雅迪集團控股有限公司

YADEA GROUP HOLDINGS LTD.

(Incorporated in the Cayman Islands with limited liability)

Stock Code：1585

2016 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:
Mr. Dong Jinggui (Chairman)
Ms. Qian Jinghong
Mr. Liu Yeming
Mr. Shi Rui
Mr. Shen Yu

Non-executive Director:
Mr. Fan Xiang *(resigned on 5 January 2017)*

Independent Non-executive Directors:
Mr. Li Zongwei
Mr. Wu Biguang
Mr. Yao Naisheng

AUDIT COMMITTEE

Mr. Li Zongwei (Chairman)
Mr. Wu Biguang
Mr. Yao Naisheng

REMUNERATION COMMITTEE

Mr. Wu Biguang (Chairman)
Mr. Liu Yeming
Mr. Yao Naisheng

NOMINATION COMMITTEE

Mr. Dong Jinggui (Chairman)
Ms. Qian Jinghong
Mr. Yao Naisheng
Mr. Wu Biguang
Mr. Li Zongwei

JOINT COMPANY SECRETARIES

Mr. Shen Yu
Ms. Wong Sau Ping

AUTHORIZED REPRESENTATIVES

Mr. Liu Yeming
Ms. Wong Sau Ping

REGISTERED OFFICE

Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Xishan Road
Dacheng Industrial Zone
Anzhen Town
Xishan District
Wuxi, Jiangsu Province
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

36/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
Clifton House
75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

COMPLIANCE ADVISER

TC Capital International Limited
Suite 1903–4, 19/F, Tower 6,
The Gateway, Harbour City,
9 Canton Road, Kowloon,
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

CORPORATE INFORMATION (continued)

LEGAL ADVISOR

As to Hong Kong Law:
Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street
Central
Hong Kong

PRINCIPAL BANKERS

Bank of Nanjing, Wuxi Xishan Branch
No. 1 East Xihu Road
Wuxi, Jiangsu Province
China

China Construction Bank, Cixi Branch
No. 279 Shishan Road
Cixi, Zhejiang Province
China

China Everbright Bank, Tianjin Huayuan Branch
No. 62–68 Caizi Yuan
Junction of Huayuan Road and Yashi Avenue
Nankai District, Tianjin
China

STOCK CODE

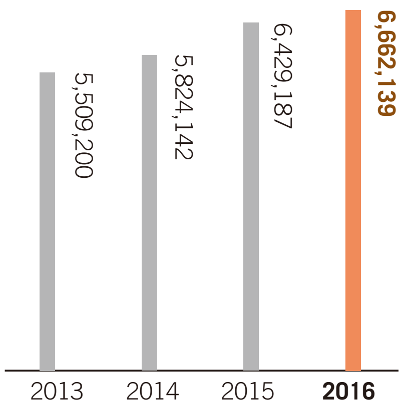
1585

WEBSITE

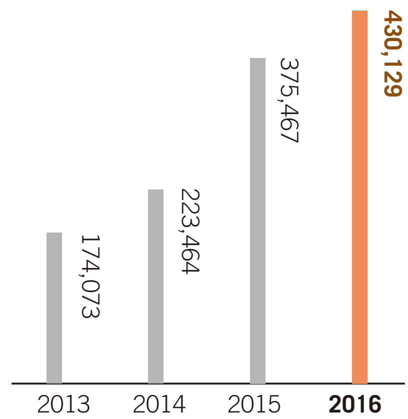
www.yadea.com.cn

FINANCIAL HIGHLIGHTS

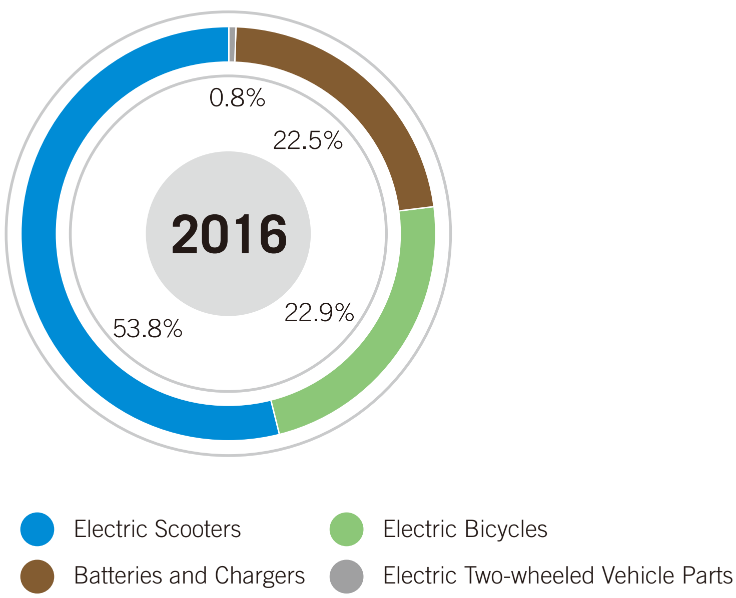
REVENUE
RMB'000



PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT
RMB'000



REVENUE GENERATED BY PRODUCT TYPE



FINANCIAL HIGHLIGHTS (continued)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December			
	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**6,662,139**	6,429,187	5,824,142	5,059,200
Cost of sales	**(5,309,375)**	(5,211,994)	(4,855,684)	(4,404,654)
Gross profit	**1,352,764**	1,217,193	968,458	654,546
Profit before tax	**554,416**	490,867	306,703	225,455
Income tax expense	**(124,287)**	(115,400)	(83,239)	(51,382)
Profit for the year attributable to				
– owners of the parent	**430,129**	375,467	223,464	174,073

CONDENSED CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December			
	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**5,865,962**	3,989,768	2,917,311	2,585,604
Total liabilities	**3,645,392**	3,207,931	2,400,738	1,958,355
Total equity	**2,220,570**	781,837	516,573	627,249

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**"), I am pleased to present the first annual results of Yadea Group Holdings Ltd. ("**Yadea**" or the "**Company**" and together with its subsidiaries, the "**Group**") following its successful listing (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 19 May 2016 (the "**Listing Date**").

We would like to take this opportunity to express our sincere gratitude to all those involved in helping us realise this important milestone. This achievement is significant to us on multiple levels, as it enables us to gain access to the international capital markets, reinforce our corporate governance structure, enhance our corporate and brand image, also further strengthen our leading position within the electric two-wheeled vehicle industry in the PRC. The funds raised are beneficial to the Group in accelerating the upgrading of our production capacity and technical capability, thereby creating sound foundation for the Group to respond to all challenges and providing a powerful boost for our long-term development.

Yadea is the leading electric two-wheeled vehicle brand in China focusing on designing, researching, developing, manufacturing and selling electric two-wheeled vehicles. Over the course of 15 years, we have successfully established "Yadea" as a premium brand of electric two-wheeled vehicles in the PRC. We believe that consumers associate "Yadea" with high-quality products with fashionable designs and superior customer services. "Yadea" has been named the first of the Top 10 Electric Two-wheeled Vehicle Enterprises of China's Light Industry by the Chinese National Light Industry Council each year since 2009. We regard the ongoing building of our high-end brand image as one of our most important development strategies as strong market recognition and reputation enable us to command a price premium for our products.

CHAIRMAN'S STATEMENT (continued)

Build on our previous accomplishments, we again delivered a solid financial and operational results in 2016. Revenue from the sales of electric two-wheeled vehicles and related accessories increased by approximately 3.6% from RMB6,429.2 million in 2015 to RMB6,662.1 million in 2016 and profit for the year increased by approximately 14.6% from RMB375.5 million in 2015 to RMB430.1 million in 2016. We successfully achieved the overall objectives and tasks in the business plan formulated at the beginning of the year. In response to market developments, the increasing demand of electric scooters in southern China and overload capacity of our Dongguan production facility, we relocated our production of electric scooters to a new site in Qingyuan, which includes a new plant area of approximately 22,600 square meters, an office area of approximately 14,000 square meters and a dormitory area of approximately 10,000 square meters. The new production plant had 400 employees and five production lines as of 31 December 2016, with estimated production capacity of approximately 0.7 million units per year. Furthermore, in terms of product improvement, we introduced 45 new models of electric scooters and 47 new models of electric bicycles with advanced performance characteristics. Currently, we are also in the process of developing lithium ion battery with advanced performance for electric two-wheeled vehicles with one of our strategic alliances, Lightning Motors Corporation, a U.S. company specializing in researching and developing advanced electric two-wheeled vehicles.

Looking into 2017, we will continue to focus on building "Yadea" as premium brand of electric two-wheeled vehicles domestically and internationally, strengthening our search, development and design capabilities, enhancing our sale and service network as well as improving our distributors' points of sales and the customer experience. We will also actively expand business and enhance our presence in the existing markets and entering new markets which have high growth potential, in particular Southeast Asia market. We are confident that we will be able to replicate our success in China in Southeast Asia market, enhance Yadea's value and bring outstanding returns to the Shareholders.

On behalf of the Board, I would like to thank our management team and employees for their dedicated services and contributions and extend my heartfelt gratitude to our shareholders and business partners for their continued support and trust. To share the fruits of the growth with our shareholders, we are pleased to propose a final dividend of 4.0 HK cents per ordinary share for the year ended 31 December 2016.

Yours sincerely,
Dong Jinggui
Chairman

10 March 2017

MANAGEMENT DISCUSSION & ANALYSIS

INDUSTRY OVERVIEW

The People's Republic of China (the "**PRC**") is the largest consumer market for electric two-wheeled vehicles in the world. According to Frost & Sullivan, the PRC's retail sales volume and total number of vehicles on roads (the "**PARC**") of electric two-wheeled vehicles accounted for approximately 86.8% and approximately 84.9% of those of the world in 2015, respectively. The rapid growth of the electric two-wheeled vehicle industry in the PRC has been driven largely by rising disposable income, maturing consumer preference and increasing demand for convenient transportation. According to Frost & Sullivan, the PARC of electric scooters and electric bicycles in the PRC reached 199.8 million units in 2015 and is estimated to climb to 276.3 million units in 2020.

Meanwhile, the retail sales volume of electric scooters and electric bicycles increased from 25.9 million units in 2010 to 34.0 million units in 2015 and is expected to reach 44.0 million units by the end of 2020, representing a compound annual growth rate (the "**CAGR**") of approximately 5.3%, and the retail sales value of electric scooters and electric bicycles in the PRC has experienced fast growth during the past few years, rising from RMB58.2 billion in 2010 to RMB82.2 billion in 2015, representing a CAGR of approximately 7.1%. Along with the increasing demand and rising retail prices of electric two-wheeled vehicles in the PRC, the sales value is expected to reach RMB124.7 billion by 2020, representing a CAGR of approximately 8.7% from 2015. As consumers seek well-designed and branded electric scooters and electric bicycles, market players have increasingly focused on brand building and product design, manufacturers with well-known brands and strong research and development capabilities are expected to enjoy a higher growth potential.

BUSINESS REVIEW

We are a leading electric two-wheeled vehicle brand in the PRC, focusing on designing, researching, developing, manufacturing and selling electric scooters, electric bicycles and related accessories. The year of 2016 is a crucial year to the business development of our Group. We had spared no effort and taken numerous initiatives in ensuring our initial public offering success while we continued to expand our business and solidify our position in the high-end electric two-wheeled vehicle market in the PRC.

Revenue from the sales of electric two-wheeled vehicles and related accessories increased by approximately 3.6% from RMB6,429.2 million in 2015 to RMB6,662.1 million in 2016, primarily attributable to the increases in the average selling prices of electric scooters and electric bicycles. In 2016, our Group introduced 45 new models of electric scooters and 47 new models of electric bicycles with advanced performance characteristics and upgraded certain models of electric scooters and electric bicycles, which allowed us to command higher unit selling prices than old models. As a result, the average selling price of electric scooters increased from RMB1,704.0 in 2015 to RMB1,766.0 in 2016 and electric bicycles increased from RMB1,140.0 in 2015 to RMB1,181.0 in 2016. The total sales volume of electric scooters and electric bicycles decreased slightly from 3,321,058 units in 2015 to 3,319,582 units in 2016. Accordingly, our Group's overall gross profit margin was 20.3% in 2016, up by 1.4% as compared with the gross profit margin in 2015.

Over the course of 15 years, our Group has built an extensive distribution network with a wide geographical reach. Our domestic network covered almost every administrative region of China and consisted of 1,717 distributors as well as their sub-distributors with over 9,170 points of sales as of 31 December 2016. Internationally, we made sales in over 50 countries through our international distribution network. In 2016, we continued to carry out the distributor points of sales overhaul campaign which we have set up in line with global retail industry trends towards the provision of customized services, a focus on the customer experience, on-store displays and brand presentation. As of 31 December 2016, we had completed upgrading approximately 5,380 points of sales and expect to complete upgrades by the end of 2017.

In view of the increasing demand of electric scooters in southern China and overload capacity of our Dongguan production facility, in October 2016, we moved our production of electric scooters to a new site in Qingyuan, which includes a new plant area of approximately 22,600 square meters, an office area of approximately 14,000 square meters and a dormitory area of approximately 10,000 square meters. The new production facility had 400 employees and five production lines as of 31 December 2016. After the relocation, our estimated maximum production capacity of electric scooters in southern China has increased from approximately 0.4 million units to approximately 0.7 million units per year.

In the area of research and development, we continued to pursue cooperation with selected strategic alliances to enhance our capability for innovation, in particular, on the design of new products and new technology for core parts and components. Currently, we are in the process of developing lithium battery with advanced performance for electric two-wheeled vehicles with one of our strategic alliances, Lightning Motors Corporation, a U.S. company specializing in researching and developing advanced electric two-wheeled vehicles. We expect the upgraded lithium-ion batteries will have a high energy ratio amounts to 120% of those of existing lithium-ion batteries and longer utilisation life. It is our goal to gradually adopt the use of upgraded lithium-ion batteries in the high-end models of two-wheeled vehicles. We believe this will significantly improve the performance of our products and enhance our market competitiveness in the future.

OUTLOOK

As a step to promote "Yadea" brand, expand our business and recruit talented professionals internationally, we intend to relocate our Group's headquarter from Wuxi to Shanghai. By establishing a headquarter in Shanghai, one of the international metropolis in the PRC, we hope to attract talented professionals and facilitate our ambition to further capture the growth in demand for high-end electric two-wheeled vehicles not only in the PRC but across the world. We will actively expand our international sales by deepening penetration in the existing markets and entering new markets which have high growth potential, in particular Southeast Asia market. We intend to replicate our success in China in the Southeast Asia through (i) cooperating with the local distributors with a wide distribution network to promote our brand and sell our products, and (ii) introducing new models or adjusting the existing models of electric two-wheeled vehicles to tailor to the taste and preference of local customers.

What's more, our Group has been focusing on the establishment of the premium brand by adopting a high-end positioning strategy. In order to expand our customer base and capture the additional market share, apart from continuing upgrading existing models of electric scooters and electric bicycles and introducing new models with advanced performance characteristics, we intend to adjust our product mix by launching new models of economical electric two-wheeled vehicles to attract more customers in the PRC and Southeast Asia. We expect to enlarge our market share and further promote the brand of "Yadea" through the anticipated emergence of new models of economical electric two-wheeled vehicles.

FINANCIAL REVIEW

Revenue

The Group recorded revenue of RMB6,662.1 million, representing an increase of approximately 3.6% from RMB6,429.2 million in 2015, primarily attributable to increases in the average selling prices of electric scooters and electric bicycles.

MANAGEMENT DISCUSSION & ANALYSIS (continued)

Product Type	For the year ended 31 December 2016 Revenue (RMB'000)	Percentage of total (%)	Volume '000 units	For the year ended 31 December 2015 Revenue (RMB'000)	Percentage of total (%)	Volume '000 units
Electric scooters	**3,584,084**	**53.8**	**2,029.1**	3,483,214	54.2	2,044.6
Electric bicycles	**1,523,745**	**22.9**	**1,290.5**	1,455,416	22.6	1,276.5
Subtotal	**5,107,829**	**76.7**	**3,319.6**	4,938,630	76.8	3,321.1
Batteries and chargers	**1,498,248**	**22.5**	**Batteries: 3,059.2 Charges: 2,090.1**	1,427,914	22.2	Batteries: 3,115.1 Charges: 2,117.0
Electric two-wheeled vehicle parts	**56,062**	**0.8**	**N/A**	62,643	1.0	N/A
Total	**6,662,139**	**100.0**	**8,468.9**	6,429,187	100.0	8,553.2

Revenue from the sales of electric scooters increased by approximately 2.9%, from RMB3,483.2 million in 2015 to RMB3,584.1 million in 2016, and from the sales of electric bicycles increased by approximately 4.7%, from RMB1,455.4 million in 2015 to RMB1,523.8 million in 2016. The increases were due to the increase in the average selling prices of electric scooters from RMB1,704.0 in 2015 to RMB1,766.0 in 2016 and electric bicycles from RMB1,140.0 in 2015 to RMB1,181.0 in 2016 as the Group (i) introduced new models of electric scooters and electric bicycles with advanced performance characteristics and higher unit selling prices, and (ii) upgraded certain models of electric scooters and electric bicycles which allowed the Group to charge higher unit selling prices as compared with old models.

Cost of sales

Cost of sales increased by approximately 1.9%, from RMB5,212.0 million in 2015 to RMB5,309.4 million in 2016. Such increase was generally in line with the increase in the Group's revenue.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit increased by approximately 11.1% from RMB1,217.2 million in 2015 to RMB1,352.8 million in 2016.

Gross profit margin in 2016 was 20.3%, slightly higher than the gross profit margin of 18.9% in 2015, mainly attributable to the increase in the average selling prices of electric scooters, electric bicycles, batteries and chargers.

Other income and gains

Other income and gains decreased by approximately 5.5% from RMB85.8 million in 2015 to RMB81.0 million in 2016. The decrease was primarily due to the decrease of RMB5.8 million in interest income and the decrease of RMB5.5 million in gains from the wealth management products included in the financial assets at fair value through profit or loss, which was partially offset by the increase of RMB9.5 million in discretionary government grants.

