 |
| Depreciation of property, plant and equipment | **440,248** | 366,283 |
| Release of prepaid lease payments | **30,581** | 14,454 |
| Amortization of intangibles assets | **19,068** | 12,552 |
| Impairment loss on available-for-sale investments | **9,806** | 14,030 |
| Impairment loss on other receivables | **—** | 8,020 |
| Reversal of impairment loss on other receivables | **(1,600)** | — |
| Impairment loss of loan receivables | **2,865** | — |
| Impairment loss of finance lease receivables | **1,440** | — |
| Operating lease expenses | **228,159** | 169,379 |

## 9. INCOME TAX EXPENSE

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income tax ("EIT") | **245,846** | 202,927 |
| Overprovision of PRC EIT in prior years | **(1,487)** | — |
| | **244,359** | 202,927 |
| Deferred tax | | |
| Current year *(Note 22)* | **(132)** | 6,274 |
| | **244,227** | 209,201 |

## 9. INCOME TAX EXPENSE (continued)

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Profit before tax | **1,152,003** | 776,535 |
| Tax at the PRC EIT rate of 25% | **288,001** | 194,134 |
| Tax effect of expenses not deductible for tax purpose | **4,095** | 4,482 |
| Tax effect of income not taxable for tax purpose | **(74,888)** | (5,161) |
| Tax effect of share of results of associates and joint ventures | **(8,230)** | (3,899) |
| Tax effect of losses of offshore entities not recognized | **19,085** | 19,645 |
| Effect of withholding tax associated with distributed earnings of subsidiaries in PRC *(note)* | **4,750** | — |
| Effect of withholding tax associated with interest income arising from intra-group borrowings | **6,434** | — |
| Income tax on gains arising from intra-group equity transfer | **6,769** | — |
| Tax effect of different tax rates of subsidiaries | **(302)** | — |
| Overprovision of PRC EIT in prior years | **(1,487)** | — |
| Income tax expense for the year | **244,227** | 209,201 |

Note: During the year ended 31 December, 2016, withholding tax was paid on dividends amounting to RMB95,000,000 declared in respect of profit earned by PRC subsidiaries from January 1, 2008 onward.

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

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

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

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

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Fees | **990** | 910 |
| Other emoluments | | |
| Salaries and other benefits | **5,790** | 5,870 |
| Contributions to retirement benefits scheme | **197** | 188 |
| Share-based payments | **3,566** | 3,291 |
| | **10,543** | 10,259 |

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

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

**For the year ended December 31, 2016**

| | Fees<br>*RMB'000* | Salaries and other benefits<br>*RMB'000* | Contributions to retirement benefits scheme<br>*RMB'000* | Share-based payments<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Cheung Tak On | – | 1,681 | 42 | – | 1,723 |
| Cai Yingjie | – | 1,067 | 42 | – | 1,109 |
| Wang Zhigao *(note a)* | – | 1,054 | 29 | – | 1,083 |
| Xu Yue *(note b)* | – | 1,017 | 42 | 2,071 | 3,130 |
| Chen Yi *(note b)* | – | 971 | 42 | 1,175 | 2,188 |
| **Non-Executive Directors** | | | | | |
| Wang Liqun | 250 | – | – | 102 | 352 |
| **Independent Non-Executive Directors** | | | | | |
| Lyu Wei | 250 | – | – | 102 | 352 |
| Chen Xianglin | 250 | – | – | 102 | 352 |
| Zhu Anna Dezhen *(note c)* | 240 | – | – | 14 | 254 |
| | 990 | 5,790 | 197 | 3,566 | 10,543 |

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

**For the year ended December 31, 2015**

| | Fees *RMB'000* | Salaries and other benefits *RMB'000* | Contributions to retirement benefits scheme *RMB'000* | Share-based payments *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Cheung Tak On | — | 1,680 | 40 | — | 1,720 |
| Cai Yingjie | — | 1,066 | 40 | — | 1,106 |
| Wang Zhigao *(note a)* | — | 1,054 | 28 | — | 1,082 |
| Xu Yue *(note b)* | — | 1,016 | 40 | 1,857 | 2,913 |
| Chen Yi *(note b)* | — | 970 | 40 | 1,082 | 2,092 |
| **Non-Executive Directors** | | | | | |
| Wang Liqun | 250 | — | — | 88 | 338 |
| **Independent Non-Executive Directors** | | | | | |
| Lyu Wei | 250 | — | — | 88 | 338 |
| Chen Xianglin | 250 | — | — | 88 | 338 |
| Zhu Anna Dezhen *(note c)* | 160 | — | — | — | 160 |
| **Fomer independent Non-Executive Directors** | | | | | |
| Wang Zhiqiang *(note d)* | — | 84 | — | 88 | 172 |
| | 910 | 5,870 | 188 | 3,291 | 10,259 |

*Notes:*

a. Mr. Wang Zhigao was re-designated as executive director with effect from March 23, 2015.

b. Mr. Xu Yue and Ms. Chen Yi were appointed as executive directors on March 23, 2015.

c. Ms. Zhu Anna Dezhen was appointed as the chairman of the remuneration committee of the Company (the "Remuneration Committee") and an independent non-executive director with effect from May 8, 2015.

d. Mr. Wang Zhiqiang ceased to be the chairman of the Remuneration Committee upon his resignation as independent non-executive director on May 8, 2015.

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

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

The five highest paid individuals of the Group for the year included three director for the year ended December 31, 2016 (2015: three). The remuneration of the remaining two individuals for the year ended December 31, 2016 (2015: two) are as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Employees | | |
| Salaries and other benefits | 1,042 | 956 |
| Contributions to retirement benefits scheme | 84 | 81 |
| Share-based payments | 2,079 | 1,865 |
| | 3,205 | 2,902 |

The emolument of the five highest paid individuals fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2016<br>RMB'000 | 2015<br>RMB'000 |
| HK$1,500,001–HK$2,000,000 | 3 | 2 |
| HK$2,000,001–HK$2,500,000 | 1 | 2 |
| HK$2,500,001–HK$3,000,000 | — | — |
| HK$3,000,001–HK$3,500,000 | 1 | 1 |
| | 5 | 5 |

During the year, no emoluments were paid by the Group any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors of the Company waived any emoluments during the two years.

## 11. DIVIDENDS

During the year ended December 31, 2016, a final dividend of RMB0.105 per share in respect of the year ended December 31, 2015 was declared and paid out of share premium to the owners of the Company in Hong Kong dollars (the "HK$") based on the medium exchange rate between RMB and HK$ as announced by the People's Bank of China on May 9, 2016 (HK$1.00 to RMB0.83899). The aggregate amount of the final dividend declared and paid in the year ended December 31, 2016 amounted to RMB155,401,000.

## 11. DIVIDENDS (continued)

During the year ended December 31, 2015, a final dividend of RMB0.10 per share in respect of the year ended December 31, 2014 was declared and paid out of share premium to the owners of the Company in HK$ based on the medium exchange rate between RMB and HK$ as announced by the People's Bank of China on May 8, 2015 (HK$1.00 to RMB0.78863). The aggregate amount of the final dividend declared and paid in the year ended December 31, 2015 amounted to approximately RMB148,002,000.

A final dividend of HK$0.19 per share in respect of the year ended December 31, 2016 has been proposed by the directors and is subject to approval by the shareholders in the upcoming annual general meeting.

## 12. EARNINGS PER SHARE

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

| | **2016**<br>***RMB'000*** | 2015<br>*RMB'000* |
|---|---|---|
| **Earnings** | | |
| Profit for the year attributable to owners of the Company | **851,272** | 524,468 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible bonds | **64,926** | — |
| Earning for the purpose of diluted earnings per share | **916,198** | 524,468 |

| | ***'000*** | *'000* |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,480,052** | 1,480,022 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible bonds | **158,260** | — |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,638,312** | 1,480,022 |

No conversion of the convertible bonds was assumed for the purpose of the calculation of diluted earnings per share for the year ended December 31, 2015 because they were anti-dilutive.

Outstanding share options of the Company during the years ended December 31, 2016 and 2015 have not been included in the computation of diluted earnings per share as they did not have a dilutive effect on the Company's earnings per share for the years ended December 31, 2016 and 2015.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Leasehold improvements | Furniture, fixtures and equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| COST | | | | | | | |
| At December 31, 2014 | 1,567,453 | 348,956 | 558,260 | 241,034 | 1,061,401 | 176,689 | 3,953,793 |
| Additions | 33,842 | 38,845 | 108,283 | 44,121 | 439,821 | 324,118 | 989,030 |
| Transfer | 87,108 | 11,404 | 215,798 | – | – | (314,310) | – |
| Disposals | (11,244) | (3,353) | (30,628) | (8,672) | (332,255) | – | (386,152) |
| At December 31, 2015 | **1,677,159** | **395,852** | **851,713** | **276,483** | **1,168,967** | **186,497** | **4,556,671** |
| Additions | **62,488** | **37,969** | **133,203** | **34,282** | **566,695** | **149,765** | **984,402** |
| Acquired on acquisition of subsidiaries *(Note 35)* | **175,621** | **9,596** | **9,123** | **14,272** | **36,335** | **2,270** | **247,217** |
| Transfer | **76,603** | **24,855** | **194,488** | **14,265** | **–** | **(310,211)** | **–** |
| Disposals | **–** | **(6,999)** | **(10,083)** | **(22,323)** | **(519,660)** | **–** | **(559,065)** |
| Disposal of subsidiaries | **(45,307)** | **(15,353)** | **(36,343)** | **(5,724)** | **(9,017)** | **(151)** | **(111,895)** |
| At December 31, 2016 | **1,946,564** | **445,920** | **1,142,101** | **311,255** | **1,243,320** | **28,170** | **5,117,330** |
| DEPRECIATION | | | | | | | |
| At December 31, 2014 | 132,448 | 136,111 | 128,984 | 106,946 | 239,142 | – | 743,631 |
| Provided for the year | 39,896 | 45,935 | 70,171 | 38,064 | 172,217 | – | 366,283 |
| Eliminated on disposals | (5,980) | (2,063) | (8,698) | (4,117) | (110,453) | – | (131,311) |
| At December 31, 2015 | **166,364** | **179,983** | **190,457** | **140,893** | **300,906** | **–** | **978,603** |
| Provided for the year | **44,035** | **55,485** | **107,440** | **43,559** | **189,729** | **–** | **440,248** |
| Eliminated on disposals | **–** | **(5,509)** | **(660)** | **(12,716)** | **(192,275)** | **–** | **(211,160)** |
| Eliminated on disposal of subsidiaries | **(1,941)** | **(8,435)** | **(15,643)** | **(3,506)** | **(2,574)** | **–** | **(32,099)** |
| At December 31, 2016 | **208,458** | **221,524** | **281,594** | **168,230** | **295,786** | **–** | **1,175,592** |
| CARRYING VALUES | | | | | | | |
| At December 31, 2015 | 1,510,795 | 215,869 | 661,256 | 135,590 | 868,061 | 186,497 | 3,578,068 |
| At December 31, 2016 | **1,738,106** | **224,396** | **860,507** | **143,025** | **947,534** | **28,170** | **3,941,738** |