Administrative expenses

Administrative expenses increased by approximately 19.4% from RMB358.5 million in 2015 to approximately RMB428.0 million in 2016. The increase was mainly due to (i) the increase in research and development expenses, (ii) the increase in depreciation, and (iii) the professional fee expenses incurred on the Listing.

Income tax expenses

Income tax expense increased by approximately 7.7% from RMB115.4 million in 2015 to approximately RMB124.3 million. Such increase was generally in line with the increase in the Group's profit before tax.

Profit for the year

As a result of the cumulative effect of the foregoing, the Group's profit increased by approximately 14.6% from RMB375.5 million in 2015 to RMB430.1 million in 2016.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

As at 31 December 2016, the Group's cash and cash equivalents amounted to RMB1,801.4 million, representing an increase of approximately 129.0% from RMB786.7 million as at 31 December 2015.

The Group's primary uses of cash were payment for suppliers and funding of working capital and daily operating expenses. The Group financed its liquidity requirements through a combination of banking facilities and cash flows generated from its operating activities.

Net cash generated from operating activities was RMB752.0 million in 2016, as compared with net cash generated from operating activities of RMB793.9 million in 2015. Net cash used in investing activities was RMB732.7 million and RMB410.9 million in 2016 and in 2015, respectively. Net cash generated from financing activities in 2016 was RMB941.8 million, as compared with net cash used in financing activities of RMB98.2 million in 2015.

Net current assets

As at 31 December 2016, the Group had net current assets of RMB1,084.6 million, as compared with net current liabilities of RMB221.5 million as at 31 December 2015.

Inventories

The Group's inventories consist of raw materials and finished goods. The Group's inventories increased by approximately 44.9% from RMB141.5 million as at 31 December 2015 to RMB205.0 million as at 31 December 2016, primarily due to the increase of finished goods stocked for the anticipated sales for Spring Festival holiday in 2017 and the increase of raw materials reserved for future production in light of the potential increase in price of raw materials in 2017. The average inventory turnover days in 2016 increased to 11.8 days from 10.5 days in 2015.

Trade and bills receivables

Trade and bills receivables increased from RMB183.2 million as at 31 December 2015 to RMB279.7 million as at 31 December 2016, primarily due to (i) the higher credit limits that the Group offered to selected distributors with a good credit history, and (ii) the increase of sales volume of electric scooters and electric bicycles in the fourth quarter of 2016 when compared with the corresponding period in 2015.

Trade and bills payables

Trade and bills payables increased from RMB2,880.4 million as at 31 December 2015 to RMB3,287.4 million as at 31 December 2016, primarily due to the increase in purchase volume of raw materials in the fourth quarter of 2016 when compared with the corresponding period in 2015, which is in line with the increase in the sales volume of electric scooters and electric bicycles during the same period.

Foreign currency risk

The Group has not used any derivatives to hedge foreign currency risk. The Group operates its businesses in the PRC and conducts domestic business in RMB. Substantially all of the Group's assets and liabilities are denominated in RMB. The limited foreign exchange exposure is from international sales, which are denominated in U.S. dollars.

Human resources

As at 31 December 2016, the Group had 3,131 employees, as compared with 3,836 employees as at 31 December 2015 due to the labour outsourcing of certain production employees. Total staff costs in 2016, including the cost of labour outsourcing but excluding the Directors' remunerations, were RMB316.9 million, representing an increase of approximately 1.3% from RMB312.7 million in 2015. The Group will regularly review its remuneration policy and the benefits to its employees with reference to market practice and the performance of individual employees.

Bank borrowings

As at 31 December 2015, the Group had outstanding bank borrowings which amounted to approximately RMB13.0 million were denominated in US$ and secured by the pledge of certain of the Group's pledged bank deposits. The banking borrowings were mainly used to finance the Group's acquisition of an approximately 11.1% equity interest in Lightning Motors Corporation ("**Lightning**") in December 2015. The bank loans had matured and were fully repaid in the fourth quarter of the financial year of 2016. As at 31 December 2016, the Company did not have any bank borrowings.

Gearing ratio

Gearing ratio (as defined as total borrowings divided by total equity as at the respective period-end dates and multiplied by 100%) as at 31 December 2016 was 0% since the Company did not have any borrowings as at such date (31 December 2015: 1.7%).

Contingent liabilities

As at 31 December 2016, the Group did not have any material contingent liabilities or guarantees.

Pledge of the Group's assets

The Group pledged its assets as securities for banking facilities which were used to finance daily business operation. As at 31 December 2016, the pledged assets of the Group amounted to RMB1,756.7 million.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save as disclosed herein, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Group in 2016.

Acquisition of the Entire Issued Share Capital of True Vantage Global Limited ("True Vantage")

In light of the increasing demand of electric scooters in southern China and overload capacity of the Company's Dongguan production facility, the Company acquired a site owned by Caishi (Qingyuan) Products Co., Ltd. by purchasing the entire issued shares of True Vantage, a company indirectly owns Caishi (Qingyuan) Products Co., Ltd.. On 17 October 2016, the Company entered into a share transfer agreement with an independent third party, pursuant to which the Company agreed to purchase and the independent third party agreed to sell the entire issued shares of True Vantage at a consideration of RMB88,000,000.

The new site in Qingyuan has a total area of approximately 106,667 square meters, which consists of production facilities, staff dormitory and offices. As of 31 December 2016, the new production facility had approximately 400 employees and five production lines with estimated maximum production capacity to manufacture 0.7 million units of electric scooters per year.

None of the applicable percentage ratio(s) as set out in Rule 14.07 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange in respect of the acquisition mentioned above exceeds 5%, therefore it does not constitute notifiable transactions of the Company or any connected transaction under chapter 14A of the Listing Rules.

MATERIAL INVESTMENT AND CAPITAL ASSETS

As at the date of this annual report, the Company does not contemplate any future plans for material investments, capital assets and other sources of funding in the coming year.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed herein, there was no significant events relevant to the business or financial performance of the Group that come to the attention of the Directors since 31 December 2016.

LOAN AGREEMENT BETWEEN TAI UNITED HOLDINGS LIMITED ("TAI UNITED") AND THE COMPANY

On 20 March 2017, a loan agreement was entered into between the Company as lender and Tai United, an independent third party as borrower, pursuant to which the Company had conditionally agreed to grant a loan in the principal amount of HK$210 million to Tai United for a term of 18 months (the "**Loan**"). Such Loan will be available for drawdown by Tai United in accordance with actual needs within 18 months from the date of the loan agreement at an interest rate of 6.0% per annum on the Loan actually drawn down. On the same date, an independent third party provided a guarantee in favour of the Company to secure the repayment obligations of Tai United. As all of the relevant applicable percentage ratios in respect of the grant of the Loan under the loan agreement were less than 5%, the Loan is not subject to the disclosure requirement under Chapter 14 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report of the Group for the year ended 31 December 2016.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group is committed to achieving high corporate governance standards.

The Group believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders of the Company (the "**Shareholders**") and to enhance corporate value and accountability.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. Throughout the period commencing from the Listing Date to 31 December 2016, the Company has fully complied with the code provisions set out in the CG Code. The Board will continue to review and monitor the corporate governance status of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. Specific enquiries have been made to all the Directors who have confirmed that they have complied with the Model Code throughout the period commencing from the Listing Date to 31 December 2016.

The Board has also adopted the Model Code as guidelines for its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the securities of the Company. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

THE BOARD

(1) Responsibilities

The Board is responsible for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the risk management and internal control systems; supervising and managing management's performance of the Group; and setting the Group's values and standards.

The Company has arranged appropriate insurance cover for Director's liabilities in respect of legal action against its Directors arising out of corporate activities.

(2) Authorization

The Board delegates the day-to-day management, administration and operation of the Group to management and contributes to the Group through monitoring daily business operation, development plan and implementation. In addition, the Board has established several Board committees and delegates to the Board committees the responsibilities set out in their written terms of reference. The Board regularly reviews the delegated functions to ensure that they suit the needs of the Group.

(3) Board composition

The Board currently comprises eight Directors, including five executive Directors, and three independent non-executive Directors.

Executive Directors	Mr. Dong Jinggui *(Chairman)* Ms. Qian Jinghong Mr. Liu Yeming Mr. Shi Rui Mr. Shen Yu
Non-executive Director	Mr. Fan Xiang *(resigned on 5 January 2017)*
Independent non-executive Directors	Mr. Li Zongwei Mr. Wu Biguang Mr. Yao Naisheng

The biographical information of the Directors are set out in the section headed "Directors & Senior Management Profiles" from page 23 to page 26 of this annual report. Mr. Dong Jinggui, who is the executive Director, is the spouse of Ms. Qian Jinghong, who is also the executive Director. Save as disclosed above, none of the members of the Board is related to one another.

All the Directors, including independent non-executive Directors, bring invaluable operating experiences, knowledge and professionalism to the Board, which allows for its effective and efficient operation.

Independent non-executive Directors are identified as such in all corporate communications containing the names of the Directors. A list of the Directors and their role and function is published on the websites of the Company and the Stock Exchange.

(4) Independent non-executive Directors

For the year ended 31 December 2016, 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 with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent.

(5) Appointment and re-election of Directors

Each of the executive Directors has entered into a service contract with the Company on 22 April 2016 for an initial term of three years commencing from the Listing Date unless terminated by not less than three months' notice in writing served by either the executive Director or the Company.

Each of the independent non-executive Directors has entered into an appointment letter with the Company on 22 April 2016 for a term of three years commencing from the Listing Date.

Pursuant to the articles of association of the Company (the "**Articles of Association**"), the Board shall have the power from time to time and at anytime to appoint any person as a Director either to fill a casual vacancy or as an additional Director. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting.

According to the Articles of Association, Mr. Dong Jinggui, Ms. Qian Jinghong, Mr. Liu Yeming, Mr. Shi Rui, Mr. Shen Yu, Mr. Li Zongwei, Mr. Wu Biguang and Mr. Yao Naisheng will retire at the annual general meeting to be held on 6 June 2017 ("**2017 AGM**"). Mr. Dong Jinggui, Ms. Qian Jinghong, Mr. Liu Yeming, Mr. Shi Rui, Mr. Shen Yu, Mr. Li Zongwei, Mr. Wu Biguang and Mr. Yao Naisheng will offer themselves for re-election at the 2017 AGM.

(6) Continuous professional development of Directors

Directors keep abreast of responsibilities as a Director and of the business activities and development of the Company. In 2016, each Director, namely, Mr. Dong Jinggui, Ms. Qian Jinghong, Mr. Liu Yeming, Mr. Shi Rui, Mr. Shen Yu, Mr. Li Zongwei, Mr. Wu Biguang and Mr. Yao Naisheng has received formal, comprehensive and tailored induction to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Internally-facilitated briefings for Directors are arranged and reading materials on relevant topics will be circulated to Directors where appropriate so as to ensure that Directors understand the condition of the Company and the latest policies from regulatory bodies in a timely manner. All Directors are encouraged to attend relevant training courses at the Company's expenses.

(7) Attendance of Directors and committee members

The attendance of each Director at the Board and committee meetings and the general meeting of the Company held for the year ended 31 December 2016 is set out in the table below:

		Attendance/Number of Meetings			
Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	General Meeting
Executive Director					
Mr. Dong Jinggui *(Chairman)*	2/2	–	–	–	–
Ms. Qian Jinghong	2/2	–	–	–	–
Mr. Liu Yeming	2/2	–	–	–	–
Mr. Shi Rui	2/2	–	–	–	–
Mr. Shen Yu	2/2	–	–	–	–
Non-executive Director					
Mr. Fan Xiang *(resigned on 5 January 2017)*	2/2	–	–	–	–
Independent Non-executive Director					
Mr. Li Zongwei	2/2	–	–	1/1	–
Mr. Wu Biguang	2/2	–	–	1/1	–
Mr. Yao Naisheng	2/2	–	–	1/1	–

Note: The Company was listed on 19 May 2016, from such date to 31 December 2016, no Nomination Committee meeting, Remuneration Committee meeting nor general meeting was convened.

The Company has annual meeting schedules and draft agenda of each meeting of the Board and the committees made available to Directors in advance, and serves notices of regular Board meetings at least 14 days before the meetings. For other Board and committee meetings, reasonable notices are 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 appraised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and every Director also have separate and independent access to the senior management of the Company where necessary.

Draft and final versions of minutes are circulated to Directors or relevant committee members for comment and records respectively within a reasonable time after each meeting. Minutes of Board meetings and committee meetings are kept by the company secretary or the duly appointed secretaries of the respective meetings (as the case may be) and are available for inspection by all Directors at all reasonable time. The Articles of Associations contain provisions requiring any Director to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Director or any of his/her associates have a material interest.

CHAIRMAN AND PRESIDENT

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. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

The positions of chairman and president are held by Mr. Dong Jinggui and Mr. Liu Yeming respectively. Mr. Dong Jinggui, the co-founder of the Group, is our chairman and executive Director. He provides leadership and is responsible for the effective functioning of the Board. Mr. Liu Yeming is our president and executive Director. He focuses on the Company's business development and daily management and operations generally. The respective responsibilities of Mr. Dong Jinggui and Mr. Liu Yeming are clearly defined and set out in writing.

The Company has established a general division of responsibilities between the chairman and president in writing. Further, the roles of chairman and president are separated and performed by different individuals. In this connection, the Board is of the opinion that the Company has complied with the code provision A.2.1 set out in the CG Code as at 31 December 2016.

The Board believes that the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors and independent non-executive Directors.

BOARD COMMITTEES

The Board has established three committees, namely, the nomination committee (the "**Nomination Committee**"), the remuneration committee (the "**Remuneration Committee**") and the audit committee (the "**Audit Committee**"), to oversee particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

Nomination Committee

As at the date of this annual report, the Nomination Committee comprises five members, including two executive Directors, Mr. Dong Jinggui (chairman of the Nomination Committee) and Ms. Qian Jinghong, three independent non-executive Directors, Mr. Li Zongwei, Mr. Wu Biguang and Mr. Yao Naisheng.

The main responsibility of the Nomination Committee includes reviewing the structure, size and composition of the Board on a regular basis and making recommendations on any proposed changes, identify, select or make recommendations to the Board on the selection of individuals nominated for directorship, assess the independence of the independent non-executive Directors and make recommendations to the Board on relevant matters relating to the appointment, reappointment and removal of the Directors and succession planning for the Directors. The Nomination Committee also reviews the Board diversity policy adopted by the Board on 22 April 2016 ("**Board Diversity Policy**") from time to time to ensure its effectiveness.

Board Diversity Policy

The Board adopted a Board Diversity Policy on 22 April 2016.

On setting the composition of the Board, the Company maintains that Board appointment should be based on merit that complements and expands the skills, experience and expertise of the Board as a whole, taking into account professional experience and qualifications, gender, age, ethnicity, cultural and educational background, and any other factors that the Board might consider relevant and applicable from time to time towards achieving a diverse Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to experience and expertise, professional experience and qualifications gender, age, ethnicity and cultural and educational background. The Nomination Committee will review the Board Diversity Policy as and when appropriate to ensure its effectiveness.

Remuneration Committee

As at the date of this annual report, the Remuneration Committee comprises three members, including one executive Director, Mr. Liu Yeming, two independent non-executive Directors, Mr. Wu Biguang (chairman of the Remuneration Committee) and Mr. Yao Naisheng.

The main responsibility of the Remuneration Committee are to establish, review and make recommendations to the Directors on the policy and structure concerning the remuneration of the Directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration, determine the terms of the specific remuneration package of each executive Director and senior management of the Company and review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

Details of the amount of Directors' remuneration are set out in note 8 to the financial statements. The remuneration paid to the senior management of the Company (exclusive of Directors) for the year ended 31 December 2016 was within the range below:

Range of remuneration	No. of person
Nil to HK$500,000	–
HK$500,001 to HK$550,000	2
HK$550,001 to HK$600,000	3

Audit Committee

Pursuant to the requirements under the CG Code and the Listing Rules, the Company has established the Audit Committee comprising three independent non-executive Directors, namely Mr. Li Zongwei (chairman of the Audit Committee), Mr. Wu Biguang and Mr. Yao Naisheng.

The responsibilities of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group, oversee the audit process, provide advice and comments to the Board and perform other duties and responsibilities as may be assigned by the Board. The Audit Committee is also responsible for reviewing the financial reporting process and financial controls, risk management and internal control systems, including the internal audit function as well as arrangements for concerns about possible improprieties in financial reporting, risk management and internal control or other matters raised by employees of the Company ("**whistle blowing**").

The Audit Committee and the Company's management have considered and reviewed the accounting principles and practices adopted by the Group and have discussed matters in relation to risk management, internal control and financial reporting, including the review of the consolidated financial statements of the Group for the year ended 31 December 2016.

For the year ended 31 December 2016, the Audit Committee held one meeting. The Audit Committee has performed the following work during the year:

(a) Reviewing:

- (i) the unaudited consolidated financial statements of the Group for the six months ended 30 June 2016;
- (ii) the interim results announcement of the Group for the six months ended 30 June 2016; and
- (iii) the interim report of the Company for the six months ended 30 June 2016.

(b) Reviewing and considering the major audit findings by the external auditor of the Company.

(c) Reviewing and considering the major internal audit issues for the six months ended 30 June 2016 and reviewing the financial reporting system and risk management and internal control procedures of the Company.

(d) Reviewing the arrangements for employees of the Company can use to raise concerns about possible improprieties in financial reporting, risk management and internal control systems or other matters, and reviewing and considering the investigation progress of reported cases.

The Audit Committee also met with the external auditor once without the presence of the executive Directors.

The Company's annual results for the year ended 31 December 2016 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE FUNCTIONS

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

(a) To formulate and review the Group's corporate governance policies and practices and make recommendation to the Board;

(b) To review and oversee the trainings and continuous professional development of Directors and senior management of the Group;

(c) To review and oversee the Group's policies and practices on compliance with any requirements, guidelines and rules that may be imposed by the Board or which may be incorporated into any constitutional documents of the Group or which may have been provided by the Listing Rules, applicable laws and other regulatory requirements as well as by applicable institutional governance standards;

(d) To formulate, review and oversee the code of conduct and the compliance handbook (if any) of the employees of the Group and the Directors; and

(e) To review the Group's compliance with the CG Code as adopted by it from time to time and the disclosure in the Corporate Governance Report as set out in the annual report of the Company.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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

The Board is responsible for presenting balanced, clear and understandable annual and interim reports, inside information disclosure and other disclosures of the Company required under the Listing Rules and other statutory and regulatory requirements.

The Company's management is responsible for providing such explanation and information necessary to the Board to enable the Board to carry out an informed assessment of the financial statements put to the Board for approval.

The Directors were not aware of any material uncertainties relating to events or conditions which may cause significant doubt upon the Group's ability to continue as a going concern.

The statement regarding the Directors' responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on page 41 in this annual report.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report from page 41 to page 43 in this annual report.

During the year, the remuneration paid or payable to the Company's external auditor in respect of audit services for the year ended 31 December 2016 is set out below:

Service Category	Fee paid/payable *(RMB'000)*
Audit services	3,000
Non-audit services	17
Total	3,017

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board is responsible for maintaining solid and effective risk management and internal control systems to safeguard investments of Shareholders and the Company's assets.

The risk management and internal control systems are designed to identify, assess and report on potential risks and implement control measures, to mitigate rather than to completely eliminate the risks associated with achieving our business objectives. These systems provide a reasonable but not absolute assurance against material misstatement or loss.

The key features of the Group's risk management and internal control systems include the following:

- An organized structure with clearly defined and distinct scope of authority and responsibilities

- A comprehensive financial accounting system to provide for various performance measurement indicators and to ensure compliance with relevant rules

- Annual plans prepared by senior management of the Company on financial reporting, operations and compliance with reference to significant potential risks

- Strict prohibition of unauthorized expenditures

- Guidelines on the dissemination of confidential and sensitive information

- Specific approval from executive Director/responsible senior executive of the Company prior to commitment in all material matters

- Appropriate policy to ensure the effective use of resources, the qualifications and experiences possessed by our staff members who are responsible for the Group's accounting and financial reporting functions, and sufficient training provided to our staff members

- Management's review and evaluation on the internal control procedures and monitoring of risk factors on a regular basis

- Report to the Audit Committee about the findings on identified risks and measures to address such risks.

The main procedures used to identify, evaluate and manage significant potential risks are as follows:

- **Identify** – We identify current and emerging risks in our business operations and categorize those risks into a reasonable profile based on timeframe, likelihood, intensity and impact severity. We establish four risk categories, including strategic risks, financial risks, operating risks and legal risks. The Audit Committee has established and oversees a whistleblowing policy. In line with that commitment, the Company expects and encourages the employees, customers, suppliers and other stakeholders who have concerns about any suspected misconduct or malpractice within the Company to voice their concerns. All whistleblowing reports are investigated to the fullest extent possible and reported to the Audit Committee.

- **Assess** – We assess and prioritize risks so that the most important risks can be identified and dealt with. Based on both qualitative and quantitative analyses, we prioritize risks in terms of likelihood and impact severity.

- **Mitigate** – Based on our assessment of (i) the probability and impact severity of the risks and (ii) cost and benefit of the mitigation plans, we choose the appropriate option for dealing with risks, including risk elimination by suspending the associated business activities, risk reduction by adopting appropriate control measures, risk transfer by outsourcing or purchasing insurance policies, and risk acceptance by choosing to accept risks of low priority.

- **Measure** – We measure our risk management system by determining if changes have been implemented and if changes are effective. In the event of any weakness in control, we follow up by adjusting our risk management measures and reporting material issues to the Board.

The Audit Committee assists the Board to review and monitor the scope, issues, results and action plans in relation to or arising from the internal and external audits. The Audit Committee also assists with the Board's corporate governance role in the Group, particularly in overseeing the risk management and internal control systems, and managing the finance and internal audit functions.

During 2016, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control systems of the Company, including the adequacy of resources, staff qualifications and experiences, training programs and budget of the Company in relation to the accounting and financial reporting functions.

The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate to govern the adequacy of resources, staff qualifications and experiences, training programs and budget of the accounting, internal audit and financial reporting functions.

COMPLIANCE ADVISER

The Company appointed Cinda International Capital Limited as the compliance adviser of the Company ("**Compliance Adviser**") on 9 January 2015 to provide guidance and opinion in respect of the compliance with the Listing Rules and other regulations and practice governing listed issuers in Hong Kong upon listing.

The Company and Cinda International Capital Limited have mutually agreed to terminate the compliance adviser agreement on 1 December 2016. TC Capital International Limited has been appointed as the new Compliance Adviser as required pursuant to Rule 3A.27 of the Listing Rules with effect from 24 February 2017. TC Capital International Limited will continue to provide guidance and opinion to the Company in respect of the compliance with the Listing Rules and other regulations and practice governing listed issuers in Hong Kong.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and extraordinary general meetings. The chairman of the Board, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at general meetings to meet Shareholders and answer their enquiries. In addition, to promote effective communication, the Company maintains a website at www.yadea.com.cn, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

JOINT COMPANY SECRETARIES

Mr. Shen Yu and Ms. Wong Sau Ping are the joint company secretaries of the Company (the "**Joint Company Secretaries**"). The chief responsibilities of the Joint Company Secretaries include supporting the Board in business transactions, ensuring good communication and flow of information within the Board and the compliance of the policies and procedures of the Board, and advising the Board on governance matters, assisting newly appointed Director to his/her new position and overseeing the trainings and continuous professional development of the Directors. Ms. Wong Sau Ping is a senior manager of TMF Hong Kong Limited (a company secretarial service provider). Her primary contact person at the Company is Mr. Shen Yu, the other Joint Company Secretary.

According to Rule 3.29 of the Listing Rules, the Joint Company Secretaries have confirmed that they have taken no less than 15 hours of professional trainings to update their skills and knowledge for the year ended 31 December 2016. The biographical details of Mr. Shen Yu and Ms. Wong Sau Ping are set out on page 24 and page 26 of this annual report respectively.

GOING CONCERN CAPABILITY

The Board has not been aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

SHAREHOLDERS' RIGHTS

To safeguard Shareholder's interests and rights, a separate resolution is proposed for each separate issue at general meetings, including the election of individual Directors.

Except where the chairman of the Board, 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, all resolutions put forward at general meetings shall be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Procedure for convening an extraordinary general meeting by Shareholders

Pursuant to the Articles of Association, any one or more Shareholders holding not less than one-tenth of the issued share capital of the Company carrying the right of voting at general meetings may require an extraordinary general meeting by a written requisition to the Board or the Company Secretary either via personal delivery or mail (for the attention of the Board/Company Secretary, at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong or via email (ydsh@yadea.com.cn). The Board shall, within 21 days from the date of deposit of the requisition, duly convene a general meeting.

Procedure for putting forward proposals at general meetings

Any Shareholder who wishes to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the Board's consideration either via personal delivery, mail (for the attention of the Board/Company Secretary, at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong) or via email (ydsh@yadea.com.cn). The Board may, in its sole discretion, consider if such proposals are appropriate and shall put forward such proposals to the Shareholders for approval at the next annual general meeting, or at an extraordinary general meeting to be convened by the Board, as appropriate.

Procedure for putting forward enquiries to the Board

Shareholders are, at any time, welcome to send their enquires or requests to the Board via personal delivery or mail (for the attention of Shareholder Communication, at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong) or via email (ydsh@yadea.com.cn).

Note: The Company will not normally deal with verbal or anonymous enquiries.

For the avoidance of doubt, Shareholder(s) must deposit/send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the Company's aforesaid address, and provide his/her/their full name(s), contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Constitutional documents

The Company has adopted its amended and restated the Articles of Association on 22 April 2016, which have already come into effect on 19 May 2016. An up-to-date version of the Articles of Association is available for inspection on both the websites of the Stock Exchange and the Company.

INFORMATION DISCLOSURE

Regarding the disclosure of inside information and internal control measures, the Company understands its duties under the Listing Rules and the Securities and Futures Ordinance (the "**SFO**"), and adheres to the important principle of timely publication of the inside information. The Company abides by the "Guide on disclosure of inside information" published by the Securities and Futures Commission, and has developed a complete system of internal procedures and internal control measures for processing and publication of information in order to ensure the timely, accurate and appropriate disclosure of relevant information to the Shareholders and regulatory authorities.

The Group has put in place a system for the disclosure of inside information in compliance with the SFO. The system sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow all the stakeholders to apprehend the latest position of the Group. The system and its effectiveness are subject to review on a regular basis according to the established procedures.

SUMMARY OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the reporting period, the Company strived to fulfill their social responsibilities by proactively implementing practices and policies in relation to the environmental, social and governance ("**ESG**"). Pursuant to the Environmental, Social and Governance Reporting Guide, Appendix 27 to the Listing Rules, the Company kept reviewing and improving their work on sustainable development within the reporting period. A detailed disclosure of the ESG results is covered by a separate ESG report.

Environment

The Group's electric two-wheeled vehicles comply with the environmental protection law and other relevant laws and regulations of the PRC. The Group strives to maintain their "green operations", energy-saving and emission reduction practices. Each and every step within their manufacture and production procedures conforms strictly to the concepts of environmental protection and energy conservation, thus, the Group is able to manufacture environmentally friendly products with minimum amount of energy consumption. The Group is committed to the efficient use of natural resources and promotes water and energy conservation. The Group has established one of the largest self-owned photovoltaic power plants in Wuxi which can generate and distribute electric power. In their Wuxi headquarter, the rooftops of the research and development building, the administration office building together with some of the departmental buildings are installed with high performance polycrystalline PV modules having the installed power capacity of 2.48MW. It is expected to generate a total power of about 2.57 million kWh at its first year of usage. During the reporting period, the photovoltaic power plant has already got grid connection installed.

Society

Product quality and protection of consumers' interests are of great importance. From manufacture to after-sales of the products, the Group uphold the principle of sustainable development and follow closely with their high-end production strategies which are known as "high-end design, high-end technology, high-end product quality, high-end services and global exports". In respect of improving the product quality and customer experience, the Group strives to maintain a high standard of quality control to ensure the quality of the end products. As such, the Group had been ranked first among the Electric Two-wheeled Vehicles Enterprises of the China Light Industry since 2013 and were also awarded the "Five-star After-sales Services Authentication" under the National Standard for Consumer Product Customer Service Evaluation as well as other honours. The Group is committed to produce high-end electric two-wheeled vehicles and provide high quality after-sales services.

The Group fosters the "people-oriented" core value and the corporate beliefs of "passion, care and harmony". The Group complies strictly with employment laws and related regulations. In particular, the Group prohibit child and forced labours, enhance employees' welfares and benefits, assist with employees' personal and professional growth, ensure employees' health and safety, organize seminars concerning knowledge of well being, provide occupational therapy. Further, the Group strives to build a positive working environment and caring atmosphere. The Group organized numerous gatherings, such as dinner gatherings, basketball competitions, family activities and festival celebrations, in order to boost their employees' sense of belonging.

The Group emphasizes the value of "harmony" and aims to create a "win-win" situation. In respect of supplier management, the Group established a sound supply chain management mechanism and constantly improve their suppliers' access, screening and exit mechanisms. The Group also communicate frequently with their suppliers and enhance business growth with them. As for the distributors, the Group has in place a standardized distribution store management and conduct regular distributors training, to improve the sales and management of the distributors, and thus create a "win-win" situation with them.

The Group strictly prohibits bribery, extortion, fraud and money laundering and all forms of corruption. To achieve the goal of deterring corruption, the Group has inserted anti-corruption provisions in the contracts and public tender documents. In addition, their employees' have to sign an agreement and undertake not to commit any corruption behaviors at the commencement of their tenure. To enhance transparency of their operations and corporate governance, the Group has established whistle-blowing policy such that their employees can report suspected misconducts by way of phone calls, emails and mails.

The Group concerns about the local community in the area where the Group conduct business. The Group actively participates in charitable events, for instance, made donations to Wuxi Red Cross, carried out a series of activities and provided financial assistance to help the impoverished students. At the same time, the Group encourages employees to participate in volunteer work and engage in local community services. As such, the Group are able to fulfill the corporate social responsibilities and enhance the development of the local community.

DIRECTORS & SENIOR MANAGEMENT PROFILES

DIRECTORS

Executive Directors

Mr. Dong Jinggui (董經貴), aged 48, the spouse of Ms. Qian, is the co-founder of the Group and the chairman of the Board. Mr. Dong has been the Director since 17 July 2014 and was re-designated as the executive Director on 19 January 2015. Mr. Dong is currently a director of Yadea Group, Jiangsu Yadea and Jiangsu Xindi and a supervisor of Tianjin Weiye. In addition to serving in our Group companies, Mr. Dong has been a director of Jiangsu Yadea Investment Co., Ltd. (江蘇雅迪投資有限公司) since June 2014. Mr. Dong has approximately 19 years of experience in the electric two-wheeled vehicle industry. Mr. Dong began tapping into the electric two-wheeled vehicle industry in 1997 when he began the preparation of the establishment of Jiangsu Yadea with Ms. Qian. In order to expand his networks and acquire the latest industry knowledge and resources, Mr. Dong also frequently attended industry related seminars and conferences. Prior to 1997, Mr. Dong was employed for six years at a motorcycle factory where he acquired relevant industry knowledge and experience.

In December 2008, Mr. Dong was named the "Pride of Sushang – the Most Respected Entrepreneur in Jiangsu in the 30 Years of Reform and Opening up (改革開放30年 •「蘇商驕傲」–江蘇最受尊敬企業家)" by Nanjing University Business School (南京大學商學院), the Institute of Economics of Jiangsu Provincial Academy of Social Sciences (江蘇省社會科學院經濟研究所) and Quality "Sushang" Magazine (精品《蘇商》雜誌社). In July 2013, Mr. Dong was recognized as an outstanding leader in quality management group activities in the national light industry (全國輕工業品質管制小組活動卓越領導者) by the Light Industry Branch of the China Association for Quality (中國質量協會輕工分會). Mr. Dong has been the vice president of the Jiangsu Bicycle and Electric Bicycle Association (江蘇省自行車電動車協會) since July 2013. Mr. Dong is currently a student in the Executive Master of Business Administration Program jointly offered by the Harbin Institute of Technology and the ASIA Pacific Institute of Management China.

Ms. Qian Jinghong (錢靜紅), aged 45, the spouse of Mr. Dong, is the co-founder of the Group and the vice chairman of the Board. Ms. Qian has been the Director since 17 July 2014 and was re-designated as the executive Director on 19 January 2015. Ms. Qian is currently a director of Yadea Import Export and a supervisor of Yadea Group and Tianjin Industry. Ms. Qian has approximately 19 years of experience in the electric two-wheeled vehicle industry. Ms. Qian began tapping into the electric two-wheeled vehicle industry in 1997 when she began the preparation of the establishment of Jiangsu Yadea with Mr. Dong. In order to expand her networks and acquire the latest industry knowledge and resources, Ms. Qian also frequently attended industry related seminars and conferences. Prior to 1997, Ms. Qian was employed for four years at a motorcycle factory where she acquired relevant industry knowledge and experience.

Currently, Ms. Qian also serves as the vice president of the Junior Chamber of Commerce of Xishan District (錫山區青商會). Ms. Qian received the Certificate of Accounting Professional from the Finance Bureau of Xishan,Wuxi (無錫市錫山區財政局) in September 2000. Ms. Qian is currently a student in the Executive Master of Business Administration Program jointly offered by the Harbin Institute of Technology and the ASIA Pacific Institute of Management China.

Mr. Liu Yeming (劉曄明), aged 46, is the president of the Company and has been the Director since 10 December 2014. Mr. Liu was re-designated as the executive Director on 19 January 2015. Mr. Liu joined the Group in December 2013 and is responsible for the overall strategic planning and general management, as well as the external affairs of the Group.

Prior to joining the Group, Mr. Liu had held various positions in COFCO Corporation (formerly known as China Cereals, Oils and Foodstuffs Import and Export Corporation (中國糧油食品進出口總公司) until 1998, China Cereals, Oils and Foodstuffs Import and Export (Group) Co., Ltd. (中國糧油食品進出口(集團)有限公司) until 2004 and China Cereals, Oils and Foodstuffs (Group) Co., Ltd. (中國糧油食品(集團)有限公司) until 2007) from 1992 to 2013, including positions as a deputy general manager of COFCO (New York) Co., Ltd. (中糧(紐約)有限公司), a deputy general manager of the oil division of COFCO Corporation and a deputy general manager of Hangzhou CPMC Co., Ltd. (杭州中糧包裝有限公司).

Mr. Liu graduated from Jiangnan University (江南大學) with a doctoral degree in Food Commerce and Culture in December 2011.

DIRECTORS & SENIOR MANAGEMENT PROFILES (continued)

Mr. Shi Rui (石鋭), aged 40, is the chief financial officer of the Company and has been the Director since 10 December 2014. Mr. Shi was re-designated as the executive Director on 19 January 2015. Mr. Shi joined the Group in March 2014 and is responsible for the financial aspects of the Group.

Prior to joining the Group, Mr. Shi had held various positions at Beijing Zhongchang Accounting Firm (北京中昌會計師事務所) from January 2001 to June 2006 and from July 2008 to February 2014, including positions as a project manager, a division manager, a senior manager and a partner. In addition, Mr. Shi was a financial manager and consultant at Shenzhen Winscom Industrial Co., Ltd., Beijing Branch (深圳市維新康實業有限公司北京分公司) between July 2006 and June 2008.