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

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

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

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

## 14. PREPAID LEASE PAYMENTS

| | RMB'000 |
|---|---|
| COST | |
| At January 1, 2015 | 630,265 |
| Additions | 427,209 |
| At December 31, 2015 | **1,057,474** |
| Additions | **25,442** |
| Refund of consideration paid for prepaid land lease payments *(note)* | **(71,232)** |
| Acquired on acquisition of subsidiaries *(Note 35)* | **216,792** |
| At December 31, 2016 | **1,228,476** |
| AMORTIZATON | |
| At January 1 2015 | 36,241 |
| Provided for the year | 14,454 |
| At December 31, 2015 | **50,695** |
| Provided for the year | **30,581** |
| At December 31, 2016 | **81,276** |
| CARRYING VALUES | |
| At December 31, 2015 | 1,006,779 |
| At December 31, 2016 | **1,147,200** |

Note: The Group acquired medium-term land use rights situated in the PRC from a third party at a consideration of RMB410,884,000 in 2015. During the period, the Group received a refund of RMB71,232,000 from such third party as an adjustment to the original consideration, which was recorded as a deduction of prepaid lease payments.

## 14. PREPAID LEASE PAYMENTS (continued)

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Analyzed for reporting purpose as: | | |
| Current assets | **31,487** | 28,504 |
| Non-current assets | **1,115,713** | 978,275 |
| | **1,147,200** | 1,006,779 |

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

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

## 15. GOODWILL

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| COST | | |
| At the beginning of the year | **286,624** | 286,624 |
| Acquisitions of subsidiaries *(Note 35)* | **192,236** | — |
| | **478,860** | 286,624 |

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

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

During the year ended December 31, 2016, the Group performed impairment review for goodwill and intangible assets of the Cash Generating Units based on cash flow forecasts derived from the most recent financial budgets for the next five years approved by management using discount rates ranging from 12% to 13% (2015: 13% to 14%) which reflects current market assessments of the time value of money and the risks specific to the Cash Generating Units. The cash flows beyond the next five years are extrapolated using a growth rate of 3% per annum (2015: 3%). The growth rates are by reference to industry growth forecasts. During the year ended December 31, 2016 and 2015, the management of the Group determines that there are no impairments of any of its Cash Generating Units containing goodwill.

## 16. INTANGIBLE ASSETS

| | Dealership agreements RMB'000 | Customer relationship RMB'000 | Vehicle license plates RMB'000 | Software useright RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| COST | | | | | |
| At January 1, 2015 | 366,868 | 56,319 | 74,453 | — | 497,640 |
| Acquisition of subsidiaries | — | — | 5,500 | — | 5,500 |
| Additions | — | — | 46,758 | — | 46,758 |
| Disposals | — | — | (74) | — | (74) |
| At December 31, 2015 | 366,868 | 56,319 | 126,637 | — | 549,824 |
| Acquisition of subsidiaries *(Note 35)* | 234,900 | 43,700 | — | 4,133 | 282,733 |
| Additions | — | — | 39,450 | 1,876 | 41,326 |
| Disposal of subsidiaries | (8,000) | — | — | — | (8,000) |
| At December 31, 2016 | 593,768 | 100,019 | 166,087 | 6,009 | 865,883 |
| AMORTIZATION | | | | | |
| At January 1 2015 | 5,151 | 2,068 | — | — | 7,219 |
| Provided for the year | 9,172 | 3,380 | — | — | 12,552 |
| At December 31, 2015 | 14,323 | 5,448 | — | — | 19,771 |
| Provided for the year | 13,772 | 5,281 | — | 15 | 19,068 |
| Elimination of disposal of subsidiaries | (396) | — | — | — | (396) |
| At December 31, 2016 | **27,699** | **10,729** | **—** | **15** | **38,443** |
| CARRYING VALUES | | | | | |
| At December 31, 2015 | **352,545** | **50,871** | **126,637** | **—** | **530,053** |
| At December 31, 2016 | **566,069** | **89,290** | **166,087** | **5,994** | **827,440** |

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

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

## 16. INTANGIBLE ASSETS (continued)

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

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

## 17. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investments comprises:

| | **2016**<br>***RMB'000*** | 2015<br>*RMB'000* |
|---|---|---|
| Listed equity securities *(note a)* | **29,166** | 38,972 |
| Unlisted equity securities *(note b)* | **65,524** | 52,873 |
| | **94,690** | 91,845 |

Notes:

a. The above listed equity investments represent shares in a listed entity. They are measured at fair value at the end of each reporting period. In 2015, the Group acquired the unlisted equity securities at cost of approximately RMB53,002,000, which subsequently became listed equity securities. During the year ended December 31, 2016, losses of approximately RMB9,806,000 (2015: RMB14,030,000) that arise as a result of changes in fair value in the listed equity investments are recognised as impairment loss and recorded in other gains and losses.

b. The above unlisted equity investments represent investments in unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at the end of each reporting period because the range of reasonable fair value estimates is so significant that the Directors of the Company are of the opinion that their fair values cannot be measured reliably.

## 18. INTERESTS IN JOINT VENTURES

| | **2016**<br>***RMB'000*** | 2015<br>*RMB'000* |
|---|---|---|
| Cost of unlisted investments in joint ventures | **82,455** | 61,498 |
| Share of post-acquisition profits, net of dividend received | **16,630** | 18,611 |
| | **99,085** | 80,109 |

## 18. INTERESTS IN JOINT VENTURES (continued)

Details of each of the Group's joint ventures at the end of the reporting period are as follow:

| Name of entity* | Form of entity | Country of registration | Principal place of operation | Class of capital | Proportion of nominal value of registered capital held by the Group | | Proportion of voting power held | | Principal activity |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2016 % | 2015 % | 2016 % | 2015 % | |
| Shanghai Bashi Yongda Automobile Sales Co., Ltd. ("Shanghai Bashi Yongda") 上海巴士永達汽車銷售有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **50** | 50 | **50** | 50 | 4S (sales, spare parts, service and survey) dealership |
| Shanghai Yongda Changrong Automobile Sales and Services Co., Ltd. ("Shanghai Yongda Changrong") 上海永達長榮汽車銷售服務有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **50** | 50 | **50** | 50 | 4S dealership |
| Harbin Yongda International Automobile Plaza Co., Ltd. ("Harbin Yongda") 哈爾濱永達國際汽車廣場有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **36** | 36 | **36** | 36 | 4S dealership |
| Ryde 88 Pty Limited | Australian limited liability enterprise | Australia | Australia | Limited by shares | **40** | N/A | **40** | N/A | Proprietary company |

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

### Aggregate information of joint ventures that are not individually material

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| The Group's share of profit and total comprehensive income for the year | **8,109** | 12,530 |

## 19. INTERESTS IN ASSOCIATES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Cost of unlisted investments in associates | **333,518** | 169,218 |
| Share of post-acquisition losses and other comprehensive income, net of dividend received | **21,471** | (3,150) |
| | **354,989** | 166,068 |

## 19. INTERESTS IN ASSOCIATES (continued)

Details of each of the Group's associates at the end of the reporting period are as follow:

| Name of entity* | Form of entity | Country of registration | Principal place of operation | Class of capital | Proportion of nominal value of registered capital held by the Group | | Proportion of voting power held | | Principal activity |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2016 % | 2015 % | 2016 % | 2015 % | |
| Shanghai Yongda Fengdu Automobile Sales and Services Co., Ltd. ("Shanghai Yongda Fengdu Automobile") 上海永達風度汽車銷售服務有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **50** | 50 | **50** | 50 | 4S dealership |
| Shanghai Oriental Yongda Automobile Sales Co., Ltd. ("Shanghai Oriental Yongda") 上海東方永達汽車銷售有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **49** | 49 | **49** | 49 | Sale of passenger vehicles |
| Shanghai Jinjiang Toyota Automobile Sales and Services Co., Ltd. 上海錦江豐田汽車銷售服務有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **49** | 49 | **49** | 49 | 4S dealership |
| Changjiang United Finance Leasing Co., Ltd (Changjiang United) *(note 1)* 長江聯合金融租賃公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **15** | 15 | **15** | 15 | Finance leasing |
| Shanghai Aiqing Network Technology Co., Ltd. *(note 2)* 上海愛擎網絡科技有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **12.73** | 20 | **12.73** | 20 | Software development |
| Guandao Network Technology Co. Ltd 觀道網絡科技（上海）有限公司 | Domestic limited liability enterprise | PRC | PRC | Registered capital | **30** | N/A | **30** | N/A | Software development |

Notes:

1. Pursuant to the articles of Changjiang United Finance Leasing Co., Ltd., the Group has the right to appoint one board director. As such, the Group considers it could have significant influence over Changjiang United Finance Leasing Co., Ltd. and treated it as an interest in an associate.

2. Pursuant to the amended articles of Shanghai Aiqing Network Technology Co., Ltd. on April 18, 2016, the Group reduced the ownership interest and lost the significant influence over Shanghai Aiqing Network Technology Co., Ltd. and treated it as an available-for-sale investment of RMB700,000 by measuring at cost less impairment accordingly.

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

## 19. INTERESTS IN ASSOCIATES (continued)

**Summarized financial information of a material associate**

Summarized financial information in respect of the Group's material associate is set out below.