Mr. Shi became a registered member of the Chinese Institute of Certified Public Accountant in July 2003 and received his accountant qualification from the Ministry of Finance of the People's Republic of China (中華人民共和國財政部) in September 2003. Mr. Shi graduated from Shaanxi University of Finance and Economics (陜西財經學院) with a tertiary qualification in International Accounting in June 1999.

Mr. Shen Yu (沈瑜), aged 42, has been the Director since 10 December 2014 and was re-designated as the executive Director on 19 January 2015. Mr. Shen joined the Group in May 2005 and has since served as the assistant to the chairman of the Board and supervisor of the president's office. Mr. Shen is responsible for the administrative affairs of the Group, as well as assisting the chairman of the Board and president in external affairs and public relations management. Mr. Shen is also a Joint Company Secretary.

Prior to joining the Group, Mr. Shen was a deputy general manager of Wuxi Lianmei Public Relations Co., Ltd. (無錫聯美公關有限公司) from May 2001 to April 2005, a quality control engineer at Wuxi Murata Electronics Co., Ltd. (無錫村田電子有限公司) from October 2000 to May 2001, an electrical engineer at Wuxi Mining Machinery Plant (無錫礦山機械廠) from January 1997 to October 2000 and an electrical engineer at Yizheng Huaxian Group Co., Ltd. (儀征化纖集團有限公司) from July 1995 to December 1996.

Mr. Shen graduated from Xi'an Jiaotong University (西安交通大學) with a tertiary qualification in Industrial Automation in July 1995 and graduated from Southeast University (東南大學) with a master's degree in Business Administration in June 2013.

Independent Non-Executive Directors

Mr. Wu Biguang (吳邲光), aged 60, was appointed as the independent non-executive Director on 10 December 2014. Mr. Wu is responsible for supervising and providing independent judgment to the Board.

In addition to serving as the independent non-executive Director, Mr. Wu is currently the head of the Faculty of Law, the first level academic leader of the master's program and the professor-in-charge of the master's program in Criminal Law at the College of Humanities and Law of the North China University of Technology (北方工業大學文法學院), where he has been teaching since May 1989. Mr. Wu is also a committee member of the Professional Advisory Committee of the District People's Court of Shijingshan District, Beijing (北京市石景山區人民法院專家諮詢委員會委員) and a committee member of the Government Administration Review Committee of Shijingshan District (石景山區政府行政復議委員會委員). Mr. Wu is a part-time legal practitioner as certified by the Bureau of Justice of Beijing (北京市司法局) in December 2009.

Previously, Mr. Wu served as an independent non-executive director of Inner Mongolia Yili Industrial Group Co., Ltd. (蒙古伊利實業集團股份有限公司) (Shanghai Stock Exchange stock code: 600887) between October 2004 and May 2011, where he had been a member of the remuneration committee, nomination committee and strategy committee. Mr. Wu was a professor at the School of Law of Zhengzhou University (鄭州大學法學院) between July 1984 and May 1989.

Mr. Wu was recognized as an "Outstanding Teacher in Beijing (北京市優秀教師)" by the Education Commission of Beijing Municipal Committee of the Communist Party of China (中國共產黨北京市委員會教育工作委員會), Beijing Municipal Commission of Education (北京市教育委員會), Human Resources and Social Security Bureau of Beijing Municipality (北京市人事局), Finance Bureau of Beijing Municipality (北京市財政局), Labor Bureau of Beijing Municipality (北京市勞動局) and Trade Union on Education of China, Beijing Committee (中國教育工會北京市委員會) in 1997. Mr. Wu graduated from China University of Political Science and Law (中國政法大學) with a bachelor's degree in Law in July 1984 and from Peking University (北京大學) with a master's degree in Criminal Law in July 1996.

Mr. Li Zongwei (**李宗煒**), aged 45, was appointed as the independent non-executive Director on 18 January 2015. Mr. Li is responsible for supervising and providing independent judgment to the Board.

In addition to serving as the independent non-executive Director, Mr. Li is currently the chief strategic officer of Yingli Green Energy Holding Company Limited (New York Stock Exchange stock code: YGE), where he was the chief financial officer between November 2006 and May 2009, an executive director and the chief financial officer between May 2009 and May 2014 and an executive director and the chief strategic officer between May 2014 and November 2014. Mr. Li is also the president of Shanghai Sailing Huili Asset Management Co., Ltd. (上海賽領暉力資產管理有限公司) and an independent non-executive director and the chairman of the auditing committee of Youku Tudou Inc. (New York Stock Exchange stock code: YOKU). Mr. Li was a senior auditing manager of PricewaterhouseCoopers between April 1995 and October 2006.

Mr. Li was consecutively listed as one of the "Forty Business Elites in China Under the Age of 40 (中國40位40歲以下的商界精英)" by Fortune China from 2011 to 2013. Mr. Li became a non-practicing member of the Shanghai Institute of Certified Public Accountants in December 2009 and was admitted as a fellow chartered chief financial officer by the International Association of Education in August 2010.

Mr. Li graduated from Shanghai Institute of Technology (上海應用技術學院) with a bachelor's degree in Mechanical Engineering in July 1993 and from Washington University in Saint Louis with a master's degree in Business Administration in December 2006.

Mr. Yao Naisheng (**姚乃勝**), aged 45, was appointed as the independent non-executive Director on 28 August 2015. Mr. Yao is responsible for supervising and providing independent judgment to the Board.

In addition to serving as the independent non-executive Director, Mr. Yao is currently a vice president at JD.com. Previously, Mr. Yao was a senior investor at Hillhouse Capital Group between November 2009 and January 2011, an associate partner at International Business Machines Corporation (IBM) between April 2007 and October 2009, and a director at CertainTeed Corporation between July 2005 and March 2007.

Mr.Yao graduated from Tianjin University with a bachelor's degree in Chemical Engineering in July 1993 and a master's degree in Engineering in April 1996. Mr. Yao graduated from Yale University with a Doctor of Philosophy in May 2002.

SENIOR MANAGEMENT

Mr. Liu Yeming (**劉曄明**) and **Mr. Shi Rui** (**石銳**) are the senior management of the Company. For details of Mr. Yeming Liu and Mr. Rui Shi, please refer to the "Directors–Executive Directors" section above.

Mr. Wang Jiazhong (**王家中**), aged 39, joined the Group in February 1999 as an officer. Mr. Wang has been the executive director of Tianjin Industry since January 2011, the executive director of Tianjin Weiye since September 2009 and the deputy general manager of Yadea Sales since October 2014. Mr. Wang is responsible for the sales of our Group. Mr. Wang was the general manager of the Tianjin branch of Jiangsu Yadea between September 2006 and May 2013.

Mr. Wang served as a member of the Standing Committee of the People's Congress of Beichen District, Tianjin (天津市北辰區人民代表大會常務委員會) in November 2011. Mr.Wang was recognized as the "Most Beautiful Youth Who Creates Wealth Through Entrepreneurship (最美創業致富青年)" by the Beichen District Committee of the Youth League of the Communist Party of China (中國共青團北辰區委員會) in April 2014. Mr. Wang received the Qualification Certification of Senior Professional Manager from the China Enterprise Confederation (中國企業聯合會) and the China Enterprise Directors Association (中國企業家協會) in December 2013. Mr. Wang graduated from Nankai University (南開大學) with a tertiary qualification in Business Administration, an online program, in January 2014. Mr. Wang is currently a student in the Executive Master of Business Administration Program at Tianjin University (天津大學).

Mr. Zhou Chaoyang (**周朝陽**), aged 34, joined the Group in May 2000 as an officer and became the general manger of Guangdong Yadea in August 2010. Mr. Zhou has been the general manager of our Wuxi facility since October 2014 and is responsible for the operations of the Wuxi facility.

Mr. Zhou graduated from Wuhan University of Technology (武漢理工大學) with a tertiary qualification in Business Administration, an online program, in July 2009.

Mr. Xue Bo (**薛波**), aged 43, has been the chief officer of products of the Group since he joined the Group in April 2013. He is responsible for the product development and planning of the Group.

Prior to joining the Group, Mr. Xue was an officer of Jiangsu Tianjue Motorcycle Technology Co., Ltd. (江蘇天爵機車科技有限公司) between October 2006 and February 2010, and was the officer of Longxin Motorcycle Co., Ltd. (隆鑫摩托有限公司) between July 1997 and October 2006.

Mr. Xue graduated from Chongqing Yuzhou University (重慶渝州大學) with a tertiary qualification in Automobiles Manufacturing in June 1997.

Mr. Xu Shuchang (**許舒暢**), aged 35, has been the deputy general manager of Yadea Sales since October 2014 and is responsible for the business operations of Yadea Sales. Mr. Xu joined the Group in February 2007 as the assistant of the general manager of Zhejiang Yadea and was the deputy general manager of our Wuxi facility between May 2013 and October 2014.

Mr. Xu graduated from Zhengzhou University of Light Industry (鄭州輕工業學院) with a bachelor's degree in Electronic and Information Engineering in July 2006.

Mr. Wang Jinlong (**王金龍**), aged 43, has been the technical supervisor of Yadea Group since October 2014 and is responsible for the operations of our research and development center. Mr.Wang first joined the Group in April 2004 as a production deputy manager of JiangsuYadea. Mr.Wang left the Group temporarily in December 2006 and became the general manager of Wuxi Auspicious Lion Technology Co., Ltd. (無錫吉祥獅科技有限公司) from February 2007 to May 2012. Mr. Wang rejoined the Group in October 2012 as the deputy general manager of Jiangsu Yadea and became the supervisor of our research and development center for electric scooters between July 2013 and October 2014.

Mr. Wang graduated from Zhenjiang Shipping College (鎮江船舶學院) (currently known as Jiangsu University of Science and Technology (江蘇科技大學)) with a bachelor's degree in Welding Materials and Engineering in July 1996.

JOINT COMPANY SECRETARIES

Mr. Shen Yu (**沈瑜**) was appointed as the Joint Company Secretary on 19 January 2015. For details of Mr. Shen, please refer to the "Directors–Executive Directors" sub-section above.

Ms. Wong Sau Ping (**黃秀萍**) was appointed as the Joint Company Secretary on 19 January 2015. Ms. Wong is a senior manager of the listing services department of TMF Hong Kong Limited (a fellow subsidiary of KCS Hong Kong Limited). She has over 15 years of professional experience in the company secretarial field and has acquired extensive knowledge and experience in corporate governance and compliance affairs of listed companies. Ms. Wong is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom.

Ms. Wong works closely with Mr. Shen to jointly discharge the duties and responsibilities as Joint Company Secretaries.

REPORT OF DIRECTORS

The Directors are pleased to present this report of Directors together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

INITIAL PUBLIC OFFERING

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 17 June 2014. The Company listed its shares ("**Shares**") on the Main Board of the Stock Exchange on the Listing Date. The Company issued 750 million Shares at an offer price of HK$1.72 per Share.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands with limited liability. Its registered office is situated in the Cayman Islands and its operation headquarter is located at Wuxi, Jiangsu Province, China.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Company's subsidiaries were principally engaged in the development, manufacture and sale of electric two-wheeled vehicles and related accessories in China. The principal activities and other details of subsidiaries of the Company are set out in note 1 to the financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As the manufacturer and seller of electric two-wheeled vehicles, the Company attaches great importance to environmental protection. We strictly comply with each of the local regulations in the regions where we conduct production and operation and properly implement various environmental policies regarding our actual situations in production and operation. Before establishing production facilities and expanding production scale, the Company has already obtained all necessary approvals and permits from relevant government authorities. Environmental policies and performance, please refer to the section headed "Summary of Environmental, Social and Governance Report" in this Corporate Governance Report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company was established in the Cayman Islands with its principal business conducted in the PRC, and its Shares are listed on the Stock Exchange. Therefore, our establishment and operation are subject to relevant laws in the Cayman Islands, the PRC and Hong Kong. For the year ended 31 December 2016 and up to the date of this annual report, we complied with relevant laws and regulations in Cayman Islands, the PRC, and Hong Kong.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group respects its people. We offer reasonable remunerations to our employees and continuously modify systems such as remunerations and benefits, training, occupational health and safety for the purpose of retaining talents. Reviews and updates will be conducted on a regular basis. The Group has a good relationship with its customers. To perfect our services, the Group sets up a customer complaint management system, including collection of complaints, analytic research and provision of recommendations for improvement.

The Group has a good relationship with its suppliers and conducts audits on its suppliers in a fair and strict manner every year. For key relationships between the Company and its employees, customers and suppliers, please refer to the section headed "Summary of Environmental, Social and Governance Report" in this Corporate Governance Report.

SUBSIDIARIES

Please refer to note 1 of the financial statements.

RESULTS

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

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2016 and for the past three financial years are set out from page 4 to page 5 of this annual report.

RESERVES

As at 31 December 2016, distributable reserves of the Company amounted to RMB945.6 million. Details of movements in reserves of the Company during the year are set out in note 37 to the financial statements.

FINAL DIVIDEND

The Board resolved to recommend the payment of a final dividend of 4.0 HK cents per ordinary Share for the year ended 31 December 2016 (the "**Proposed Final Dividend**") (for the year ended 31 December 2015: Nil). The Proposed Final Dividend is subject to the approval of the Shareholders at the forthcoming 2017 AGM and the Proposed Final Dividend will be paid on 29 June 2017 to Shareholders whose names appear on the register of members of the Company on 15 June 2017.

ANNUAL GENERAL MEETING

The 2017 AGM will be held on 6 June 2017. Notice of the 2017 AGM will be published and issued to Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the Shareholders' entitlement to attend and vote at the 2017 AGM.

The register of members of the Company will be closed from 31 May 2017 to 6 June 2017, both dates inclusive, during which time no transfer of Shares will be registered. To qualify for attending and voting at the 2017 AGM, Shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant Share certificates, to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 29 May 2017 for registration of the relevant transfer.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property and equipment during the year ended 31 December 2016 are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 27 to the financial statements. For the year ended 31 December 2016, there was no issuance of bonds by the Company.

BUSINESS REVIEW

We are a leading electric two-wheeled vehicle brand in the PRC, focusing on designing, researching, developing, manufacturing and selling electric scooters, electric bicycles and related accessories. The year of 2016 is a crucial year to the business development of our Group. We had spared no effort and taken numerous initiatives in ensuring our initial public offering success while we continued to expand our business and solidify our position in the high-end electric two-wheeled vehicle market in the PRC.

A review and analysis of the Group's business, results and performance during the year ended 31 December 2016, the discussion and analysis of the key factors of its results and financial performance, the risk factors and risk management and the prospect for future development are set out in the section headed "Management Discussion & Analysis" from page 8 to page 12 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTY

The Group has limited foreign exchange exposure arising from international sales. For further details, please refer to the "Liquidity and Capital Resources – Foreign currency risk" section above.

IMPORTANT EVENTS

On 17 July, 2016, the Company acquired additional 6.3% of issued share capital of Lightning, a U.S. company specializing in researching and developing advanced electric two-wheeled vehicles, to research and develop products together and share international customer base. Going forward, the Group will continue its focus on research and development to enhance its innovation capabilities and market competitiveness. With regard to its existing network, the Group plans to continue to perfect the end sales experience through cooperation with experienced fashion design firm to improve the product displays and layouts in the points of sales and to enhance the purchasing experience and portray a high-ended brand image to customers.

FUTURE DEVELOPMENT

As a step to promote "Yadea" brand, expand our business and recruit talented professionals internationally, we intend to relocate our Group's headquarter from Wuxi to Shanghai. By establishing a headquarter in Shanghai, one of the international metropolis in the PRC, we hope to attract talented professionals and facilitate our ambition to further capture the growth in demand for high-end electric two-wheeled vehicles not only in the PRC but across the world. We will actively expand our international sales by deepening penetration in the existing markets and entering new markets which have high growth potential, in particular Southeast Asia market. We intend to replicate its success in China in the Southeast Asia through (i) cooperating with the local distributors who have a wide distribution network to promote our brand and sell our products, and (ii) introducing new models of electric two-wheeled vehicles or adjusting the existing models of electric two-wheeled vehicles to tailor to the taste and preference of local customers.

What's more, our Group has been focusing on the establishment of the premium brand by adopting a high-end positioning strategy. In order to expand our customer base and capture the additional market share in the PRC, apart from continuing upgrading existing models of electric scooters and electric bicycles and introducing new models with advanced performance characteristics, we intend to adjust our product mix by launching new models of economical electric two-wheeled vehicles to attract more customers in the PRC and Southeast Asia. We expect to enlarge our market share and further promote the brand of "Yadea" through the anticipated emergence of new models of economical electric two-wheeled vehicles.

FINANCIAL KEY PERFORMANCE INDICATORS

For the reporting period, our revenue increased by approximately 3.6% to approximately RMB6,662.1 million as compared with the corresponding period in 2015. Our gross profit increased by approximately 11.1% to approximately RMB1,352.8 million as compared with the corresponding period in 2015. Profit attributable to ordinary equity holders of the parent increased by approximately 14.6% to approximately RMB430.1 million as compared with the corresponding period in 2015.

USE OF PROCEEDS FROM GLOBAL OFFERING

On the Listing Date, the Company issued 750 million Shares at an offer price of HK$1.72 per Share on the Stock Exchange by global offering. The net proceeds from the global offering (after deducting the underwriting fees and commissions and other expenses payable by the Company in connection with the global offering) amounted to approximately HK$1,074.0 million (equivalent to approximately RMB907.3 million). The net proceeds will be applied in the following manner:

- approximately 50% (approximately RMB453.7 million), will be used to improve the distribution and sales as well as marketing including (i) brand promotion, advertising and marketing (approximately 19%), (ii) expansion of the distributor points of sales overhaul campaign (approximately 16%), (iii) expansion of the international sales (approximately 10%), and (iv) development of the online platform, including online sales promotion and marketing (approximately 5%);

- approximately 30% (approximately RMB272.2 million), will be used for the business expansion, including (i) purchases of new automated production equipment (approximately 5%) and production expansion (approximately 12%) and (ii) potential mergers and acquisitions (approximately 13%);

- approximately 10% (approximately RMB90.7 million), will be used for the research and development of products, improvement of research and development facilities as well as recruitment of research and development personnel; and

- approximately 10% (approximately RMB90.7 million), will be used for general working capital.

As at the date of this annual report, there were no changes of business plan from that disclosed in the Company's prospectus dated 9 May 2016 (the "**Prospectus**"). Approximately 34.3% of the net proceeds had been utilized, including approximately 15.5% being used to improve the distribution and sales as well as marketing, approximately 9.8% being used for the business expansion, and approximately 9.0% being used for the research and development, which was consistent with the use of proceeds as disclosed in the Prospectus.

CONNECTED TRANSACTIONS

Continuing connected transactions subject to the reporting, annual review, announcement and independent shareholders' approval requirements of the Listing Rules

(I) PROVISION OF PLASTIC COMPONENT PAINTING SERVICES BY WUXI COLORFUL METAL COATING CO., LTD. (無錫七彩金屬塗裝有限公司) ("WUXI COLORFUL")

On 4 May 2016, the Company and Wuxi Colorful entered into a framework service agreement, pursuant to which Wuxi Colorful has agreed to provide plastic component painting services to the Group for a three-year period commencing from the Listing Date and ending on 31 December 2018. The annual purchase amount from Wuxi Colorful is determined with reference to the historical amount the Group purchased from Wuxi Colorful with respect to plastic component painting services for the three years ended 31 December 2014, 2015 and 2016 and the expected number of plastic components that will require painting services from Wuxi Colorful in 2016, 2017 and 2018 in view of the Group's goal to decrease the transaction amount with the connected suppliers and based on the production plans as well as the capability to source plastic component painting services from alternate third-party suppliers.

The transactions between the Company and Wuxi Colorful for the year ended 31 December 2016 amounted to approximately RMB2,333,000. The annual caps under the framework service agreement for each of the three years ending 31 December 2018 will be RMB6,800,000, RMB3,000,000 and nil, respectively.

Wuxi Colorful is owned as to 30% by Ms. Qian Jingfang (錢靜芳), who is the sister of Ms. Qian Jinghong, and 70% by Mr. Wan Weizeng (萬偉增), who is the uncle-in-law of Ms. Qian Jingfang. Wuxi Colorful is therefore an associate of Ms. Qian Jinghong and the connected person of the Company under Chapter 14A of the Listing Rules and the entering of the framework service agreement with Wuxi Colorful constitute as a connected transaction of the Company.

(II) PURCHASES OF SHOCK ABSORBERS AND FRONT FORKS FROM WUXI DAEN VEHICLE INDUSTRY CO., LTD. (無錫市大恩車業有限公司) ("WUXI DAEN")

On 4 May 2016, the Company and Wuxi Daen entered into a framework service agreement, pursuant to which Wuxi Daen has agreed to provide shock absorbers and front forks to the Group for a three-year period commencing from the Listing Date and ending on 31 December 2018. The annual purchase amount from Wuxi Daen is determined with reference to the historical values of shock absorbers and front forks the Group purchased from Wuxi Daen for the three years ended 31 December 2014, 2015 and 2016, the past changes in the prices of shock absorbers and front forks for the three years ended 31 December 2014, 2015 and 2016 and the expected transaction volumes in 2016, 2017 and 2018, in view of the goal to decrease the transaction amount with the connected supplier and based on the production plans as well as the capability to source shock absorbers and front forks from alternate third-party suppliers.

The transactions between the Company and Wuxi Daen for the year ended 31 December 2016 amounted to approximately RMB3,929,000. The annual caps under the framework service agreement for each of the three years ending 31 December 2018 will be RMB9,100,000, nil and nil, respectively.

Wuxi Daen is owned as to 80% by Mr. Dong Zhiqiang (董郅強), who is the brother of Mr. Dong Jinggui, and 20% by Ms. Wu Haiyan (吳海燕), who is the wife of Mr. Dong Zhiqiang. Wuxi Daen is therefore an associate of Mr. Dong Jinggui and the connected person of the Company under Chapter 14A of the Listing Rules and the entering of the framework service agreement with Wuxi Daen constitute as a connected transaction of the Company.

(III) PURCHASES OF ELECTRIC MOTORS AND METERS AND RELATED COMPONENTS FROM WUXI XINGWEI VEHICLE FITTINGS CO., LTD. (無錫市星偉車輛配件有限公司) ("WUXI XINGWEI")

On 4 May 2016, the Company and Wuxi Xingwei entered into a framework service agreement, pursuant to which Wuxi Xingwei has agreed to provide electric motors and meters and related components to the Group for a three-year period commencing from the Listing Date and ending on 31 December 2018. The annual purchase amount from Wuxi Xingwei is determined with reference to the historical values of electric motors and meters and related components the Group purchased from Wuxi Xingwei for the three years ended 31 December 2014, 2015 and 2016, the past changes in the prices of electric motors and meters and related components for the three years ended 31 December 2014, 2015 and 2016 and the expected transaction volumes in 2016, 2017 and 2018, in view of the goal to decrease the transaction amount with the connected supplier and based on the production plans as well as the capability to source electric motors and meters and related components from alternate third party suppliers.

The transactions between the Company and Wuxi Xingwei for the year ended 31 December 2016 amounted to approximately RMB49,980,000. The annual caps under the framework service agreement for each of the three years ending 31 December 2018 will be RMB93,200,000, RMB45,900,000 and RMB25,000,000, respectively.

Wuxi Xingwei is owned as to 40% by Ms. Qian Jingjuan (錢靜娟), who is the cousin of Ms. Qian Jinghong, and 60% by Mr. Zhou Wei (周偉), who is the husband of Ms. Qian Jingjuan. Wuxi Xingwei is therefore an associate of Mr. Qian Jinghong and the connected person of the Company under Chapter 14A of the Listing Rules and the entering of the framework service agreement with Wuxi Xingwei constitute as a connected transaction of the Company.

(IV) PURCHASES OF VEHICLE FRAMES FROM DONGGUAN HANRUN VEHICLE FITTINGS CO., LTD. (東莞市漢潤車輛配件有限公司) ("DONGGUAN HANRUN")

On 4 May 2016, the Company and Dongguan Hanrun entered into a framework service agreement, pursuant to which Dongguan Hanrun has agreed to provide vehicle frames to the Group for a three-year period commencing from the Listing Date and ending on 31 December 2018. The annual purchase amount from Dongguan Hanrun is determined with reference to the historical values of vehicle frames the Group purchased from Dongguan Hanrun for the three years ended 31 December 2014, 2015 and 2016, the past changes in the prices of vehicle frames for the three years ended 31 December 2014, 2015 and 2016 and the expected transaction volumes in 2016, 2017 and 2018, in view of the goal to decrease the transaction amount with the connected supplier and based on the production plans as well as the capability to source vehicle frames from alternate third party suppliers.

The transactions between the Company and Dongguan Hanrun for the year ended 31 December 2016 amounted to approximately RMB747,000. The annual caps under the framework service agreement for each of the three years ending 31 December 2018 will be RMB10,200,000, nil and nil, respectively.

Dongguan Hanrun is wholly owned by Mr. Yang Yong (楊勇), the cousin of Mr. Dong Jinggui. Wuxi Xingwei is therefore an associate of Mr. Dong Jinggui and the connected person of the Company under Chapter 14A of the Listing Rules and the entering of the framework service agreement with Dongguan Hanrun constitute as a connected transaction of the Company.

(V) PURCHASES OF FRONT FORKS FROM NINGBO SUOGAO SHOCK ABSORBER CO., LTD. (寧波索高減震器有限公司) ("NINGBO SUOGAO")

On 4 May 2016, the Company and Ningbo Suogao entered into a framework service agreement, pursuant to which Ningbo Suogao has agreed to provide front forks to the Group for a three-year period commencing from the Listing Date and ending on 31 December 2018. The annual purchase amount from Ningbo Suogao is determined with reference to the historical values of front forks the Group purchased from Ningbo Suogao for the three years ended 31 December 2014, 2015 and 2016, the past changes in the prices of front forks for the three years ended 31 December 2014, 2015 and 2016 and the expected transaction volumes in 2016, 2017 and 2018, in view of the goal to decrease the transaction amount with the connected supplier and based on the production plans as well as the capability to source front forks from alternate third party suppliers.

The transactions between the Company and Ningbo Suogao for the year ended 31 December 2016 amounted to approximately RMB2,612,000. The annual caps under the framework service agreement for each of the three years ending 31 December 2018 will be RMB24,600,000, nil and nil, respectively.

Ningbo Suogao is owned as to 80% by Mr. Dong Jingzhi (董經智), the brother of Mr. Dong Jinggui, and 20% by Ms. Luo Haiyan (羅海燕), who is the wife of Mr. Dong Jingzhi. Ningbo Suogao is therefore an associate of Mr. Dong Jinggui and the connected person of the Company under Chapter 14A of the Listing Rules and the entering of the framework service agreement with Ningbo Suogao constitute as a connected transaction of the Company.

(VI) PURCHASES OF ELECTRIC MOTORS AND METERS AND RELATED COMPONENTS FROM TIANJIN XINGWEI ELECTRIC PARTS CO., LTD. (天津市星偉電動車配件有限公司) ("TIANJIN XINGWEI")

On 4 May 2016, the Company and Tianjin Xingwei entered into a framework service agreement, pursuant to which Tianjin Xingwei has agreed to provide electric motors and meters and related components to the Group for a three-year period commencing from the Listing Date and ending on 31 December 2018. The annual purchase amount from Tianjin Xingwei is determined with reference to the historical values of electric motors and meters and related components the Group purchased from Tianjin Xingwei for the three years ended 31 December 2014, 2015 and 2016, the past changes in the prices of electric motors and meters and related components for the three years ended 31 December 2014, 2015 and 2016 and the expected transaction volumes in 2016, 2017 and 2018, in view of the goal to decrease the transaction amount with the connected supplier and based on the production plans as well as the capability to source electric motors and meters and related components from alternate third party suppliers.

The transactions between the Company and Tianjin Xingwei for the year ended 31 December 2016 amounted to approximately RMB4,540,000. The annual caps under the framework service agreement for each of the three years ending 31 December 2018 will be RMB22,500,000, RMB6,700,000 and nil, respectively.

Tianjin Xingwei is owned as to 10% by Ms. Qian Jingjuan (錢靜娟), who is the cousin of Ms. Qian Jinghong, and 90% by Mr. Zhou Wei (周偉), who is the husband of Ms. Qian Jingjuan. Tianjin Xingwei is therefore an associate of Ms. Qian Jinghong and the connected person of the Company under Chapter 14A of the Listing Rules and the entering of the framework service agreement with Tianjin Xingwei constitute as a connected transaction of the Company.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the continuing connected transactions above of the Group.

Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditor of the Company to perform certain agreed-upon procedures on the aforesaid continuing connected transactions. Based on the work performed, the auditor of the Company have provided a letter to the Board confirming that the aforesaid continuing connected transactions:

(i) have been approved by the Directors;

(ii) were entered into in accordance with the pricing policies of the Company;

(iii) were entered into in accordance with the terms of the relevant agreements governing such transactions; and

(iv) did not exceed the annual cap amounts.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) on normal commercial terms or better; and

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

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

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

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group during the reporting period are set out in note 25 to the financial statements.

CONTINGENT LIABILITIES

For details of the Group's contingent liabilities, please refer to the section headed "Liquidity and Capital Resources" under the Management Discussion & Analysis in this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under 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.

TAX RELIEF

As at the end of the reporting period, according to the laws of the Cayman Islands, holders of listed securities of the Company are not entitled to tax relief for their status as the holder of such securities.

PERMITTED INDEMNITY PROVISION

As at the date of this annual report, all Directors were covered under the liability insurance purchased by the Company for the Directors.

CHARITABLE DONATIONS

During the reporting period, the Group made no material charitable and other donations.

NON-COMPETITION UNDERTAKING FROM CONTROLLING SHAREHOLDERS

As disclosed in the Prospectus, the Company entered into a deed of non-competition ("**Non-Competition Deed**") with Mr. Dong Jinggui, Ms. Qian Jianhong, Dai Wei Investment Company Limited (the "**Dai Wei**") and Fang Yuan Investment Company Limited (the "**Fang Yuan**") (collectively, the "**Controlling Shareholders**") on 22 April 2016, under which the Controlling Shareholders jointly and severally agreed not to, whether as principal or agent and whether undertaken directly or indirectly (including through any associate, subsidiary, partnership, joint venture or other contractual arrangement of theirs) and whether for profit or otherwise, carry on, engage, invest, participate or hold any right or be interested in or render any services to or otherwise be involved in any business which is in competition, directly or indirectly, or is likely to be in competition, directly or indirectly, with the business referred to in the Prospectus that is carried on or contemplated to be carried on by any member of the Group.

Notwithstanding the above, the foregoing restrictions do not preclude any of the Controlling Shareholders from having any interest in Shares of not more than 5% in any company which is or whose holding company is listed on any recognised the Stock Exchange even though the business carried out by such company is or is likely to be in competition with the business, provided that the aggregate number of Shares held by the Controlling Shareholders does not exceed 5% of the issued Shares of such company and none of the Controlling Shareholders is a director of such company or is entitled to appoint any director of such company.

Each of the Controlling Shareholders has undertaken in the Non-Competition Deed that during the term of the Non-Competition Deed, if a new business opportunity is made available to any Controlling Shareholder or its/his/her respective associates, such Controlling Shareholder will or will procure its/his/her associates to notify the Company in writing and provide to the Company all information that is reasonably necessary for the Company to consider whether or not to pursue such business opportunity. For details of the Non-Competition Deed, please refer to the section headed "Relationship with Controlling Shareholders – Non-competition Undertaking" in the Prospectus.

The Company has received confirmations from the Controlling Shareholders confirming their compliance with the Non-Competition Deed for disclosure in this annual report for the period from the Listing Date to 31 December 2016.

The independent non-executive Directors have also reviewed the compliance and enforcement status of the Non-Competition Deed, and are of the view that the Controlling Shareholders have abided by the undertakings contained in the Non-Competition Deed for the period from the Listing Date to 31 December 2016.

DIRECTORS

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

Executive Directors	Mr. Dong Jinggui *(Chairman)* Ms. Qian Jinghong Mr. Liu Yeming *(Chief Executive Officer)* Mr. Shi Rui Mr. Shen Yu
Non-executive Director	Mr. Fan Xiang *(resigned as a on 5 January 2017)*
Independent non-executive Directors	Mr. Li Zongwei Mr. Wu Biguang Mr. Yao Naisheng

Mr. Fan Xiang resigned as the non-executive Director on 5 January 2017 due to his commitments to other professional and personal affairs. Save as disclosed above, there was no change in information of the Directors up to the date of this annual report.

In accordance with the Articles of Association, Mr. Dong Jinggui, Ms. Qian Jinghong, Mr. Liu Yeming, Mr. Shi Rui, Mr. Shen Yu, Mr. Li Zongwei, Mr. Wu Biguang and Mr. Yao Naisheng will retire at the 2017 AGM to be held on 6 June 2017. Mr. Dong Jinggui, Ms. Qian Jinghong, Mr. Liu Yeming, Mr. Shi Rui and Mr. Shen Yu, executive Directors, and Mr. Li Zongwei, Mr. Wu Biguang and Mr. Yao Naisheng, independent non-executive Directors, offer themselves for re-election at the 2017 AGM.

None of the Directors proposed for re-election at the forthcoming 2017 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 normal statutory obligations.

DIRECTORS' SERVICE CONTRACTS

Save for those disclosed in this annual report, each of the executive Directors has entered into a service contract with the Company on 22 April 2016 for an initial term of three years commencing from the Listing Date unless terminated by not less than three months' notice in writing served by either the executive Director or the Company.

REPORT OF DIRECTORS (continued)

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of three years commencing from the Listing Date.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the reporting period.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT AND CONTRACTS

Save for those disclosed in this annual report, no contract of significance to which the Company or its subsidiaries was a party, and in which a Director had a material interest, subsisted at any time during the year ended 31 December 2016.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed that none of the Directors has any interest in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business.

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

The Company was incorporated in the Cayman Islands on 17 July 2014 as an exempted company with limited liability and the Shares were listed on the Main Board of the Stock Exchange on the Listing Date.

As at the date of this annual report, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Dong Jinggui (Notes 1 & 3)	Interest of controlled corporation/interest of concert parties	1,992,010,943	66.4%
Ms. Qian Jinghong (Notes 2 & 3)	Interest of controlled corporation/interest of concert parties	1,992,010,943	66.4%
Mr. Liu Yeming (Note 4)	Interest of controlled corporation	35,348,837	1.2%

Notes:

(1) Mr. Dong Jinggui holds the entire issued share capital of Dai Wei, which in turn owns 1,399,398,084 Shares. By virtue of Part XV of the SFO, Mr. Dong Jinggui is deemed to be interested in the Shares held by Dai Wei.

(2) Ms. Qian Jinghong holds the entire issued share capital of Fang Yuan, which in turn owns 592,612,859 Shares. By virtue of Part XV of the SFO, Ms. Qian Jinghong is deemed to be interested in the Shares held by Fang Yuan.

(3) Pursuant to the Concert Parties Arrangement, Mr. Dong Jinggui and Ms. Qian Jinghong confirmed that they are parties acting in concert in relation to the exercise of their voting rights at the meetings of the Shareholders and the Board. They have also further undertaken that during the period when they remain interested in, directly or indirectly, the Shares, they will continue to act in accordance with the Concert Parties Arrangements As such, Mr. Dong Jinggui and Ms. Qian Jinghong, together with their respective holding companies (being Dai Wei and Fang Yuan), are all deemed to be interested in the total Shares held by Dai Wei and Fang Yuan.