Changjiang United

| | As at December 31, | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| Current assets | **15,644,763** | 1,060,594 |
| Non-current assets | **199,391** | 4,829,078 |
| Current liabilities | **12,642,803** | 4,452,752 |
| Non-current liabilities | **1,062,475** | 432,192 |
| Revenue for the year | **457,608** | 89,404 |
| Profit and total comprehensive for the year | **134,147** | 4,728 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

| | **2016** | 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net asset of Changjiang United | **2,138,876** | 1,004,728 |
| Proportion of the Group's ownership interest in Changjiang United | **15%** | 15% |
| Carrying amount of the Group's ownership interest in Changjiang United | **320,831** | 150,709 |

**Aggregate information of associates that are not individually material**

| | **2016** | 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| The Group's share of profit and total comprehensive income of associates for the year/period before disposal | **4,687** | 2,357 |
| Aggregate carrying amount of the Group's interests in these associates | **34,158** | 15,359 |

## 20. FINANCE LEASE RECEIVABLES

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Analysed as: | | |
| Current | **788,934** | 569,926 |
| Non-current | **301,751** | 207,719 |
| | **1,090,685** | 777,645 |

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 2016<br>RMB'000 | 2015<br>RMB'000 | 2016<br>RMB'000 | 2015<br>RMB'000 |
| Finance lease receivables comprise: | | | | |
| Within one year | **803,388** | 593,010 | **788,934** | 569,926 |
| In more than one year but not more than two years | **261,416** | 200,983 | **226,679** | 176,406 |
| In more than two years but not more than five years | **87,520** | 37,529 | **76,512** | 31,313 |
| | **1,152,324** | 831,522 | **1,092,125** | 777,645 |
| Less: unearned finance income | **(60,199)** | (53,877) | **N/A** | N/A |
| Less: allowance for impairment loss | **(1,440)** | — | **(1,440)** | — |
| Present value of minimum lease payment receivables | **1,090,685** | 777,645 | **1,090,685** | 777,645 |

During the year ended December 31, 2015, the finance lease receivables of approximately RMB525.5 million was transferred to financial institutions by discounting those receivables. As the Group has transferred substantially all the risks and rewards relating to these receivables, the transferred financial assets are derecognised in their entirety.

At December 31, 2016, the Group received deposits from customers under finance leases. Among the customers' deposits received, approximately RMB207,137,000 (2015: RMB337,398,000) and RMB273,983,000 (2015: RMB180,001,000) (Note 27) were recognized as other non-current liabilities and current liabilities, respectively.

## 21. LOAN RECEIVABLES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Guaranteed but unsecured loans | 123,333 | — |
| Collateralised but unguaranteed loans | | |
| — loans secured by property | 163,170 | — |
| Gross loan receivables | 286,503 | — |
| Less: Allowances for impairment losses | | |
| — Collectively assessed | (2,865) | — |
| Net loan receivables | 283,638 | — |
| Analysed as: | | |
| Current | 275,951 | — |
| Non-current | 7,687 | — |
| | 283,638 | — |

The Group provides fixed-rate loans with a term from two months to three years to local individuals in PRC. All loans are either backed by guarantees and/or secured by collateral.

The exposure of the Group's fixed-rate loan receivables to interest rate risks and their contractual maturity dates are as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Fixed-rate loan receivables: | | |
| Within one year | 275,951 | — |
| In more than one year but not more than two years | 4,782 | — |
| In more than two years but not more than three years | 2,905 | — |
| | 283,638 | — |

None of the loan receivables are past due as the end of the reporting period.

## 22. DEFERRED TAXATION

### (a) Deferred tax assets

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

| | Tax losses RMB'000 | Accrued expenses RMB'000 | Payroll and welfare payable RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At December 31, 2014 | 74,519 | 8,798 | 11,947 | 7,293 | 102,557 |
| Credit (charge) to profit or loss | 9,262 | (5,657) | (11,881) | (1,525) | (9,801) |
| At December 31, 2015 | 83,781 | 3,141 | 66 | 5,768 | 92,756 |
| Credit (charge) to profit or loss | 1,268 | (3,117) | (3) | (3,465) | (5,317) |
| Eliminated on disposal of subsidiaries *(Note 36)* | (3,583) | — | (63) | — | (3,646) |
| At December 31, 2016 | 81,466 | 24 | — | 2,303 | 83,793 |

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

The Group's unused tax losses of approximately RMB325,864,000 and RMB335,124,000 as at December 31, 2016 and 2015, respectively have been recognized as deferred tax assets as at the end of the reporting periods.

## 22. DEFERRED TAXATION (continued)

### (b) Deferred tax liabilities

| | Fair value adjustment arising from acquisition of subsidiaries *RMB'000* |
|---|---|
| At December 31, 2014 | 107,945 |
| Recognised in profit or loss | (3,527) |
| At December 31, 2015 | 104,418 |
| Recognised in profit or loss | (5,449) |
| Acquired on acquisition of subsidiaries *(Note 35)* | 88,057 |
| At December 31, 2016 | **187,026** |

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB3,360,444,000 (2015: RMB2,679,570,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 23. INVENTORIES

| | **2016** *RMB'000* | 2015 *RMB'000* |
|---|---|---|
| Motor vehicles | **3,887,906** | 3,559,841 |
| Spare parts and accessories | **429,537** | 523,223 |
| | **4,317,443** | 4,083,064 |

Certain of the Group's inventories with a carrying amount of approximately RMB670,054,000 and RMB694,439,000 as at December 31, 2016 and 2015, respectively, were pledged as security for the Group's short-term bank loans and other borrowings (Note 28).

Certain of the Group's inventories with a carrying amount of approximately RMB1,152,718,000 and RMB739,828,000 as at December 31, 2016 and 2015, respectively, were pledged as security for the Group's bills payable.

## 24. TRADE AND OTHER RECEIVABLES

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

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

b. For automobile rental services, the Group typically allows a credit period of 30 to 180 days to its customers.

| | **2016**<br>***RMB'000*** | 2015<br>*RMB'000* |
|---|---|---|
| Trade receivables | **757,363** | 305,247 |
| Bills receivables | **71,273** | — |
| | **828,636** | 305,247 |
| Other receivables comprise: | | |
| Payments and deposits to suppliers | **1,048,103** | 797,719 |
| Deposits to entities controlled by suppliers for borrowings | **151,002** | 107,720 |
| Payments and rental deposits on properties | **52,768** | 56,341 |
| Rebate receivables from suppliers | **1,659,630** | 1,753,903 |
| Insurance commission receivables | **72,307** | 53,500 |
| Staff advances | **8,888** | 8,835 |
| Value-Added Tax recoverable | **270,817** | 257,244 |
| Advances to non-controlling shareholders *(note)* | **46,899** | 39,549 |
| Advances to independent third parties *(note)* | **20,000** | 25,100 |
| Receivables on disposal of a subsidiary | **6,420** | 6,420 |
| Others | **203,290** | 130,004 |
| Less: allowance for doubtful debts | **(6,420)** | (8,020) |
| | **3,533,704** | 3,228,315 |
| | **4,362,340** | 3,533,562 |

Note: The balances are unsecured, interest-free and repayable on demand.

Bills receivables held by the Group as at December 31, 2016 will mature within 3 months.

## 24. TRADE AND OTHER RECEIVABLES (continued)

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| 0 to 180 days | **828,636** | 305,247 |

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

**Movement in the allowance for doubtful debts**

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| January 1 | **(8,020)** | — |
| Impairment losses recognised on other receivables | **—** | (8,020) |
| Impairment losses reversed on other receivables | **1,600** | — |
| December 31 | **(6,420)** | (8,020) |

## 25. CASH IN TRANSIT

Cash in transit represents sales settled by credit cards, which have yet to be credited to the Group by banks. The balance of cash in transit as at December 31, 2016 aged seven days (2015: seven days).

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

As at December 31, 2016, the Group had fixed-term deposits of RMB21,000,000 in banks in the PRC with maturity of six months (the "Time Deposits"). The Time Deposits carry fixed interests rate of from 2.85% to 3.10% per annum.

During the year ended December 31, 2016, the Group pledged certain of its bank deposits with carrying amounts of approximately RMB106,000,000 to banks as security for the Group's short-term bank loans (Note 28) and the pledged bank deposits carry fixed-rate interests ranging from 0.40% to 1.40% per annum.

The Group also pledged certain of its bank deposits with carrying amounts of RMB1,012,744,000 to banks as security for bills payable and the pledged bank deposits carry variable-rate interests ranging from 0.35% to 1.30% (2015: 0.35% to 2.80%) per annum. The pledged bank deposits will be released upon the settlement of the relevant bills payable.

The Group's bank balances and cash denominated in RMB, Hong Kong Dollars ("HK$") and United States Dollars ("US$") carry variable-rate interest as follows:

| | 2016 | 2015 |
|---|---|---|
| | Interest rate per annum | |
| The Group | | |
| — RMB | 0.35% | 0.35% |
| — HK$ | 0.01% | 0.01% |
| — US$ | 0.001% | 0.001% |

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

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| HK$ | 1,499 | 62 |
| US$ | 753 | 1,452 |
| | 2,252 | 1,514 |

## 27. TRADE AND OTHER PAYABLES/OTHER LIABILITIES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **Current** | | |
| Trade payables | 282,007 | 325,854 |
| Bills payables | 2,774,540 | 2,540,682 |
| | 3,056,547 | 2,866,536 |
| **Other payables** | | |
| Other tax payables | 170,718 | 88,652 |
| Advances and deposits from customers | 1,101,267 | 1,035,324 |
| Payable for acquisition of property, plant and equipment | 40,157 | 112,436 |
| Rental payables | 27,526 | 29,895 |
| Salary and welfare payables | 51,273 | 47,786 |
| Accrued interest | 55,479 | 30,827 |
| Accrued audit fee | 4,300 | 3,800 |
| Other accrued expenses | 13,683 | 10,703 |
| Transaction costs payable for issue of short-term debentures *(Note 29)* | — | 1,000 |
| Transaction costs payable for issue of medium-term note *(Note 30)* | 626 | 626 |
| Transaction costs payable for issue of convertible bonds *(Note 32)* | — | 16,912 |
| Consideration payables for acquisition of subsidiaries *(note)* | 86,206 | 17,045 |
| Advance from non-controlling shareholders *(note)* | 103,492 | 126,781 |
| Advance from former shareholders of acquired subsidiaries | 2,688 | 2,688 |
| Deposits received from customers under finance leases *(Note 20)* | 273,983 | 180,001 |
| Others | 213,474 | 111,757 |
| | 2,144,872 | 1,816,233 |
| | 5,201,419 | 4,682,769 |
| **Non-current** | | |
| **Other liabilities** | | |
| Deposits received from customers under finance leases *(Note 20)* | 207,137 | 337,398 |