(4) Mr. Liu Yeming holds the entire issued share capital of Ke Ding International Company Limited, which in turn holds 35,348,837 Shares. By virtue of Part XV of the SFO, Mr. Liu Yeming is deemed to be interested in the Shares held by Ke Ding International Company Limited.

(5) The percentage of shareholding was calculated based on Company's total issued Share capital of 3,000,000,000 Shares as at the date of this annual report.

Save as disclosed above, as at the date of this annual report, none of the Directors, chief executives of the Company and their respective associates had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2017 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisitions of Shares or in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS OF THE SHAREHOLDERS UNDER THE SFO

As at the date of this annual report, the interests or short positions of substantial Shareholders, other than the Directors or chief executives of the Company whose interests and short positions in the Shares and of its associated corporations (within the meaning of Part XV of the SFO) as set out below, had 5% or more interests or short positions in the Shares and underlying Shares as recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of issued share capital
Dai Wei (1)(3)	Beneficial interest/interest of concert parties	1,992,010,943 (L)	66.4%
Fang Yuan (2)(3)	Beneficial interest/interest of concert parties	1,992,010,943 (L)	66.4%

Notes:

(1) Mr. Dong Jinggui directly holds the entire share capital of Dai Wei and is deemed to be interested in the Shares held by Dai Wei.

(2) Ms. Qian Jinghong directly holds the entire share capital of Fang Yuan and is deemed to be interested in the Shares held by Fang Yuan.

(3) Pursuant to the Concert Parties Arrangement, Mr. Dong Jinggui and Ms. Qian Jinghong confirmed that they are parties acting in concert in relation to the exercise of their voting rights at the meetings of the Shareholders and the Board. They have also further undertaken that during the period when they remain interested in, directly or indirectly, the Shares, they will continue to act in accordance with the Concert Parties Arrangements As such, Mr. Dong Jinggui and Ms. Qian Jinghong, together with their respective holding companies (being Dai Wei and Fang Yuan), are all deemed to be interested in the total Shares held by Dai Wei and Fang Yuan.

(4) The percentage of shareholding was calculated based on Company's total issued share capital of 3,000,000,000 Shares as at the date of this annual report.

SHARE OPTION SCHEME

On 22 April 2016, the Shareholder approved and adopted a share option scheme (the "**Share Option Scheme**") conditionally upon the approval by the Stock Exchange of the listing of, and permission to deal in, any Shares to be allotted and issued pursuant to the exercise of options under the Share Option Scheme. The Company received such approval from the Stock Exchange on 18 May 2016.

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of our Group shall not in aggregate exceed 30% of the issued share capital of the Company from time to time. The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group shall not in aggregate exceed 10% of the aggregate of the Shares in issue on the day on which trading of the Shares commence on the Stock Exchange, such 10% limit represents 300,000,000 Shares (the "**General Scheme Limit**"). The total number of Shares issued and to be issued upon exercise of the options granted and to be granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "**Individual Limit**"). Any further grant of share options in excess of either the General Scheme Limit or the Individual Limit is subject to Shareholders' approval in a general meeting of the Company.

Share options granted to a Director, chief executive of the Company or substantial Shareholder, or to any of their associates, are subject to approval by the independent non-executive Directors. In addition, any share options granted to a substantial Shareholder or an independent non-executive Director, or to any of their associates, representing in aggregate over 0.1% of the Shares in issue at any time or with an aggregate value (based on the closing price of the Shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in a general meeting.

An option may be accepted by a participant to whom the offer is made within five business days from the date on which the letter containing the offer is delivered to that participant. A nominal consideration of HK$1 is payable upon acceptance of the grant of an option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than ten years from the date of grant of the option subject to the provisions for early termination under the Share Option Scheme.

The subscription price per Share under the Share Option Scheme will be a price determined by our Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the offer of grant (provided that in the event that any option is proposed to be granted within a period of less than five business days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the global offering shall be used as the closing price for any business day falling within the period before listing of the Shares on the Stock Exchange); and (iii) the nominal value of a Share on the date of grant.

From the Listing Date to the date of this annual report, no option has been granted or agreed to be granted under the Share Option Scheme.

Save as disclosed above, during the period from the Listing Date to the date of this annual report, the Company and its subsidiaries have not issued or granted any convertible securities, options, warrants or other similar rights. The Company did not issued equity securities in consideration of cash.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme as disclosed above, no equity-linked agreements that will or may result in the Company issuing Shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the reporting period or subsisted at the end of the reporting period.

EMOLUMENT POLICY

The emolument policy of the general staff of the Company is set up by the management of the Group on the basis of their merit, qualifications and competence. The emoluments of the Directors and senior management of the Company are proposed by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics, subject to the final decision by the Board.

The remuneration of the Directors and five highest paid individuals of the Company are set out in note 8 and note 9 to the financial statements respectively. For the remuneration of senior management of the Company, please refer to the section headed "Remuneration Committee" above.

To the knowledge of the Company, as at the date of this annual report, none of the Directors had waived or agreed to waive any arrangement for emolument.

Particulars of pension schemes of the Group as at 31 December 2016 are set out in note 2.4 to consolidated financial statements.

Pursuant to the applicable PRC laws and regulations, the Group participates to contribute to various security insurance including social insurance and having provident fund.

No forfeited contributions are available to reduce the contribution payable by the Group in the future years.

PERMITTED INDEMNITY PROVISION

Pursuant to article 191 of the Article of Association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise.

MAJOR CUSTOMERS AND SUPPLIERS

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year under review, and sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year, no major customer segment information is presented in accordance with HKFRS 8 Operating Segments.

The aggregate purchase attributable to the Group's five largest suppliers accounted for approximately 33.2% (2015: 34.4%) and the largest supplier accounted for approximately 17.8% (2015: 14.3%) of the Group's total purchases for the year ended 31 December 2016.

At no time during the year ended 31 December 2016 have the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2016 and up to the date of this annual report, the Company has maintained the prescribed public float as required by the Listing Rules.

AUDITOR

The external auditor of the Company, Ernst & Young, will retire and a resolution for their reappointment as the external auditor of the Company will be proposed at the forthcoming 2017 AGM.

On behalf of the Board
Dong Jinggui
Chairman

10 March 2017

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Yadea Group Holdings Ltd.
(Incorporated in the Cayman Islands as exempted company with limited liability)

OPINION

We have audited the consolidated financial statements of Yadea Group Holdings Ltd. (the "**Company**") and its subsidiaries (the "Group") set out on pages 44 to 102, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of wealth management products	
The Group's wealth management products were measured at fair value and classified as financial assets at fair value through profit or loss. As at 31 December 2016, the Group's wealth management products amounted to RMB1,412 million, accounting for 24% of the total assets. Management assessed the fair value of the wealth management products based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. The process of assessing the fair value required management to make estimates about expected future cash flows, credit risk, gold prices and discount rates, which was complex and subject to uncertainty. Disclosures for the significant accounting estimates and the fair value measurement of wealth management products are included in notes 3 and 34 to the financial statements.	Among others, we have involved our financial instrument valuation specialists to assist us in evaluating the valuation techniques used and assessing of the key data inputs in the valuation models including the observable market prices or rates. We reviewed, on a sample basis, agreements for the wealth management products for key terms and sample tested the data used in the valuation by reference to market information. We also assessed the adequacy of the disclosures relating to fair value measurement of the wealth management products.
Capitalisation of prepaid decoration expenses	
To enhance the customer experience and increase sales, the Group invested in the distributor points of sales overhaul campaign by providing non-cash incentives in the form of decoration materials to the distributors. The non-cash incentives which are provided as part of current or future sales transactions, are initially capitalised as prepaid decoration expenses, and are subsequently amortised and deducted against revenue over the applicable periods in which the sales are related. As at 31 December 2016, the net carrying amount of prepaid decoration expenses amounted to RMB121 million, accounting for 2% of the total assets. Management reviewed the operating performance of each distributor in the campaign to determine the likelihood of future economic benefits for the capitalisation of the decoration expenses, which required high a level of management judgement. Disclosures for the significant accounting judgments and the recognition of prepaid decoration expenses are included in notes 3 and 19(iii) to the financial statements.	Our procedures included, amongst others, reviewing a sample of new points of sales overhaul agreements signed by the Group with distributors for the terms and conditions to provide decoration materials. We also evaluated management's assessment as to whether the capitalised decoration expenses were still expected to deliver sufficient positive economic benefits to the Group by reviewing the past trading history of the distributors and the sales budget provided by the distributors taking into account the historic accuracy of budgets provided by respective distributors. We also considered whether the amortisation period selected remained appropriate with reference to the terms in the points of sales overhaul agreements and the Group's past experience.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
10 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5(a)	**6,662,139**	6,429,187
Cost of sales	6(a)	**(5,309,375)**	(5,211,994)
Gross profit		**1,352,764**	1,217,193
Other income and gains, net	5(b)	**81,027**	85,770
Selling and distribution expenses		**(451,191)**	(453,544)
Administrative expenses		**(427,968)**	(358,528)
Finance costs	7	**(216)**	(24)
PROFIT BEFORE TAX	6	**554,416**	490,867
Income tax expense	10	**(124,287)**	(115,400)
PROFIT FOR THE YEAR		**430,129**	375,467
Profit attributable to:			
Owners of the parent		**430,129**	375,467
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic			
– For profit for the year (RMB)	12	**16.2 cents**	18.0 cents
Diluted			
– For profit for the year (RMB)	12	**15.8 cents**	16.5 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	**430,129**	375,467
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**53,552**	989
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**53,552**	989
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**53,552**	989
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**483,681**	376,456
Attributable to:		
Owners of the parent	**483,681**	376,456

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**732,980**	679,709
Prepaid land lease payments	14	**292,839**	220,612
Intangible assets	15	**16,966**	14,162
Available-for-sale investments	16	**14,683**	8,223
Prepayments	19	**59,413**	84,600
Deferred tax assets	26	**19,106**	18,202
Total non-current assets		**1,135,987**	1,025,508
CURRENT ASSETS			
Inventories	17	**205,000**	141,491
Trade and bills receivables	18	**279,691**	183,225
Prepayments, deposits and other receivables	19	**255,176**	212,097
Financial assets at fair value through profit or loss	20	**1,411,630**	861,700
Pledged bank deposits	21	**777,073**	779,056
Cash and cash equivalents	22	**1,801,405**	786,691
Total current assets		**4,729,975**	2,964,260
CURRENT LIABILITIES			
Trade and bills payables	23	**3,287,399**	2,880,431
Other payables and accruals	24	**285,242**	256,740
Interest-bearing bank borrowings	25	**–**	12,997
Tax payable		**72,751**	35,603
Total current liabilities		**3,645,392**	3,185,771
NET CURRENT ASSETS/(LIABILITIES)		**1,084,583**	(221,511)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,220,570**	803,997
NON-CURRENT LIABILITIES			
Other payables	24	**–**	22,160
NET ASSETS		**2,220,570**	781,837
EQUITY			
Equity attributable to owners of the parent			
Share capital	27	**188**	135
Reserves	28	**2,220,382**	781,702
Total equity		**2,220,570**	781,837

Jinggui Dong
Director

Jinghong Qian
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to owners of the parent							
	Note	Share capital RMB'000 Note 27	Merger reserve RMB'000* Note 28(i)	Share premium account RMB'000* Note 28(ii)	Statutory reserve RMB'000* Note 28(iii)	Exchange fluctuation reserve RMB'000* Note 28(iv)	Share award reserve RMB'000*	Retained profits RMB'000*	Total RMB'000
At 1 January 2016		**135**	**(121,024)**	**10,124**	**65,712**	**926**	**75,574**	**750,390**	**781,837**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**430,129**	**430,129**
Exchange differences related to foreign operations		**–**	**–**	**–**	**–**	**53,552**	**–**	**–**	**53,552**
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**53,552**	**–**	**430,129**	**483,681**
Capitalization issue of shares		**6**	**–**	**(6)**	**–**	**–**	**–**	**–**	**–**
Issuance of shares for the initial public offering ("**IPO**")		**47**	**–**	**1,044,791**	**–**	**–**	**–**	**–**	**1,044,838**
Share issue expenses		**–**	**–**	**(89,786)**	**–**	**–**	**–**	**–**	**(89,786)**
Transfer from retained profits		**–**	**–**	**–**	**33,831**	**–**	**–**	**(33,831)**	**–**
At 31 December 2016		**188**	**(121,024)**	**965,123**	**99,543**	**54,478**	**75,574**	**1,146,688**	**2,220,570**
At 1 January 2015		135	(121,024)	121,316	37,647	(63)	75,574	402,988	516,573
Profit for the year		–	–	–	–	–	–	375,467	375,467
Exchange differences related to foreign operations		–	–	–	–	989	–	–	989
Total comprehensive income for the year		–	–	–	–	989	–	375,467	376,456
Dividends paid to the shareholders of the Company	11	–	–	(111,192)	–	–	–	–	(111,192)
Transfer from retained profits		–	–	–	28,065	–	–	(28,065)	–
At 31 December 2015		135	(121,024)	10,124	65,712	926	75,574	750,390	781,837

* These reserve accounts comprise the consolidated reserves of RMB2,220,382,000 (2015: RMB781,702,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before tax		**554,416**	490,867
Adjustments for:			
Finance costs	7	**216**	24
Bank interest income	5(b)	**(13,414)**	(19,180)
Net gain on disposal of items of property, plant and equipment	5(b),6(c)	**(854)**	(988)
Depreciation of items of property, plant and equipment	6(c)	**63,123**	53,054
Amortization of prepaid land lease payments	6(c)	**5,276**	4,550
Amortization of intangible assets	6(c)	**3,877**	2,207
Provision/(reversal of provision) for impairment of trade receivables	6(c)	**354**	(997)
Gains from financial assets at fair value through profit or loss	5(b)	**(37,161)**	(42,651)
		575,833	486,886
Decrease/(increase) in pledged bank deposits		**1,983**	(119,655)
Increase in trade and bills receivables		**(96,820)**	(70,304)
Increase in prepayments, deposits and other receivables		**(6,078)**	(190,953)
(Increase)/decrease in inventories		**(63,509)**	18,130
Increase in trade and bills payables		**406,968**	774,211
Increase in other payables and accruals		**21,646**	8,843
Cash generated from operations		**840,023**	907,158
Income tax paid		**(88,043)**	(113,301)
Net cash flows generated from operating activities		**751,980**	793,857

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Notes	2016 RMB'000	2015 RMB'000
Investing activities			
Interest received from bank deposits		**13,414**	19,180
Purchases of items of property, plant and equipment		**(131,693)**	(149,588)
Proceeds from disposal of items of property, plant and equipment		**4,080**	2,972
Additions to prepaid land lease payments		**(77,503)**	(2,634)
Additions to intangible assets		**(1,726)**	(8,916)
Redemption of wealth management products		**12,373,331**	9,492,051
Purchase of wealth management products		**(12,906,100)**	(9,756,100)
Purchase of available-for-sale investments		**(6,460)**	(7,841)
Net cash flows used in investing activities		**(732,657)**	(410,876)
Financing activities			
Proceeds from bank loans		**–**	12,997
Repayment of bank loans		**(12,997)**	–
Interest paid		**(216)**	(24)
Dividends paid to the shareholders of the Company	11	**–**	(111,192)
Proceeds from issue of shares for the IPO		**1,044,838**	–
Share issue expenses		**(89,786)**	–
Net cash flows generated from/ (used in) financing activities		**941,839**	(98,219)
Net increase in cash and cash equivalents		**961,162**	284,762
Cash and cash equivalents at beginning of year		**786,691**	501,322
Effect of foreign exchange rate changes		**53,552**	607
Cash and cash equivalents at end of year		**1,801,405**	786,691
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**1,801,405**	786,691
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		**1,801,405**	786,691

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2016

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 19 May 2016 (the "**Listing**").

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "**Group**") were principally engaged in the development, manufacture and sale of electric vehicles and related accessories in the People's Republic of China (the "**PRC**").

In the opinion of the directors of the Company (the "**Directors**"), the ultimate controlling shareholders of the Company are Mr. Jinggui Dong and Ms. Jinghong Qian (the "**Controlling Shareholders**").

In the opinion of the Directors, the ultimate holding companies of the Company are Dai Wei Investment Company Limited and Fang Yuan Investment Company Limited, which are incorporated in British Virgin Islands.

Information About Subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Yadea Group Management Holdings Limited	British Virgin Islands	US$100	100%	–	Investment holding
Ture Vantage Global Limited	Republic of Seychelles	US$1,000	100%	–	Investment holding
Yadea HK Holdings Limited	Hong Kong	HK$100	–	100%	Investment holding
無錫雅迪諮詢有限公司 (Wuxi Yadea Consulting Co., Ltd.)*	Wuxi, the PRC	RMB1,000,000	–	100%	Investment holding
江蘇雅迪科技發展有限公司 (Jiangsu Yadea Technology Development Co., Ltd.)	Wuxi, the PRC	RMB150,000,000	–	100%	Development, manufacture and sale of electric vehicles and accessories
浙江雅迪機車有限公司 (Zhejiang Yadea Motorcycle Co., Ltd.)	Ningbo, the PRC	RMB100,000,000	–	100%	Development, manufacture and sale of electric vehicles and accessories
無錫雅迪進出口有限公司 (Wuxi Yadea Import and Export Co., Ltd.)	Wuxi, the PRC	RMB510,000	–	100%	Export of electric vehicles and accessories
天津雅迪偉業車業有限公司 (Tianjin Yadea Weiye Vehicle Co., Ltd.)	Tianjin, the PRC	RMB500,000	–	100%	Manufacture and sale of accessories

1. CORPORATE AND GROUP INFORMATION (Continued)
Information About Subsidiaries (Continued)

Name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
雅迪科技集團有限公司 (Yadea Technology Group Co., Ltd.)	Wuxi, the PRC	RMB100,000,000	–	100%	Investment holding and manufacture and sale of electric vehicles and accessories
天津雅迪實業有限公司 (Tianjin Yadea Industry Co., Ltd.)	Tianjin, the PRC	RMB50,000,000	–	100%	Development, manufacture and sale of electric vehicles and accessories
廣東雅迪科技發展有限公司 (Guangdong Yadea Technology Development Co., Ltd.)	Dongguan, the PRC	RMB10,000,000	–	100%	Development, manufacture and sale of electric vehicles and accessories
雅迪科技集團銷售有限公司 (Yadea Technology Group Sales Co., Ltd.)	Wuxi, the PRC	RMB50,000,000	–	100%	Sale of electric vehicles and accessories
江蘇新迪科技發展有限公司 (Jiangsu Xindi Technology Development Co., Ltd.)	Wuxi, the PRC	RMB70,000,000	–	100%	Development, manufacture and sale of electric vehicles and accessories
上海雅迪投資有限公司 (Shanghai Yadea Investment Co., Ltd.)	Shanghai, the PRC	RMB10,000,000	–	100%	Investment holding
廣東雅迪機車有限公司 (Guangdong Yadea Motorcycle Co., Ltd.)	Qingyuan, the PRC	RMB10,000,000	–	100%	Development, manufacture and sale of electric vehicles and accessories
彩仕(清遠)製品有限公司 (Caishi (Qingyuan) Products Co., Ltd.)*	Qingyuan, the PRC	USD3,500,000	–	100%	Manufacture of industrial products

* Wuxi Yadea Consulting Co., Ltd. and Caishi (Qingyuan) Products Co., Ltd. are registered as wholly-foreign enterprises under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

The adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in Associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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.