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

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

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

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| 0 to 90 days | **3,056,547** | 2,866,536 |

## 28. BORROWINGS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Bank loans | **4,037,963** | 3,203,215 |
| Other borrowings | **1,438,809** | 949,927 |
| | **5,476,772** | 4,153,142 |
| Secured borrowings, by the Group's assets | **1,514,596** | 852,251 |
| Unsecured borrowings | **3,962,176** | 3,300,891 |
| | **5,476,772** | 4,153,142 |
| Guaranteed borrowings, by an independent third party | **–** | 35,349 |
| Unguaranteed borrowings | **5,476,772** | 4,117,793 |
| | **5,476,772** | 4,153,142 |
| Fixed-rate borrowings | **4,186,281** | 2,631,944 |
| Variable-rate borrowings | **1,290,491** | 1,521,198 |
| | **5,476,772** | 4,153,142 |
| Carrying amount repayable: | | |
| Within one year | **5,319,251** | 3,902,214 |
| More than one year, but not exceeding two years | **103,486** | 163,365 |
| More than two years, but not exceeding five years | **54,035** | 62,813 |
| More than five years | **–** | 24,750 |
| | **5,476,772** | 4,153,142 |
| Less: amounts due within one year | | |
| Shown under current liabilities | **(5,319,251)** | (3,902,214) |
| Amounts shown under non-current liabilities | **157,521** | 250,928 |

## 28. BORROWINGS (continued)

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

| | 2016 | 2015 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate borrowings | **4.00% to 5.44%** | 4.35% to 7.20% |
| Variable-rate borrowings | **3.92% to 5.23%** | 4.35% to 6.88% |

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

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

During the years ended December 31, 2016 and 2015, the Group entered into various borrowing agreements with banks and financial institutions to finance its business operations and expansion. Such borrowings were secured against the Group's assets with carrying amounts as follows:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Land use rights | **239,104** | 168,761 |
| Property, plant and equipment (buildings and motor vehicles) | **234,789** | 222,808 |
| Inventories | **670,054** | 694,439 |
| Pledged bank deposits | **106,000** | — |
| Total | **1,249,947** | 1,086,008 |

## 29. SHORT-TERM DEBENTURES

On September 22, 2015, Shanghai Yongda Investment Holdings Group Co., Ltd. ("Shanghai Yongda Investment"), an indirect wholly-owned subsidiary of the Company, has received a notice of acceptance of registration (the "Notice") issued from National Association of Financial Market Institutional Investors ("NAFMII") to issue short-term debentures of an aggregate registered amount of RMB1.6 billion. According to the Notice, the registered amount will be effective for two years commencing from the date of issue of the Notice.

On October 20, 2015 and March 16, 2016, Shanghai Yongda Investment issued the first tranche and the second tranche of the short-term debentures, respectively, each of an aggregate principal amount of RMB0.8 billion and with a term of one year from the respective dates of issuance. The short-term debentures are unsecured and carry interests at rates of 4% per annum and 4.3% per annum, respectively. The interests are payable upon maturity. The short-term debentures were issued to domestic institutional investors in the PRC which are independent third parties.

## 29. SHORT-TERM DEBENTURES (continued)

As at December 31, 2015, unpaid transaction costs of approximately RMB1,000,000 (Note 27) are recognized as current liabilities. During the year ended December 31, 2016, the Group paid transaction costs of approximately RMB4,200,000 (2015: RMB2,200,000).

Movement of the short-term debentures during the year ended December 31, 2016 was as follows:

| | *RMB'000* |
|---|---|
| Issue on October 20, 2015 | 800,000 |
| Less: capitalized transaction cost in relation to issuance | (3,200) |
| Add: interest expenses *(Note 7)* | 622 |
| At December 31, 2015 | 797,422 |
| Issue on March 16, 2016 | 800,000 |
| Less: capitalized transaction cost in relation to issuance | (3,200) |
| Less: repayment of the first tranche | (800,000) |
| Add: interest expenses *(Note 7)* | 5,111 |
| At December 31, 2016 | **799,333** |

During the year ended December 31, 2016, interest expenses of approximately RMB53,488,000 was recognized (2015: RMB6,223,000). As at December 31, 2016, unpaid interest expenses of approximately RMB27,711,000 was accrued in other payables (2015: RMB6,223,000).

## 30. MEDIUM-TERM NOTE

On September 22, 2013, Shanghai Yongda Investment issued a medium-term note of an aggregate registered amount of RMB1.16 billion with a term of three years from the date of issuance.

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

At December 31, 2016, unpaid unamortized transaction costs of approximately RMB626,000 (2015: RMB626,000) (Note 27) are recognized as current liabilities. During the year ended December 31, 2015, the Group paid transaction costs of approximately RMB2,819,000.

## 30. MEDIUM-TERM NOTE (continued)

Movement of the medium-term note during the year ended December 31, 2016 was as follows:

| | *RMB'000* |
|---|---|
| At January 1, 2015 | 1,153,682 |
| Add: interest expense *(Note 7)* | 3,790 |
| At December 31, 2015 | 1,157,472 |
| Add: interest expense *(Note 7)* | 2,528 |
| Less: repayment of medium-term note | (1,160,000) |
| At December 31, 2016 | – |

During the year ended December 31, 2016, interest expenses of approximately RMB54,221,000 (2015: RMB74,240,000) was paid, As at December 31, 2015, unpaid interest expenses of approximately RMB27,572,000 was accrued in other payables. During the year ended December 31, 2016, the Company fully repaid the principle amount of RMB1.16 billion in respect of the medium-term note and its interests.

## 31. CORPORATE BONDS

On October 12, 2016, Shanghai Yongda Investment has received an approval of corporate bonds offering to qualified investors (the "Approval") by China Securities Regulatory Commission to issue corporate bonds (the "Corporate Bonds") in an aggregate amount not exceeding RMB2 billion. The approval will be effective for two years commencing from the date of issue.

On November 2, 2016, Shanghai Yongda Investment issued the first tranche of Corporate Bonds (the "First Tranche Corporate Bonds") with base issue size of RMB1 billion and an over-allotment of RMB1 billion, totalling RMB2 billon. The First Tranche Bonds are fixed rate bonds with a term of five years, in which Shanghai Yongda Investment has an option to adjust the coupon rate and investors have an option to resell to Shanghai Yongda Investment at the end of the third interest-bearing year.

The First Tranche Corporate Bonds are unsecured and carry a fixed coupon rate of 3.90% per annum. The interest is payable annually. The First Tranche Corporate Bonds were issued to domestic qualified investors in the PRC which are independent third parties.

Movement of the First Tranche Corporate Bonds during the year ended December 31, 2016 was as follows:

| | *RMB'000* |
|---|---|
| Issue on November 2, 2016 | 2,000,000 |
| Less: capitalized transaction cost in relation to issuance | (10,000) |
| Add: interest expenses *(Note 7)* | 344 |
| At December 31, 2016 | **1,990,344** |

## 31. CORPORATE BONDS (continued)

The Group paid transaction costs of approximately RMB10,000,000 during the year ended December 31, 2016.

During the year ended December 31, 2016, interest expenses of approximately RMB13,433,000 was recognized. As at December 31, 2016, unpaid interest expenses of approximately RMB13,433,000 was accrued in other payables.

## 32. CONVERTIBLE BONDS

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

The principal terms of the bonds

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

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

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

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

(5) Conversion

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

b) Conversion period — The Bondholder has the right to convert the bonds into shares at any time on or after August 28, 2015 up to the close of business on the tenth day prior to the Maturity Date or if such bonds shall have been called or put for redemption at any time before the Maturity Date, then up to the close of business on a date no later than ten days (both days inclusive) prior to the date fixed for redemption, which is discussed below.

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

## 32. CONVERTIBLE BONDS (continued)

(6) Redemption

a) At the option of the Company:

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

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

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

b) At the option of the Bondholder:

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

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

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

## 32. CONVERTIBLE BONDS (continued)

(6) Redemption (continued)

b) At the option of the Bondholder: (continued)

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

At December 31, 2015, unpaid transaction costs of approximately RMB16,912,000 (Note 27) are recognized as current liabilities. During the year ended December 31, 2016, the Group paid transaction costs of approximately RMB16,912,000 (2015: RMB16,912,000).

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

| | **2016**<br>***RMB'000*** | 2015<br>*RMB'000* |
|---|---|---|
| Liability component at January 1 | **928,911** | 890,336 |
| Interest charged *(Note 7)* | **64,926** | 61,075 |
| Interest paid | **(15,000)** | (22,500) |
| Liability component at December 31 | **978,837** | 928,911 |
| Liability component shown under non-current liabilities | **–** | 928,911 |
| Liability component shown under current liabilities | **978,837** | – |

The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the bonds mature. Given that the holders of each Bond will have the right to redeem all or some only of the Bonds on July 18, 2017, the convertible bonds is reclassified as current liabilities as at December 31, 2016.

## 33. SHARE CAPITAL

| | Number of shares<br>'000 | Amount<br>HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| Authorized: | | |
| At December 31, 2014, 2015 and 2016 | 2,500,000 | 25,000 |

| | Number of shares<br>'000 | Amount<br>HK$'000 | Shown in financial statements as<br>RMB'000 |
|---|---|---|---|
| Issued and fully paid: | | | |
| At December 31, 2014 and 2015 | 1,480,022 | 14,800 | 12,065 |
| Exercise of share options *(Note 34)* | 100 | 1 | 1 |
| At December 31, 2016 | 1,480,122 | 14,801 | 12,066 |

## 34. SHARE-BASED COMPENSATION

### (a) Share Option Scheme

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

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted must be taken up within 28 days from the date of grant, upon payment of RMB1.00. Subject to the vesting as detailed below, options may be exercised at any time from the grant date of the share options to the fifth anniversary of the date of grant. The exercise price of the shares in the Company shall be a price determined by the board of directors of the Company with reference to future earnings potential of the Company and notified to the eligible grantees.

At December 31, 2016, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 34,900,000 (2015: 29,700,000), representing 2.4% (2015: 2.0%) of the shares of the Company in issue at that date.

## 34. SHARE-BASED COMPENSATION (continued)

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

***Granted on December 30, 2013***

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

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

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

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

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

| | December 30, 2013 |
|---|---|
| Share price | HK$6.95 |
| Exercise price | HK$6.95 |
| Expected volatility | 36.54% |
| Option life | 5 years |
| Risk-free interest rate | 1.00% |

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

On July 26, 2016, the board of directors of the Company resolved to cancel the outstanding options previously granted to certain individuals (the "Existing Grantees") to subscribe for a total of 29,700,000 Shares (including 5,100,000 Shares to directors) at the exercise price of HK$6.950 per Share with validity period from December 30, 2013 to December 29, 2018.

## 34. SHARE-BASED COMPENSATION (continued)

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

***Granted on July 26, 2016***

On July 26, 2016, the Company granted a total of 35,000,000 share options with validity period from date of grant to December 31, 2020 under the Share Option Scheme to the Existing Grantees and certain new grantees (the "New Grantees", collectively the "Grantees"). Among the total of 35,000,000 Options granted 5,100,000 Options were granted to the directors of the Company. Details are set out as follows:

(1) All options granted are at an exercise price of HK$3.78 per share.

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

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

The estimated fair value of the share options granted on July 26, 2016 was RMB25,009,000. The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model are as follows:

| | July 26, 2016 |
|---|---|
| Share price | HK$3.78 |
| Exercise price | HK$3.78 |
| Expected volatility | 37.61% |
| Option life | 4.5 years |
| Risk-free interest rate | 0.56% |

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

## 34. SHARE-BASED COMPENSATION (continued)

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

Set out below are details of movements of the outstanding options granted on December 30, 2013 and July 26, 2016 under the Share Option Scheme during the year ended December 31, 2016.

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2016 | Issue during the year | Exercised during the year (Note 33) | Cancelled/ Forfeited during the year | Outstanding as at 31 December 2016 |
| Director: | | | | | |
| Ms. Wang Liqun | 200,000 | 200,000 | – | 200,000 | 200,000 |
| Mr. Lyu Wei | 200,000 | 200,000 | – | 200,000 | 200,000 |
| Mr. Chen Xianglin | 200,000 | 200,000 | – | 200,000 | 200,000 |
| Ms. Zhu Dezhen | – | 200,000 | – | – | 200,000 |
| Mr. Xu Yue *(note)* | 3,000,000 | 3,000,000 | – | 3,000,000 | 3,000,000 |
| Ms. Chen Yi *(note)* | 1,300,000 | 1,300,000 | – | 1,300,000 | 1,300,000 |
| Employees | 24,800,000 | 29,900,000 | 100,000 | 24,800,000 | 29,800,000 |
| | 29,700,000 | 35,000,000 | 100,000 | 29,700,000 | 34,900,000 |
| Exercisable at the end of the year | 19,800,000 | | | | 18,301,800 |
| Weighted average exercise price *(HK$)* | 6.95 | 3.78 | 3.78 | 6.95 | 3.78 |

Note: Mr. Xu Yue and Ms. Chen Yi were appointed as executive directors on March 23, 2015.

Amount of RMB15,772,000 (2015: RMB13,272,000) was recognized for the year ended December 31, 2016 in relation to share options granted by the Company under the Share Option Scheme.

## 34. SHARE-BASED COMPENSATION (continued)

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

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

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

During the year ended December 31, 2015, awards of approximately 2,940,000 restricted shares have been made pursuant to the Amended Scheme. During the year ended December 31, 2016, awards of approximately 3,520,000 restricted shares have been made pursuant to the Amended Scheme. Details are set out as follows:

| | Number of shares<br>*'000* | Vesting period | Fair value<br>*RMB'000* |
|---|---|---|---|
| April 10, 2014 | 3,860 | 10–15 years | 21,894 |
| October 30, 2014 | 3,170 | 1–10 years | 17,194 |
| September 1, 2015 | 2,940 | 15 years | 7,960 |
| July 1, 2016 | 2,460 | 5–21 years | 6,852 |
| September 2, 2016 | 1,060 | N/A | 3,474 |

Amount of approximately RMB6,264,000 (2015: RMB2,740,000) was recognized for the year ended December 31, 2016 in relation to such awards made by the Company under the Amended Scheme.

## 35. ACQUISITION OF SUBSIDIARIES

(a) **In April 2016, the Group acquired 100% equity interests in JS Baozun Investment Group Co., Ltd. ("JS Baozun") from independent third parties for cash consideration of RMB274.09 million and agreed to make capital contribution to JS Baozun for acquisition of the remaining equity interest in the 18 subsidiaries owned by such third parties in Changzhou region in Jiangsu province of the PRC (including five BMW 4S dealerships, five Buick 4S dealerships, four Chevrolet 4S dealerships, two Cadillac 4S dealerships, one Roewe 4S dealership and one FAW Toyota 4S dealership) at a total consideration of RMB489.91 million, to expand the Group's dealership network. The five BMW 4S dealership and JS Baozun are together defined as "BMW"; the five Buick 4S dealerships and four Chevrolet 4S dealerships are together defined as "GM"; the remaining companies are together defined as "Other".**

Aggregate assets acquired and liabilities assumed of entities operating in different 4S dealerships on the acquisition date are as follows:

| | **BMW** | **GM** | **Other** | **Total** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Deposit paid for acquisition of Property, plant and equipment | 5,054 | — | 1,000 | 6,054 |
| Property, plant and equipment | 104,564 | 113,878 | 28,433 | 246,875 |
| Prepaid lease payments | 77,377 | 113,086 | 26,329 | 216,792 |
| Intangible assets | 144,900 | 103,100 | 30,600 | 278,600 |
| Inventories | 107,591 | 140,126 | 65,143 | 312,860 |
| Trade and other receivables | 178,120 | 80,130 | 23,233 | 281,483 |
| Pledged bank deposits | 20,573 | 12,579 | 2,675 | 35,827 |
| Bank balances and cash | 80,406 | 98,273 | 19,042 | 197,721 |
| Trade and other payables | (246,257) | (245,372) | (104,301) | (595,930) |
| Prepaid income tax | 11,381 | 2,881 | 747 | 15,009 |
| Borrowings | (175,174) | (145,595) | (15,729) | (336,498) |
| Deferred tax liabilities | (41,422) | (36,384) | (9,218) | (87,024) |
| Net assets acquired | 267,113 | 236,702 | 67,954 | 571,769 |
| Goodwill | 86,476 | 85,508 | 20,252 | 192,236 |
| Consideration transferred | 353,589 | 322,210 | 88,206 | 764,005 |
| Satisfied by: | | | | |
| Cash | | | | 687,605 |
| Consideration payable | | | | 76,400 |
| | | | | 764,005 |
| *Net cash outflow arising on acquisitions:* | | | | |
| Bank balances and cash acquired | | | | 197,721 |
| Consideration paid | | | | (687,605) |
| | | | | (489,884) |

## 35. ACQUISITION OF SUBSIDIARIES (continued)

**(a)** (continued)

Included in the profit for the year is RMB68.77 million, attributable to the subsidiaries acquired since the acquisition date. Revenue for the year includes RMB3,039.49 million generated from these subsidiaries.

Had the acquisition of these entities been effected at the beginning of the period, the total amount of revenue of the Group for the year would have been RMB43,828.62 million and the amount of the profit for the year would have been RMB958.40 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2016, nor is it intended to be a projection of future results.

**(b)** **In January 2016, the Group acquired 100% equity interests in Shanghai Yuxing Financial Information Services Co., Ltd. ("Shanghai Yuxing") from an independent third party for cash consideration of RMB8.5 million to facilitate the Group's finance information services. Shanghai Yuxing is principally engaged in providing financial information support and is located in Shanghai, the PRC.**

Assets and liabilities recognized at the acquisition date are as follows:

| | *RMB'000* |
|---|---|
| Property, plant and equipment | 342 |
| Intangible assets | 4,133 |
| Trade and other receivables | 3,357 |
| Bank balances and cash | 4,007 |
| Trade and other payables | (2,306) |
| Deferred tax liabilities | (1,033) |
| Net assets acquired | 8,500 |
| Consideration transferred | 8,500 |
| Satisfied by: | |
| Cash | 8,500 |
| *Net cash outflow arising on acquisition:* | |
| Bank balances and cash acquired | 4,007 |
| Consideration paid | (8,500) |
| | (4,493) |

The profit and revenue for the year since acquisition date generated from the subsidiary are insignificant.

## 36. DISPOSAL OF SUBSIDIARIES

In April 2016, the Group disposed of the entire 51% equity interests in Nanning Yingshi Lexus Automobile Sales and Services Co., Ltd., the entire 51% equity interests in Ji'nan Baoxiang Automobile Sales and Services Co., Ltd., the entire 70% equity interests in Taizhou Yongda Aocheng Automobile Sales and Services Co., Ltd., the entire 60% equity interests in Taizhou Baozen Automobile Sales and Services Co., Ltd. and the entire 60% equity interests in Linhai Baozen Automobile Sales and Services Co., Ltd. at a consideration of approximately RMB33,603,000 in aggregate.

The net assets at the dates of disposal were as follows:

| | *RMB'000* |
|---|---|
| Property, plant and equipment | 79,796 |
| Intangible assets | 7,604 |
| Deferred tax assets | 3,646 |
| Trade and other receivables | 77,540 |
| Inventory | 94,110 |
| Bank balances and cash | 24,619 |
| Trade and other payables | (169,704) |
| Dividends payable | (14,200) |
| Income tax liabilities | (3,180) |
| Short-term bank loan | (47,905) |
| Net assets | 52,326 |
| Less: non-controlling interests | (17,502) |
| *Net assets disposal of* | 34,824 |
| Loss on disposal *(Note 6)* | (1,221) |
| Total consideration | 33,603 |
| Satisfied by: | |
| Cash | 33,603 |
| *Net cash inflow arising on disposal:* | |
| Cash received | 33,603 |
| Less: bank balances and cash disposed of | (24,619) |
| | 8,984 |

## 37. DISPOSAL OF NON-CONTROLLING INTERESTS

In January and March 2016, the Group disposed of 7% equity interests in Shanghai Yongda Zhenyou Second-hand Automobiles Services Co., Ltd. and the entire 49% equity interests in 13 subsidiaries including one Bentley 4S dealership, one Infiniti 4S dealership, one Jaguar and Land Rover 4S dealership, two Volvo 4S dealerships, three Audi 4S dealerships, two Ford 4S dealerships, two Volkswagen 4S dealerships and one Skoda dealership to independent third parties for a total cash consideration of approximately RMB107,323,000, respectively. The difference between the consideration received and the non-controlling interests disposed was approximately RMB5,103,000 which was recognized in the special reserve in the consolidated statement of changes in equity.