The Group’s investment in its associate is stated in the consolidated statement of financial position at the Group’s share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Associates (Continued)

The Group's share of the post-acquisition results and other comprehensive income of the associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealized losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Fair Value Measurement

The Group measures its financial assets at fair value through profit or loss at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimizing the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of Non-financial Assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets and inventories), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related Parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

Property, Plant and Equipment and Depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment and Depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.75%
Plant and machinery	9.50% to 19.00%
Motor vehicles	9.50% to 23.75%
Office equipment	19.00% to 31.67%
Other equipment	9.50% to 31.67%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery, office equipment and other equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, capitalized operating leases on land and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible Assets (Other Than Goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

SOFTWARE

Purchased software is stated at cost less any impairment losses and amortized on the straight-line basis over its estimated useful life of three to ten years.

PATENTS

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 years.

RESEARCH AND DEVELOPMENT COSTS

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Investments and Other Financial Assets

INITIAL RECOGNITION AND MEASUREMENT

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognized initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

SUBSEQUENT MEASUREMENT

The subsequent measurement of financial assets depends on their classification as follows:

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognized in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Other Financial Assets (Continued)

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognized in the statement of profit or loss in finance costs for loans and in administrative expenses for receivables.

AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognized in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

FINANCIAL ASSETS CARRIED AT AMORTIZED COST

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Financial Assets (Continued)

FINANCIAL ASSETS CARRIED AT AMORTIZED COST (CONTINUED)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in the statement of profit or loss.

ASSETS CARRIED AT COST

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of profit or loss, is removed from other comprehensive income and recognized in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss – is removed from other comprehensive income and recognized in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Liabilities

INITIAL RECOGNITION AND MEASUREMENT

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals and interest-bearing bank borrowings.

SUBSEQUENT MEASUREMENT

The subsequent measurement of financial liabilities depends on their classification as follows:

LOANS AND BORROWINGS

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

Derecognition of Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income Tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax (Continued)

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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 profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government Grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and is released to profit or loss by way of a reduced depreciation charge.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold, and for the non-cash sales incentives provided to customers which are directly related to sales transactions, they would be netted off against revenue;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee Benefits

PENSION SCHEME

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Share-Based Payments

The Group granted ordinary share to employees for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when 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 capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting.

Foreign Currencies

These financial statements are presented in RMB, which is the Company's presentation currency. The functional currency of the Company is the Hong Kong dollar which is the currency of the primary environment in which the Company operates. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in the PRC, the Company adopts RMB as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change at fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and certain overseas established subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currencies (Continued)

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and overseas established subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas established subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

DEFERRED TAX ASSETS

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2016 was RMB19,106,000 (2015: RMB18,202,000). Further details are contained in note 26 to the financial statements.

CURRENT INCOME TAX

Judgement is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax in the periods in which the differences arise.

RECOGNITION OF PREPAID DECORATION EXPENSES

Non-cash incentives in the form of decoration materials provided to the distributors are provided as part of current or future sales transactions, are initially capitalised as prepaid decoration expenses, and are subsequently amortised and deducted against revenue over the applicable periods in which the sales are related. Significant management judgement is required to review the operating performance of each distributor to determine the likelihood of future economic benefits for the capitalisation of the decoration expenses, Where the future economic benefits of the capitalised decoration expenses are different from the original assessment, the differences will impact on the capitalisation of prepaid decoration expenses in the periods in which the differences arise.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation Uncertainty

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, are described below.

IMPAIRMENT OF NON-FINANCIAL ASSETS (OTHER THAN GOODWILL)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

IMPAIRMENT OF TRADE RECEIVABLES

The provision policy for impairment of trade receivables of the Group is based on ongoing assessment of the recoverability and the aged analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realization of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. The net carrying value of trade receivables at 31 December 2016 was RMB278,361,000 (2015: RMB179,847,000).

WRITE-DOWN OF INVENTORIES TO NET REALIZABLE VALUE

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes a provision for slow-moving inventory items. Management estimates the net realizable value for such inventories based primarily on the latest invoice prices and current market conditions. Write-down of inventories to net realizable value is made based on the estimated net realizable value of inventories. The assessment of the write-down amount requires management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying values of inventories and write-down/write-back of inventories in the period in which such estimate has been changed. The net carrying value of inventories at 31 December 2016 was RMB205,000,000 (2015: RMB141,491,000).

FAIR VALUE OF WEALTH MANAGEMENT PRODUCTS

The wealth management products included in the financial assets at fair value through profit or loss have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, gold prices and discount rates, and hence they are subject to uncertainty. The net carrying value of wealth management products at 31 December 2016 was RMB1,411,630,000 (2015: RMB861,700,000).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organized into business units based on their products and services and the Group has only one reportable operating segment which is engaged in the development, manufacture and sale of electric vehicles and related accessories.

No operating segments have been aggregated to form the above reportable operating segment.

Geographical Information

Since over 90% of the Group's revenue and operating profit were generated from the sale of electric vehicles in Mainland China and over 90% of the Group's non-current assets and liabilities were located in Mainland China, no geographical information is presented in accordance with HKFRS 8 *Operating Segments*.

Information About a Major Customer

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information is presented in accordance with HKFRS 8 *Operating Segments*.

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value of goods sold, after allowances for rebate and trade discounts during the year.

An analysis of revenue, other income and gains, net is as follows:

(a) Revenue:

	2016 RMB'000	2015 RMB'000
Sale of goods	**6,662,139**	6,429,187

(b) Other income and gains, net:

	2016 RMB'000	2015 RMB'000
Bank interest income	**13,414**	19,180
Government grants*	**23,594**	14,138
Gains from financial assets at fair value through profit or loss	**37,161**	42,651
Net gain on disposal of items of property, plant and equipment	**854**	988
Others	**6,004**	8,813
	81,027	85,770

* Various government grants have been received for the encouragement of the Company's listing on Stock Exchange and contributions to local economy. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived after charging/(crediting):

		Notes	2016 RMB'000	2015 RMB'000
(a)	**Cost of sales:**			
	Cost of inventories sold		**5,309,375**	5,211,994
(b)	**Employee benefit expenses (including directors' and chief executive's remuneration (note 8)):**			
	Wages and salaries		**245,561**	265,647
	Pension scheme contributions (defined contribution scheme), social welfare and other welfare		**41,157**	49,717
			286,718	315,364
(c)	**Other items:**			
	Depreciation of items of property, plant and equipment	13	**63,123**	53,054
	Amortization of prepaid land lease payments	14	**5,276**	4,550
	Amortization of intangible assets	15	**3,877**	2,207
	Advertisement and business promotion expenses		**298,076**	297,265
	Auditor's remuneration		**3,000**	–
	Research and development costs*		**163,267**	133,679
	Logistics expenses		**67,645**	67,241
	Operating lease expenses		**7,122**	7,324
	Labour services outsourcing costs		**33,504**	–
	Net gain on disposal of items of property, plant and equipment		**(854)**	(988)
	Provision/(reversal of provision) for impairment of trade receivables	18	**354**	(997)

* Research and development costs are included in "administrative expenses" in the consolidated statement of profit or loss. Research and development costs included wages and salaries amounting to RMB29,300,000 for the year ended 31 December 2016 (2015: RMB20,810,000), which are also included in employee benefit expenses as disclosed in note 6(b) above.

7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank loans	**216**	24

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Fees	**390**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**2,816**	2,572
Pension scheme contributions and social welfare	**113**	68
	3,319	2,640

Directors and the Chief Executive

	Year ended 31 December 2016			
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions and social welfare RMB'000	Total RMB'000
Executive director and chief executive:				
Mr. Yeming Liu	–	666	22	688
Executive directors:				
Mr. Jinggui Dong	–	600	14	614
Ms. Jinghong Qian	–	600	49	649
Mr. Rui Shi	–	550	14	564
Mr. Yu Shen	–	400	14	414
	–	2,816	113	2,929
Non-executive director:				
Mr. Xiang Fan (i)	–	–	–	–
Independent non-executive directors:				
Mr. Biguang Wu	130	–	–	130
Mr. Zongwei Li	130	–	–	130
Mr. Naishen Yao	130	–	–	130
	390	–	–	390

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

Directors and the Chief Executive (Continued)

	Year ended 31 December 2015			
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions and social welfare RMB'000	Total RMB'000
Executive director and chief executive:				
Mr. Yeming Liu	–	1,050	14	1,064
Executive directors:				
Mr. Jinggui Dong	–	441	14	455
Ms. Jinghong Qian	–	281	14	295
Mr. Rui Shi	–	400	12	412
Mr. Yu Shen	–	400	14	414
	–	2,572	68	2,640

(i) Mr. Xiang Fan resigned as the non-executive director on 5 January 2017 due to his commitments to other professional and personal affairs.

There were no emoluments payable to the independent non-executive directors and non-executive director during year (2015: Nil).

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2015: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group during the year included one executive director (2015: two executive directors), details of their emoluments are set out in note 8. The emoluments for the year of the remaining four (2015: three) highest paid individuals who are neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	**3,291**	1,580
Pension scheme contributions and social welfare	**205**	35
	3,496	1,615

9. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	2016	2015
Nil to HK$1,000,000	2	3
HK$1,000,001 to HK$1,500,000	2	–
	4	3

10. INCOME TAX

Tax on the consolidated statement of profit or loss represents:

	2016 RMB'000	2015 RMB'000
Current – Mainland China		
Corporate income tax for the year	125,191	119,834
Deferred tax (note 26)	(904)	(4,434)
Total tax charge for the year	124,287	115,400

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

Subsidiaries incorporated in Hong Kong were subject to income tax at the rate of 16.5% during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

In accordance with the Corporate Income Tax Law of the People's Republic of China, New High Technology Enterprises were subject to income tax at a tax rate of 15%. Tianjin Industry was recognized as a New High Technology Enterprise in December 2013. For the year ended 31 December 2016, the applicable tax rate for Tianjin Industry was a preferential rate of 15% (2015: 15%).

Other subsidiaries established in the PRC were subject to the income tax rate of 25% during the year (2015: 25%).

10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2016 RMB'000	2015 RMB'000
Profit before tax	**554,416**	490,867
Tax at the statutory tax rate (25%)	**138,604**	122,717
Effect of tax concessions obtained	**(12,788)**	(4,772)
Tax credit for qualified research and development expenses	**(3,254)**	(4,701)
Expenses not deductible for tax	**1,237**	3,046
Income not subject to tax	**–**	(50)
Adjustment in respect of current tax of previous periods	**(1,735)**	(846)
Tax losses not recognized during the year	**2,253**	6
Tax charge at the Group's effective rate	**124,287**	115,400

11. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Special dividend	**–**	111,192
Proposed final – HK4 cents per ordinary share	**107,341**	–
	107,341	111,192

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

On 29 January 2015, a special one-time cash dividend in the amount of HK$154,000,000 was declared by the Company to its shareholders and such dividend was paid on 30 January 2015 (except for an amount of approximately HK$13,600,000 which was unpaid as one of the shareholders waived its right to receive the dividend declared on 29 January 2015).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,653,259,563 (2015: 2,087,000,000) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares.

The calculations of the basic and diluted earnings per share are based on:

	2016 RMB'000	2015 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**430,129**	375,467

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,653,259,563**	2,087,000,000
Effect of dilution – weighted average number of ordinary shares: Series A preferred shares	**73,297,814**	193,000,000
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**2,726,557,377**	2,280,000,000

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2015 included the 2,000,000,000 ordinary shares, and the 87,000,000 shares in connection with the capitalization issue, which were deemed to have been issued as of the beginning of the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2016 included the weighted average of 193,000,000 ordinary shares converted from Series A preferred shares and 720,000,000 ordinary shares issued in connection with the Company's Global Offering on 19 May 2016 and the aforesaid 2,087,000,000 ordinary shares.

NOTES TO FINANCIAL STATEMENTS (continued)

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 31 December 2015 and at 1 January 2016							
Cost	**589,717**	**131,284**	**43,702**	**44,260**	**20,271**	**37,880**	**867,114**
Accumulated depreciation	**(97,861)**	**(27,683)**	**(29,996)**	**(23,606)**	**(8,259)**	**–**	**(187,405)**
Net carrying amount	**491,856**	**103,601**	**13,706**	**20,654**	**12,012**	**37,880**	**679,709**
At 1 January 2016, net of accumulated depreciation	**491,856**	**103,601**	**13,706**	**20,654**	**12,012**	**37,880**	**679,709**
Additions	**22,860**	**9,732**	**2,317**	**10,535**	**5,278**	**68,898**	**119,620**
Disposals	**–**	**(845)**	**(2,176)**	**(205)**	**–**	**–**	**(3,226)**
Depreciation provided for the year (note 6)	**(33,140)**	**(12,154)**	**(5,733)**	**(8,985)**	**(3,111)**	**–**	**(63,123)**
Transfers	**80,240**	**1,927**	**–**	**861**	**2,315**	**(85,343)**	**–**
At 31 December 2016, net of accumulated depreciation	**561,816**	**102,261**	**8,114**	**22,860**	**16,494**	**21,435**	**732,980**
At 31 December 2016:							
Cost	**692,817**	**142,019**	**36,042**	**54,551**	**27,900**	**21,435**	**974,764**
Accumulated depreciation	**(131,001)**	**(39,758)**	**(27,928)**	**(31,691)**	**(11,406)**	**–**	**(241,784)**
Net carrying amount	**561,816**	**102,261**	**8,114**	**22,860**	**16,494**	**21,435**	**732,980**
31 December 2015							
At 1 January 2015:							
Cost	481,483	51,098	49,378	30,104	15,772	98,728	726,563
Accumulated depreciation	(71,335)	(19,224)	(30,757)	(15,304)	(5,642)	–	(142,262)
Net carrying amount	410,148	31,874	18,621	14,800	10,130	98,728	584,301
At 1 January 2015, net of accumulated depreciation	410,148	31,874	18,621	14,800	10,130	98,728	584,301
Additions	752	25,082	4,005	11,131	3,572	105,904	150,446
Disposals	–	(170)	(1,814)	–	–	–	(1,984)
Depreciation provided for the year (note 6)	(26,526)	(8,503)	(7,106)	(8,302)	(2,617)	–	(53,054)
Transfers	107,482	55,318	–	3,025	927	(166,752)	–
At 31 December 2015, net of accumulated depreciation	491,856	103,601	13,706	20,654	12,012	37,880	679,709
At 31 December 2015:							
Cost	589,717	131,284	43,702	44,260	20,271	37,880	867,114
Accumulated depreciation	(97,861)	(27,683)	(29,996)	(23,606)	(8,259)	–	(187,405)
Net carrying amount	491,856	103,601	13,706	20,654	12,012	37,880	679,709

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2016, the application for the property ownership certificates for certain buildings with an aggregate net book value of approximately RMB224,099,000 (2015: RMB226,165,000) was still in process. In the opinion of the Directors, there is no legal barrier or otherwise for the Group to obtain the relevant title ownership certificates for these buildings from the relevant PRC authority.

As at 31 December 2016, certain of the Group's buildings and construction in progress with an aggregate net carrying amount of RMB413,877,000 (2015: RMB416,463,000) were pledged to secure the Group's bills payable.

14. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at beginning of year	**220,612**	225,845
Additions	**77,503**	–
Amortization provided during the year (note 6)	**(5,276)**	(4,550)
Amortization capitalized	**–**	(683)
Carrying amount at end of year	**292,839**	220,612

The carrying amount of the Group's prepaid land lease payments represents land use rights situated in Mainland China. The remaining lease terms of the land use rights of the Group range from 36 to 46 years.

At 31 December 2016, certain of the Group's prepaid land lease payments with an aggregate net book value of approximately RMB101,199,000 (2015: RMB220,612,000) was pledged to secure the Group's bills payable.