## 38. CAPITAL RISK MANAGEMENT

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

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

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

## 39. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **7,814,251** | 5,259,659 |
| AFS financial assets | **94,690** | 91,845 |
| **Financial liabilities** | | |
| Amortized cost | **13,334,249** | 10,887,860 |

### b. Financial risk management objectives and policies

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

***Market risk***

*Currency risk*

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

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Assets** | | |
| US$ | **753** | 1,452 |
| HK$ | **1,499** | 62 |
| Australia Dollars ("AU$") | **32,356** | — |

## 39. FINANCIAL INSTRUMENTS (continued)

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

***Market risk*** (continued)

*Currency risk* (continued)

Sensitivity analysis

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

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

| | Foreign currencies of the Group entities impact | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| Increase in post-tax profit for the year | **1,298** | 57 |

*Interest rate risk*

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

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

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

## 39. FINANCIAL INSTRUMENTS (continued)

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

***Market risk*** (continued)

*Interest rate risk* (continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the Group's variable-rate bank balances, pledged bank deposits and borrowings. The analysis is prepared assuming the variable-rate financial assets and liabilities outstanding at the end of the reporting period were outstanding for the whole year. A 5 basis-point (2015: 5 basis-point) increase or decrease in deposit interest rates and a 10 basis-point (2015: 10 basis-point) increase or decrease in lending interest rates are the sensitivity rates used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rates.

If the deposit interest rate had been 5 basis points (2015: 5 basis points) higher/lower, the lending interest rate had been 10 basis points (2015: 10 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended December 31, 2016 and 2015 would have been decreased/increased by approximately RMB80,000 and RMB94,000, respectively.

***Credit risk***

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

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

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

73% (2015: 99%) of the Group's amounts due from related parties is from a related party which is financially strong.

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

## 39. FINANCIAL INSTRUMENTS (continued)

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

***Credit risk*** (continued)

The Group has concentration of credit risk as about 83% (2015: 85%) of rebate receivables made to suppliers was due from the Group's five largest suppliers of passengers vehicles in the PRC as at December 31, 2016. In order to further minimize the credit risk, the management of the Group delegates teams to deal with these suppliers on expected delivery schedules of inventories, purchase volume, settlement timeline of outstanding balances with suppliers and the suppliers' financial position, etc. Teams also reconcile with these suppliers on outstanding balances, prepayments made and transactions recorded in relevant reporting period periodically to ensure trading information is properly recorded. In addition, the Group reviews the recoverable amount of each individual balance at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In view of the actions taken by the Group and the fact that the counterparties are the joint ventures of renowned automobile manufacturers with high credit quality, the Group considers that credit risk in the rebate receivables made to suppliers is significantly reduced.

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

***Liquidity risk***

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

*Liquidity and interest risk tables*

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

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

## 39. FINANCIAL INSTRUMENTS (continued)

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

***Liquidity risk*** (continued)

*Liquidity and interest risk tables* (continued)

| | Weighted average interest rate % | Repayable on demand or within 3 months RMB'000 | 3 months to 1 year RMB'000 | 1 year to 5 years RMB'000 | After 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Total carrying amount RMB'000 |
|---|---|---|---|---|---|---|---|
| **At December 31, 2016** | | | | | | | |
| Trade and other payables | | 3,878,161 | – | – | – | 3,878,161 | 3,878,161 |
| Amounts due to related parties | | 3,665 | – | – | – | 3,665 | 3,665 |
| Borrowings | 4.39% | 2,076,661 | 3,334,153 | 175,410 | – | 5,586,224 | 5,476,772 |
| Short-term debentures | 4.30% | 834,400 | – | – | – | 834,400 | 799,333 |
| Corporate bonds | 3.90% | – | 78,000 | 2,156,000 | – | 2,234,000 | 1,990,344 |
| Convertible bonds | 1.50% | 7,500 | 1,015,170 | – | – | 1,022,670 | 978,837 |
| Other liabilities | | – | - | 207,137 | – | 207,137 | 207,137 |
| | | 6,800,387 | 4,427,323 | 2,538,547 | – | 13,766,257 | 13,334,249 |

| | Weighted average interest rate % | Repayable on demand or within 3 months RMB'000 | 3 months to 1 year RMB'000 | 1 year to 5 years RMB'000 | After 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Total carrying amount RMB'000 |
|---|---|---|---|---|---|---|---|
| **At December 31, 2015** | | | | | | | |
| Trade and other payables | – | 3,511,007 | – | – | – | 3,511,007 | 3,511,007 |
| Amounts due to related parties | – | 2,508 | – | – | – | 2,508 | 2,508 |
| Borrowings | 4.85% | 1,722,422 | 2,259,016 | 259,836 | 29,785 | 4,271,059 | 4,153,142 |
| Short-term debentures | 4.00% | – | 832,000 | – | – | 832,000 | 797,422 |
| Medium-term note | 6.40% | – | 1,234,240 | – | – | 1,234,240 | 1,157,472 |
| Convertible bonds | 1.50% | 7,500 | 7,500 | 1,015,000 | – | 1,030,000 | 928,911 |
| Other liabilities | – | – | – | 337,398 | – | 337,398 | 337,398 |
| | | 5,243,437 | 4,332,756 | 1,612,234 | 29,785 | 11,218,212 | 10,887,860 |

### c. Fair value

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

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

## 40. RELATED PARTY DISCLOSURES

### I. Amounts due from related parties/a related party

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| **Current** | | |
| Associate held by the Group | | |
| Shanghai Oriental Yongda Automobile Sales Co., Ltd. | | |
| (“Shanghai Oriental Yongda”) | **64** | 118 |
| **Joint venture held by the Group** | | |
| Harbin Yongda | **89,118** | 67,264 |
| **Entities controlled by the shareholders** | | |
| Shanghai Yongda Property Development Co., Ltd. | **171** | — |
| | **89,353** | 67,382 |
| Analyzed as: | | |
| Trade-related (*note a*) | **235** | 118 |
| Non trade-related (*note b*) | **89,118** | 67,264 |
| | **89,353** | 67,382 |

Notes:

a. The Group offers at its discretion certain related parties a credit period up to 90 days.

b. The balances are interest-free, unsecured and expected to be received within one year.

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| **Non-current** | | |
| **Joint venture held by the Group** | | |
| Ryde 88 Pty Limited | **32,356** | — |

The balance is AU$-denominated and unsecured loan of principal amounting to AU$6,000,000, equivalent to RMB31,435,000, with maturity of three years. The loan carries a fixed interest rate of 12% per annum. The interests are payable upon maturity. As of December 31, 2016, unreceived interest of approximately AU$180,000, equivalent to RMB921,000, was accrued.

## 40. RELATED PARTY DISCLOSURES (continued)

### II. Amounts due to related parties

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **Joint ventures held by the Group** | | |
| Shanghai Bashi Yongda | **3,665** | 1,624 |
| **Associate held by the Group** | | |
| Shanghai Yongda Changrong | **–** | 884 |
| | **3,665** | 2,508 |
| **Analyzed as:** | | |
| Trade-related *(note)* | **3,665** | 2,508 |

Note: A credit period of not exceeding 90 days is given to the Group by the related parties.

### III. Related party transactions

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **a) Sales of motor vehicles** | | |
| Shanghai Bashi Yongda | **3,233** | 2,214 |
| Shanghai Yongda Changrong | **–** | 651 |
| Shanghai Yongda Shenbao | **–** | 97 |
| | **3,233** | 2,962 |

***Sales of motor vehicles via Shanghai Oriental Yongda***

The Group, through Shanghai Oriental Yongda's television shopping channel, sold motor vehicles to customers amounting to RMB741,847,000 and RMB825,435,000 for the years ended December 31, 2016 and 2015, respectively. A commission of approximately RMB5,899,000 and RMB5,121,000 was paid to Shanghai Oriental Yongda for the marketing and promotion activities it carried out for the Group for the years ended December 31, 2016 and 2015, respectively.

## 40. RELATED PARTY DISCLOSURES (continued)

### III. Related party transactions (continued)

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **b) Purchase of motor vehicles** | | |
| Shanghai Bashi Yongda | **19,730** | 16,779 |
| Shanghai Yongda Changrong | **3,318** | 884 |
| | **23,048** | 17,663 |
| **c) Sales of spare parts** | | |
| Shanghai Bashi Yongda | **200** | — |
| Shanghai Yongda Changrong | **811** | — |
| | **1,011** | — |
| **d) Interest income from** | | |
| Ryde 88 Pty Limited *(Note 6)* | **921** | — |
| **e) Rental expenses paid to** | | |
| *Entity controlled by the shareholders* | | |
| Shanghai Yongda Group Company Limited | | |
| Shanghai Yongda Transportation Equipment Co., Ltd. and Shanghai Yongda Property Development Co., Ltd. *(note)* | **9,958** | 11,568 |
| *Associate held by the Group* | | |
| Shanghai Yongda Fengdu Automobile | **3,800** | 3,500 |
| | **13,758** | 15,068 |

Note: The related party transaction constitutes continuing connected transaction for the Company within the meaning of the Listing Rules, the details of which are disclosed in the section headed "Connected and Continuing Connected Transactions" in this annual report.

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **f) Compensation of key management personnel** | | |
| Short-term benefits | **8,490** | 8,378 |
| Post-employment benefits | **439** | 431 |
| Shared-based payments | **6,989** | 6,474 |
| | **15,918** | 15,283 |

The remuneration of directors is determined by the board and its remuneration committee having regard to the performance of individuals and market trends.

## 41. OPERATING LEASES

**The Group as lessee**

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of the Group's outlets which fall due as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Within one year | 183,695 | 146,732 |
| In the second to fifth years inclusive | 552,197 | 430,138 |
| After five years | 916,928 | 716,232 |
| | 1,652,820 | 1,293,102 |

Operating lease payments represent rentals payable by the Group for certain properties and land. The leases in general run for an initial period of two to twenty years with an option to renew the leases when all the terms are renegotiated. Certain leases also contain an escalation clause.

**The Group as lessor**

At the end of each reporting period, the Group had contracted with car renters for the following future minimum lease payments:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Within one year | 148,827 | 151,969 |
| In the second to fifth years inclusive | 47,719 | 57,552 |
| | 196,546 | 209,521 |

The Group provides automobile rental services for a term of no more than three years and for fixed rentals.

## 42. CAPITAL COMMITMENTS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Capital expenditure in respect of acquisition of | | |
| — property, plant and equipment contracted for but not provided | 75,123 | 96,776 |

## 43. RETIREMENT BENEFITS SCHEME

The employees of the Group are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a certain percentage of the total monthly basic salaries of its current employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The total cost charged to the consolidated statements of comprehensive income of approximately RMB97,586,000 and RMB86,782,000 for the years ended December 31, 2016 and 2015, respectively, represent contributions payable to the scheme by the Group for the respective years.

## 44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company as at December 31, 2016 is as follows:

| | NOTE | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | | **—** | 1,036 |
| Unlisted investment in a subsidiary and amounts due from subsidiaries | | **1,568,612** | 1,568,612 |
| | | **1,568,612** | 1,569,648 |
| **Current Assets** | | | |
| Other receivables | | **7,967** | 1,786 |
| Bank balances and cash | | **9,100** | 10,100 |
| Amounts due from subsidiaries | | **249,499** | 594,816 |
| | | **266,566** | 606,702 |
| **Other payables** | | **301** | 18,832 |
| Borrowings | | **—** | 157,731 |
| Convertible bonds | | **978,837** | — |
| | | **979,138** | 176,563 |
| **Net Current Assets** | | **(712,572)** | 430,139 |
| **Total assets less current liabilities** | | **856,040** | 1,999,787 |
| **Non-current Liabilities** | | | |
| Convertible bonds | | **—** | 928,911 |
| Net assets | | **856,040** | 1,070,876 |
| **Capital and reserves** | | | |
| Share capital | | **12,066** | 12,065 |
| Reserves | (a) | **843,974** | 1,058,811 |
| Total equity | | **856,040** | 1,070,876 |

Note (a):

| | Share Premium RMB'000 | Share-based payments reserve RMB'000 | Convertible bonds reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| As at January 1, 2015 | 1,207,885 | 28,272 | 62,490 | (28,482) | 1,270,165 |
| Loss for the year | — | — | — | (79,364) | (79,364) |
| Dividends recognized as distribution | (148,002) | — | — | — | (148,002) |
| Recognition of equity-settled share-based payments | — | 16,012 | — | — | 16,012 |
| At December 31, 2015 | 1,059,883 | 44,284 | 62,490 | (107,846) | 1,058,811 |
| Loss for the year | — | — | — | (81,797) | (81,797) |
| Exercise of share options | 325 | — | — | — | 325 |
| Dividends recognized as distribution | (155,401) | — | — | — | (155,401) |
| Recognition of equity-settled share-based payments | — | 22,036 | — | — | 22,036 |
| At December 31, 2016 | 904,807 | 66,320 | 62,490 | (189,643) | 843,974 |

## 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at December 31, 2016 and 2015 are as follows:

| Name of subsidiaries # ^ | Place of incorporation/ establishment | Date of incorporation/ establishment | Issued and fully paid share/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31, 2016 % | 2015 % | Principal activities @ |
|---|---|---|---|---|---|---|
| **Directly held:** | | | | | | |
| Sea of Wealth International Investment Company Limited 富海國際投資有限公司 | The British Virgin Islands | November 15, 2011 | 1 share of US$1.00 each | 100 | 100 | Investment holding |
| **Indirectly held:** | | | | | | |
| Grouprich International Investment Holdings Limited 香港匯富國際投資集團有限公司 | Hong Kong | September 10, 2004 | 1,000,000 shares of HK$1.00 each | 100 | 100 | Investment holding |
| Shanghai Yongda Investment Holdings Group Co., Ltd. 上海永達投資控股集團有限公司 (formerly known as Shanghai Yongda Investment Co., Ltd. 上海永達投資有限公司) | PRC | September 25, 2003 | RMB1,500,000,000 | 100 | 100 | Investment holding |
| Shanghai Yongda Automobile Group Co., Ltd. 上海永達汽車集團有限公司 (formerly known as Shanghai Yongda Automobile International Investment Management Co., Ltd. 上海永達汽車國際投資管理有限公司) | PRC | September 15, 2003 | RMB1,893,204,250 | 100 | 100 | Investment holding |
| Shanghai Yongda Automobile Leasing Co., Ltd. 上海永達汽車租賃有限公司 | PRC | February 21, 2000 | RMB50,000,000 | 100 | 100 | Automobile rental services |
| Shanghai Baozen Automobile Sales and Services Co., Ltd. 上海寶誠汽車銷售服務有限公司 | PRC | January 6, 2004 | RMB80,000,000 | 100 | 100 | 4S dealership |
| Shanghai Baozen Zhonghuan Automobile Sales and Services Co., Ltd. 上海寶誠中環汽車銷售服務有限公司 | PRC | August 30, 2007 | RMB50,000,000 | 100 | 100 | 4S dealership |
| Taiyuan Baozen Automobile Sales and Services Co., Ltd. 太原寶誠汽車銷售服務有限公司 | PRC | October 23, 2007 | RMB15,000,000 | 60 | 60 | 4S dealership |
| Nantong Baozen Automobile Sales and Services Co., Ltd. 南通寶誠汽車銷售服務有限公司 | PRC | September 1, 2006 | RMB30,000,000 | 100 | 100 | 4S dealership |
| Wuxi Yicheng Automobile Sales and Services Co., Ltd. 無錫翼誠汽車銷售服務有限公司 | PRC | October 13, 2011 | RMB10,000,000 | 100 | 100 | 4S dealership |
| Wuxi Yongda Oriental Automobile Sales and Services Co., Ltd. ("Wuxi Yongda Oriental") 無錫永達東方汽車銷售服務有限公司 | PRC | April 15, 2011 | RMB50,000,000 | 70 | 70 | 4S dealership |
| Shanghai Yongda Infiniti Automobile Sales and Services Co., Ltd. 上海永達英菲尼迪汽車銷售服務有限公司 | PRC | September 18, 2006 | RMB30,000,000 | 100 | 100 | 4S dealership |
| Shanghai Yongda Infiniti Qibao Automobile Sales and Services Co., Ltd. 上海永達英菲尼迪七寶汽車銷售服務有限公司 | PRC | August 14, 2009 | RMB25,000,000 | 100 | 100 | 4S dealership |
| Guangzhou Yongda Automobile Rental Co.,Ltd. ("Guangzhou Yongda Automobile Rental") 廣州永達汽車租賃有限公司 (formerly known as Guangzhou Dafa Qizhong Services Co., Ltd 廣州大發起重服務有限公司) | PRC | July 6, 2012 | RMB50,000 | 100 | 100 | Automobile rental services |
| Yongsheng Finance Leasing Co., Ltd 永昇融資租賃有限公司 | PRC | August 22, 2014 | RMB25,500,000 | 100 | 100 | Finance leasing services |
| Shanghai Yongda Finance Leasing Co., Ltd. 上海永達融資租賃有限公司 | PRC | March 29, 2013 | RMB300,000,000 | 100 | 100 | Finance leasing services |
| Shanghai Yongda Bashi Automobile Sales and Services Co., Ltd. 上海永達巴士汽車銷售服務有限公司 | PRC | March 11, 2008 | RMB20,000,000 | 100 | 100 | 4S dealership |

## 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of subsidiaries # ^ | Place of incorporation/ establishment | Date of incorporation/ establishment | Issued and fully paid share/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31, 2016 % | 2015 % | Principal activities @ |
|---|---|---|---|---|---|---|
| Shanghai Yongda Toyota Automobile Sales and Services Co., Ltd. 上海永達豐田汽車銷售服務有限公司 | PRC | April 25, 2002 | RMB10,000,000 | **100** | 100 | 4S dealership |
| Shanghai Pudong Used Automobile Trading Management Co., Ltd. ("Shanghai Pudong Used Automobile") 上海市浦東舊機動車交易市場經營管理有限公司 | PRC | July 13, 1999 | RMB5,340,000 | **75** | 75 | Pre-owned vehicle business |
| Shanghai Zhongzheng Second-Hand Automobile Valuation Services Co., Ltd. 上海中正二手車評估服務有限公司 | PRC | September 22, 2005 | RMB1,560,000 | **80** | 80 | Pre-owned vehicle business |
| Linyi Yubaohang Automobile Sales and Services Co., Ltd. 臨沂宇寶行汽車銷售服務有限公司 | PRC | October 26, 2006 | RMB30,000,000 | **100** | 100 | 4S dealership |
| Lishui Jiacheng Automobile Sales and Services Co., Ltd. 麗水市嘉誠汽車銷售有限公司 | PRC | May 17, 2010 | RMB80,000,000 | **100** | 100 | 4S dealership |
| Jiangyin Leichi Automobile Sales and Services Co., Ltd. 江陰雷馳汽車銷售服務有限公司 | PRC | August 23, 2010 | RMB15,000,000 | **51** ***(note 3)*** | 88 | 4S dealership |
| Yancheng Yuebao Trading Co., Ltd. 鹽城悅寶貿易有限公司 | PRC | October 31, 2015 | RMB20,396,500 | **100** | 100 | Operation to be commenced |
| Haerbin Baozen Automobile Sales and Services Co., Ltd. 哈爾濱寶誠汽車銷售服務有限公司 | PRC | March 7, 2015 | RMB15,000,000 | **100** | 100 | 4S dealership |
| Tianjin Zhongshun Jinbao Automobile Sales and Services Co., Ltd. 天津市中順津寶汽車服務有限公司 | PRC | March 31, 2015 | RMB45,000,000 | **100** | 100 | 4S dealership |
| Tianjin Yingyue Automobile Sales and Services Co., Ltd. 天津英悅汽車銷售服務有限公司 | PRC | March 31, 2015 | RMB10,000,000 | **100** | 100 | 4S dealership |
| Wuxi Baozen Automobile Sales and Services Co., Ltd. 無錫寶尊汽車銷售服務有限公司 | PRC | August 31, 2015 | RMB20,000,000 | **100** | 100 | 4S dealership |
| Shenzhen Yongda South Investing Co., Ltd. 深圳永達南方投資有限公司 | PRC | June 09, 2015 | RMB100,000,000 | **70** | 70 | Holding |
| Shenzhen South Zhongyue Automobile Sales and Services Co., Ltd. 深圳市南方眾悅汽車銷售服務有限公司 | PRC | May 19, 2015 | RMB5,000,000 | **59** | 59 | After-sales services |
| Hunan South Zhongyue Automobile and Services Co., Ltd. 湖南南方眾悅汽車銷售服務有限公司 | PRC | May 21, 2015 | RMB5,000,000 | **70** | 70 | After-sales services |
| Shanghai Yongda Beiyuan Automobile Services Co., Ltd. 上海永達北源汽車銷售服務有限公司 | PRC | April 30, 2015 | RMB1,000,000 | **100** | 100 | After-sales services |
| Taixing Yongda Zhongcheng Automobile Sales and Services Co., Ltd. 泰興永達眾誠汽車銷售服務有限公司 | PRC | February 28, 2015 | RMB20,000,000 | **51** ***(note 3)*** | 100 | 4S dealership |
| Shengzhou Yongda Bencheng Automobile Sales and Services Co., Ltd. 嵊州市永達本誠汽車銷售服務有限公司 | PRC | June 30, 2015 | RMB43,300,000 | **100** | 100 | 4S dealership |
| Haerbin Yongda Hongfu Automobile Sales and Services Co., Ltd. 哈爾濱永達宏福汽車銷售服務有限公司 | PRC | March 14, 2015 | RMB10,000,000 | **51** ***(note 3)*** | 100 | 4S dealership |
| Ningbo Yongda Funing Automobile Sales and Services Co., Ltd. 寧波永達福寧汽車銷售服務有限公司 | PRC | February 28, 2015 | RMB10,000,000 | **51** ***(note 3)*** | 100 | 4S dealership |
| Yancheng Yuegao Trading Co., Ltd. 鹽城悅高貿易有限公司 | PRC | November 30, 2015 | RMB14,186,600 | **100** | 100 | 4S dealership |
| Nantong Oriental Yongda Jiachen Automobile Sales and Services Co., Ltd. 南通東方永達佳晨汽車銷售服務有限公司 | PRC | November 16, 2011 | RMB40,000,000 | **60** | 60 | 4S dealership |

## 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of subsidiaries # ^ | Place of incorporation/ establishment | Date of incorporation/ establishment | Issued and fully paid share/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31, 2016 % | 2015 % | Principal activities @ |
|---|---|---|---|---|---|---|
| Shanghai West Shanghai Shenjie Automobile Sales and Services Co., Ltd. 上海西上海申傑汽車銷售服務有限公司 | PRC | March 3, 2011 | RMB30,000,000 | **100** | 100 | 4S dealership |
| Shanghai West Shanghai Jiawo Automobile Sales and Services Co., Ltd. 上海西上海嘉沃汽車銷售服務有限公司 | PRC | March 1, 2011 | RMB30,000,000 | **100** | 100 | 4S dealership |
| Rui'an Yongda Nanyang Lujie Automobile Sales and Services Co., Ltd. 瑞安市永達南洋路捷汽車銷售服務有限公司 | PRC | March 5, 2014 | RMB30,000,000 | **100** | 70 | 4S dealership |
| Kunshan Yongda Lujie Automobile Sales and Services Co., Ltd. 昆山永達路捷汽車銷售服務有限公司 | PRC | March 15, 2014 | RMB40,000,000 | **100** | 100 | 4S dealership |
| Changshu Yongda Lujie Automobile Sales and Services Co., Ltd. 常熟永達路捷汽車銷售服務有限公司 | PRC | June 8, 2014 | RMB30,000,000 | **100** | 100 | 4S dealership |
| Shanghai West Shanghai Hongjie Automobile Sales and Services Co., Ltd. 上海西上海弘傑汽車銷售服務有限公司 | PRC | July 5, 2011 | RMB60,000,000 | **100** | 100 | 4S dealership |
| Shanghai Yongda Qiming Automobile Sales and Services Co., Ltd. 上海永達啟明汽車銷售服務有限公司 | PRC | January 27, 2015 | RMB22,000,000 | **100** | 100 | 4S dealership |
| Wuxi Baozen Automobile Sales and Services Co., Ltd. ("Wuxi Baozen") 無錫寶誠汽車銷售服務有限公司 | PRC | September 13, 2004 | RMB40,000,000 | **88** | 88 | 4S dealership |
| Beijing Jinshicheng Trading Co., Ltd. 北京金世誠商貿有限公司 | PRC | April 30, 2009 | RMB5,000,000 | **80% *(note 1)*** | N/A | Trading business |
| Jiangsu Baozun Investment Group Co., Ltd. 江蘇寶尊投資集團有限公司 | PRC | April 25, 2011 | RMB589,910,000 | **100% *(note 2)*** | N/A | Investment holding |
| Changzhou Baozun Automobile Sales and Services Co., Ltd. 常州寶尊汽車銷售服務有限公司 | PRC | May 11, 2006 | RMB22,220,000 | **100% *(note 2)*** | N/A | 4S dealership |
| Changzhou Xin Baozun Automobile Sales and Services Co., Ltd. 常州新寶尊汽車銷售服務有限公司 | PRC | October 29, 2009 | RMB10,000,000 | **100% *(note 2)*** | N/A | 4S dealership |
| Changzhou Kaidi Automobile Sales and Services Co., Ltd. 常州凱帝汽車銷售服務有限公司 | PRC | August 29, 2012 | RMB10,000,000 | **100% *(note 2)*** | N/A | 4S dealership |
| Changzhou Changtong Auto sales and Service Co., Ltd. 常州常通汽車銷售服務有限公司 | PRC | January 9, 2003 | RMB23,000,000 | **100% *(note 2)*** | N/A | 4S dealership |
| Changzhou Chang Xue Automobile Sales and Services Co., Ltd. 常州常雪汽車銷售服務有限公司 | PRC | November 24 2004 | RMB5,000,000 | **100% *(note 2)*** | N/A | 4S dealership |
| Changzhou Shangtong Automobile Sales and Services Co., Ltd. 常州上通汽車銷售服務有限公司 | PRC | February 20, 2001 | RMB5,880,000 | **100% *(note 2)*** | N/A | 4S dealership |
| Changzhou Zunyue Automobile Sales and Services Co., Ltd. 常州尊越汽車銷售服務有限公司 | PRC | June 25, 2007 | RMB10,000,000 | **100% *(note 2)*** | N/A | 4S dealership |

## 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

# Except for Sea of Wealth and Grouprich International which are limited liability companies, all subsidiaries are domestic limited liability enterprises.

^ The English names of all subsidiaries established in the PRC are translated for identification purpose only.

@ 4S dealership represents an automobile dealership authorized by an automobile manufacturer to engage in the four businesses relating to sales, spare parts, service and survey.

Notes:

1. In 2016 the Group paid the consideration of RMB1,180,000 to acquire 80% equity interests in Beijing Jinshicheng Trading Co., Ltd. ("Beijing Jinshicheng Trading") from an independent third party. Beijing Jinshicheng is principally engaged in trading business and is located in Beijing, the PRC. The non-controlling interests was initially measured at the non-controlling interests' proportionate share of the recognized amounts of the identifiable net assets, amounting to RMB20,000. The net cash outflow arising on such an acquisition amounting to RMB1,179,000.

2. These companies were newly acquired in 2016. Details are set out in Note 35.

3. The Group disposed partial equity interests of these companies without losing control in 2016. Details are set out in Note 37.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year, except for Shanghai Yongda Investment Holdings Group Co., Ltd. which issued short-term debentures with principal amount of RMB0.8 billion, a medium-term note with principal amount of RMB1.16 billion and corporate bonds with principal amount of RMB2 billion. Details of the short-term debentures are set out in Note 29, details of the medium-term note are set out in Note 30 and details of the corporate bonds are set out in Note 31.

## 46. SUBSEQUENT EVENT

On March 9, 2017, Shanghai Yongda Investment has received the "Notice of Acceptance of Registration" (the "Notice") from the National Association of Financial Market Institutional Investors (the "Association") in relation to the issue of super short-term commercial papers ("Super Short-term Commercial Papers") by Shanghai Yongda Investment. The maximum registered amount of the Super Short-term Commercial Papers is RMB4 billion and such registered amount will be effective for two years from the date of issue of the Notice.

# Financial Summary

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

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **RESULTS** | | | | | |
| **REVENUE** | **43,032,502** | 35,657,593 | 32,937,975 | 26,096,526 | 21,711,998 |
| **Profit before tax** | **1,152,003** | 776,535 | 705,235 | 852,577 | 681,317 |
| Income tax expense | **(244,227)** | (209,201) | (165,755) | (210,540) | (165,850) |
| **Profit and total comprehensive income for the year** | **907,776** | 567,334 | 539,480 | 642,037 | 515,467 |
| **Attributable to:** | | | | | |
| Owners of the Company | **851,272** | 524,468 | 501,130 | 588,310 | 470,016 |
| Non-controlling interests | **56,504** | 42,866 | 38,350 | 53,727 | 45,451 |
| | **907,776** | 567,334 | 539,480 | 642,037 | 515,467 |
| **ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS** | | | | | |
| **TOTAL ASSETS** | **20,375,125** | 17,207,264 | 16,919,270 | 12,898,157 | 9,995,648 |
| **TOTAL LIABILITIES** | **(14,972,192)** | (12,606,829) | (12,743,580) | (9,206,701) | (6,677,049) |
| **NON-CONTROLLING INTERESTS** | **(441,174)** | (363,240) | (331,799) | (267,391) | (256,016) |
| | **4,961,759** | 4,237,195 | 3,843,891 | 3,424,065 | 3,062,583 |