NOTES TO FINANCIAL STATEMENTS (continued)

15. INTANGIBLE ASSETS

	Software RMB'000	Patents RMB'000	Total RMB'000
31 December 2016			
Cost at 1 January 2016, net of accumulated amortization	**14,162**	**–**	**14,162**
Additions	**4,681**	**2,000**	**6,681**
Amortization provided during the year (note 6)	**(2,988)**	**(889)**	**(3,877)**
At 31 December 2016	**15,855**	**1,111**	**16,966**
At 31 December 2016:			
Cost	**24,063**	**2,000**	**26,063**
Accumulated amortization	**(8,208)**	**(889)**	**(9,097)**
Net carrying amount	**15,855**	**1,111**	**16,966**
31 December 2015			
Cost at 1 January 2015, net of accumulated amortization	12,408	–	12,408
Additions	3,961	–	3,961
Amortization provided during the year (note 6)	(2,207)	–	(2,207)
At 31 December 2015	14,162	–	14,162
At 31 December 2015:			
Cost	19,382	–	19,382
Accumulated amortization	(5,220)	–	(5,220)
Net carrying amount	14,162	–	14,162

16. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Unlisted equity investments, at cost	**14,683**	8,223

The unlisted equity investments were stated at cost less impairment because the investments did not have a quoted market price in an active market and, in the opinion of the Directors, the fair value estimate cannot be measured reliably.

17. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**133,932**	101,301
Finished goods	**71,068**	40,190
	205,000	141,491

18. TRADE AND BILLS RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**280,667**	181,799
Impairment	**(2,306)**	(1,952)
	278,361	179,847
Bills receivable	**1,330**	3,378
	279,691	183,225

At 31 December 2016, included in the trade and bills receivables are trade receivables from a Group's related party of RMB1,816,000 (2015: nil). Details of the Group's trade receivables balance with its related party as at the end of the reporting period are disclosed in note 32(c).

Full payment is typically required from customers of the Group before delivery of goods, except for certain customers in respect of credit sales. The credit terms generally vary from 15 days to six months from the date of billing. The Group seeks to maintain strict control over its outstanding receivables, and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. The Group's bills receivable were all aged within six months and neither past due nor impaired.

18. TRADE AND BILLS RECEIVABLES (Continued)

As at 31 December 2016, the Group had endorsed certain bills receivable accepted by banks in Mainland China (the "**Derecognized Bills**") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB32,590,000 (2015: RMB104,327,000). The Derecognized Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognized Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognized Bills. Accordingly, it has derecognized the full carrying amounts of the Derecognized Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognized Bills and the undiscounted cash flows to repurchase these Derecognized Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognized Bills are not significant.

During the year, the Group has not recognized any gain or loss on the date of transfer of the Derecognized Bills. No gains or losses were recognized from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

The aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of impairment allowances, is as follows:

	2016 **RMB'000**	2015 RMB'000
Within 6 months	**278,222**	177,456
More than 6 months but less than a year	**–**	–
Over 1 year	**139**	2,391
	278,361	179,847

The movements in impairment of trade receivables are as follows:

	2016 **RMB'000**	2015 RMB'000
At beginning of year	**1,952**	2,949
Impairment losses recognized (note 6)	**354**	–
Impairment losses reversed (note 6)	**–**	(997)
At end of year	**2,306**	1,952

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB2,306,000 (2015: RMB1,952,000) with a carrying amount before provision of RMB2,306,000 (2015: RMB1,952,000).

The individually impaired trade receivables relate to customers that no longer have transactions with the Group and none of the receivables is expected to be recovered.

18. TRADE AND BILLS RECEIVABLES (Continued)

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**278,222**	178,333
Past due but not impaired	**139**	1,514
	278,361	179,847

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Non-current assets	2016 RMB'000	2015 RMB'000
Prepayment for acquisition of items of property, plant and equipment	**4,244**	7,475
Prepaid decoration expenses (iii)	**55,169**	72,170
Prepayment for purchase of intangible assets	**–**	4,955
	59,413	84,600

Current assets	2016 RMB'000	2015 RMB'000
Prepayments to suppliers (i)	**73,333**	83,949
Prepayments for advertising	**67,781**	44,406
Deposits	**11,148**	20,508
VAT recoverable (ii)	**9,272**	5,202
Prepaid decoration expenses (iii)	**65,403**	44,438
Prepayments related to the listing of the Company's shares	**–**	7,794
Wealth management products	**20,000**	–
Others	**8,239**	5,800
	255,176	212,097

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

(i) Included in the prepayments to suppliers are prepayments to the Group's related parties of RMB8,637,000 (2015: RMB12,193,000). Details of the Group's prepayment balances with its related parties are disclosed in note 32(c).

(ii) Revenue from the Group's sales of electric vehicles is subject to Mainland China Value Added Tax ("**VAT**"). Input VAT on purchases can be deducted from output VAT payable on sales. The VAT recoverable is the net difference between output and deductible input VAT. The applicable tax rate for domestic sales of the Group is 17%.

(iii) To enhance the customer experience and increase sales, the Group invested in the distributor point of sales overhaul campaign by providing non-cash incentives in the form of decoration materials to the distributors. The non-cash incentives which are provided as part of current or future sales transactions, are initially capitalized as prepaid decoration expenses, and are subsequently amortized and deducted against revenue over the applicable periods in which the sales are related.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 RMB'000	2015 RMB'000
Wealth management products, at fair value	**1,411,630**	861,700

The wealth management products were issued by banks with variable interest rates, redeemable on demand or with maturity within 180 days in the PRC. As at 31 December 2016, the Group invested in principal-protected variable income investment products of RMB1,411,630,000 (2015: RMB820,904,000) and non-principal-protected variable income investment products of nil (2015: RMB40,796,000). As at 31 December 2016, certain of the Group's wealth management products with a carrying amount of RMB464,522,000 (2015: RMB656,347,000) were pledged as security for the Group's bills payable.

21. PLEDGED BANK DEPOSITS

	2016 RMB'000	2015 RMB'000
Deposits pledged with banks for bills payable and short term bank loans	**777,073**	779,056

Pledged bank deposits earn interest at interest rates stipulated by the respective financial institutions. The pledged bank deposits are deposited with creditworthy banks with no recent history of default.

22. CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**1,454,555**	786,691
Time deposits	**346,850**	–
Cash and cash equivalents	**1,801,405**	786,691

As at 31 December 2016, the Group's cash and bank balances denominated in currencies other than RMB amounted to RMB941,775,000 (2015: RMB13,846,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**1,259,443**	940,537
Bills payable	**2,027,956**	1,939,894
	3,287,399	2,880,431

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Within 3 months	**1,729,643**	1,651,079
3 to 6 months	**1,461,274**	1,180,176
6 to 12 months	**58,214**	21,905
12 to 24 months	**20,077**	23,930
Over 24 months	**18,191**	3,341
	3,287,399	2,880,431

At 31 December 2016, included in the trade and bills payables are trade payables to the Group's related parties of RMB3,694,000 (2015: RMB6,480,000), and bills payables to the Group's related parties of RMB22,670,000 (2015: RMB139,190,000). Details of the Group's trade payables and bills payable balances with its related parties as at the end of the reporting period are disclosed in note 32(d).

Trade payables are non-interest-bearing and have an average credit term of 15 to 90 days.

24. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Current liabilities		
Payables for purchase of items of property, plant and equipment	**39,994**	55,298
Advances from customers	**56,453**	40,830
Staff payroll and welfare payables	**44,175**	49,841
Sales rebate	**12,526**	22,667
Deferred revenue	**9,728**	10,138
Other tax payable	**35,798**	62,491
Deferred government subsidy	**40,996**	–
Others	**45,572**	15,475
	285,242	256,740

	2016 RMB'000	2015 RMB'000
Non-current liabilities		
Deferred government subsidy	**–**	22,160

25. INTEREST-BEARING BANK BORROWINGS

	2016			2015		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
– secured (note (a))	**–**	**–**	**–**	1.91	2016	12,997

(a) The Company's bank loans which amounted to RMB12,997,000 were denominated in US$ and secured by the pledge of certain of the Group's pledged bank deposits as at 31 December 2015 and the bank loans matured and were repaid in 2016.

26. DEFERRED TAX

Deferred Tax Assets

The movements in deferred tax assets during the year are as follows:

	Losses available for offsetting against future taxable profits RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	**759**	**16,956**	**487**	**18,202**
Deferred tax (charged)/credited to the statement of profit or loss during the year (note 10)	**971**	**(155)**	**88**	**904**
At 31 December 2016	**1,730**	**16,801**	**575**	**19,106**
At 1 January 2015	–	12,027	1,741	13,768
Deferred tax (charged)/credited to the statement of profit or loss during the year (note 10)	759	4,929	(1,254)	4,434
At 31 December 2015	759	16,956	487	18,202

At 31 December 2016, the Group had unused tax losses available for offsetting against future profits arisen in subsidiaries in Mainland China of RMB10,292,000 (2015: RMB1,390,000), that will expire in one to five years and the deferred tax assets have not been recognized in respect of these losses as they have arisen in those subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilized.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The withholding tax rate for the Group is 10%. As at the end of the reporting period, no deferred tax liability has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings to foreign entities in the foreseeable future after their assessment based on factors which included the dividend policy, the level of working capital required for the Group's operations and the expansion of the Group's operations in Mainland China. The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totalled approximately RMB1,045,942,000 (2015: RMB624,916,000).

27. SHARE CAPITAL

	2016	2015
Authorized: 5,000,000,000 ordinary shares of US$0.00001 each (31 December 2015: 4,807,000,000 ordinary shares and 193,000,000 Series A preferred shares of US$0.00001 each) (US$'000)	**50**	50
Issued and fully paid: 3,000,000,000 ordinary shares of US$0.00001 each (31 December 2015: 2,000,000,000 ordinary shares and 193,000,000 Series A preferred shares of US$0.00001 each) (US$'000) (note(a))	**30**	22
Equivalent to RMB'000	**188**	135

A summary of movements in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares	Number of issued and fully paid Series A preferred shares	Equivalent nominal value of shares RMB'000	Share premium RMB'000	Total RMB'000
As at 1 January 2015	2,000,000,000	193,000,000	135	121,316	121,451
Dividends paid to the shareholders of the Company	–	–	–	(111,192)	(111,192)
As at 31 December 2015 and 1 January 2016	**2,000,000,000**	**193,000,000**	**135**	**10,124**	**10,259**
Conversion of Series A preferred shares into ordinary shares (note (a))	**193,000,000**	**(193,000,000)**	**–**	**–**	**–**
Capitalization issue (note (b))	**87,000,000**	**–**	**6**	**(6)**	**–**
Issuance of shares for the IPO (note (c))	**720,000,000**	**–**	**47**	**1,044,791**	**1,044,838**
Share issuance expenses	**–**	**–**	**–**	**(89,786)**	**(89,786)**
As at 31 December 2016	**3,000,000,000**	**–**	**188**	**965,123**	**965,311**

(a) All Series A preferred shares were automatically converted into ordinary shares immediately prior to the completion of the Company's Global Offering on 19 May 2016.

(b) 87,000,000 shares were allotted and issued to the shareholders of the Company, credited as fully paid at par value, immediately preceding the listing date on 19 May 2016 in proportion to their respective shareholdings by way of capitalization of the sum of US$870 standing to the credit of the share premium account of the Company.

(c) On 19 May 2016, in connection with the Company's Global Offering on 19 May 2016, 720,000,000 new ordinary shares of the Company of US$0.00001 each were issued at a price of HK$1.72 per share.

28. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity of the financial statements.

(i) Merger Reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company. The additions in prior years represent the injections of additional paid-in capital by the equity holders of the subsidiaries to the respective companies. The deductions in prior years represent the acquisitions of paid-in capital of the subsidiaries by the Group from the Controlling Shareholders which are accounted for as distributions to the Controlling Shareholders.

(ii) Share Premium Account

Share premium account represented the amount paid by shareholders for capital injection in excess of the nominal value.

(iii) Statutory Reserve

In accordance with the PRC regulations and the articles of association of the companies of the Group, before distributing the net profit of each year, companies of the Group registered in the PRC are required to set aside 10% of their statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of this reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory surplus reserve fund is non-distributable except in the event of liquidation. Subject to certain restrictions set out in the relevant PRC regulations, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital.

(iv) Exchange Fluctuation Reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China.

29. CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no significant contingent liabilities (2015: Nil).

30. PLEDGE OF ASSETS

Details of the Group's assets, which are pledged to secure bank loans, bank facilities and bills payable of the Group, are included in notes 13, 14, 20 and 21, respectively, to the financial statements.

31. COMMITMENTS

(a) Capital Commitments

The Group had the following capital commitments as at the end of the reporting period:

	2016 **RMB'000**	2015 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**4,736**	5,516

(b) Operating Lease Commitments

The Group leases certain of its plant and office buildings under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to seventeen years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating lease payables as follows:

	2016 **RMB'000**	2015 RMB'000
Within one year	**6,176**	8,364
In the second to fifth years, inclusive	**7,187**	13,027
After five years	**6,233**	7,333
	19,596	28,724

32. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

(a) Particulars of the related parties, which entered into material transactions with the Group, are as follows:

Name	Relationship	Referred to as
Dongguan Hanrun Vehicle Fittings Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Dongguan Hanrun
Ningbo Suogao Shock Absorber Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Ningbo Suogao
Wuxi Daen Vehicle Industry Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Wuxi Daen
Wuxi Xingwei Vehicle Fittings Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Wuxi Xingwei
Ningbo Quanmei Vehicle Frame Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Ningbo Quanmei
Wuxi Yakang Packaging Products Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Wuxi Yakang
Wuxi Colorful Metal Coating Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Wuxi Colorful
Tianjin Xingwei Electric Parts Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Tianjin Xingwei
Tianjin Xingmao Electric Parts Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Tianjin Xingmao
Jiangsu Tianmei Architectural Decoration Development Co., Ltd.	Controlling Shareholders have significant influence	Jiangsu Tianmei
E-Zebra Intelligent Technology (Beijing) Co., Ltd.	Controlled by the Controlling Shareholders	E-Zebra

32. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

(b) Transactions with related parties:

Save as disclosed in notes 19 and 23, other significant related party transactions are set out below:

(i) Purchases of products:

	2016 **RMB'000**	2015 RMB'000
Wuxi Xingwei	**49,980**	181,661
Tianjin Xingwei	**4,540**	46,448
Tianjin Xingmao	**–**	3,244
Ningbo Suogao	**2,612**	43,327
Wuxi Daen	**3,929**	37,729
Dongguan Hanrun	**747**	18,400
Wuxi Colorful	**2,333**	12,507
Wuxi Yakang	**–**	10,218
	64,141	353,534

The purchases of products were made on terms agreed between the parties.

(ii) Sales of products:

	2016 **RMB'000**	2015 RMB'000
E-Zebra	**1,554**	–

The sales of products were made on terms agreed between the parties.

(c) Due from related parties:

TRADE RELATED

	2016 **RMB'000**	2015 RMB'000
Wuxi Xingwei	**6,787**	9,308
Dongguan Hanrun	**1,850**	–
E-Zebra	**1,816**	–
Ningbo Suogao	**–**	643
Tianjin Xingwei	**–**	1,218
Wuxi Colorful	**–**	1,024
	10,453	12,193

All amounts due from the related parties were unsecured and non-interest-bearing and had no fixed repayment terms. The balances as at 31 December 2015 were fully settled during the year ended 31 December 2016.

32. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

(d) Due to related parties (other than the Controlling Shareholders):

GROUP

Trade Related

Trade payables

	2016 RMB'000	2015 RMB'000
Ningbo Suogao	**670**	–
Wuxi Daen	**599**	2,505
Tianjin Xingwei	**1,495**	–
Tianjin Xingmao	**–**	2,645
Wuxi Colorful	**200**	–
Wuxi Yakang	**–**	4
Ningbo Quanmei	**–**	121
Dongguan Hanrun		295
Jiangsu Tianmei	**730**	910
	3,694	6,480

Bills payable

	2016 RMB'000	2015 RMB'000
Wuxi Xingwei	**19,370**	84,830
Ningbo Suogao	**60**	10,750
Wuxi Daen	**590**	7,630
Tianjin Xingwei	**2,650**	26,880
Wuxi Colorful	**–**	6,150
Wuxi Yakang	**–**	2,950
	22,670	139,190

All amounts due to related parties were unsecured and non-interest-bearing and to be settled in accordance with the agreed credit terms or were payable on demand.

32. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

(e) Compensation of key management personnel of the Group:

	2016 RMB'000	2015 RMB'000
Salaries	5,416	4,180
Pension scheme contributions and social welfare	273	109
	5,689	4,289

The related party transactions in respect of items (b)(i) and (ii) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

As at 31 December 2016

Financial Assets

	Financial assets at fair value through profit or loss RMB'000	Available-for-sale investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Available-for-sale investments	–	14,683	–	14,683
Trade and bills receivables	–	–	279,691	279,691
Financial assets included in prepayments, deposits and other receivables	–	–	39,387	39,387
Financial assets at fair value through profit or loss	1,411,630	–	–	1,411,630
Pledged bank deposits	–	–	777,073	777,073
Cash and cash equivalents	–	–	1,801,405	1,801,405
	1,411,630	14,683	2,897,556	4,323,869

Financial Liabilities

	Financial liabilities at amortized cost RMB'000
Trade and bills payables	3,287,399
Financial liabilities included in other payables and accruals	98,092
	3,385,491

33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

As at 31 December 2015

Financial Assets

	Financial assets at fair value through profit or loss RMB'000	Available-for-sale investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Available-for-sale investments	–	8,223	–	8,223
Trade and bills receivables	–	–	183,225	183,225
Financial assets included in prepayments, deposits and other receivables	–	–	26,308	26,308
Financial assets at fair value through profit or loss	861,700	–	–	861,700
Pledged bank deposits	–	–	779,056	779,056
Cash and cash equivalents	–	–	786,691	786,691
	861,700	8,223	1,775,280	2,645,203

Financial Liabilities

	Financial liabilities at amortized cost RMB'000
Trade and bills payables	2,880,431
Financial liabilities included in other payables and accruals	93,440
Interest-bearing bank borrowings	12,997
	2,986,868

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts	
	2016 **RMB'000**	2015 RMB'000
Financial assets at fair value through profit or loss:		
Wealth management products	**1,411,630**	861,700

	Fair values	
	2016 **RMB'000**	2015 RMB'000
Financial assets at fair value through profit or loss:		
Wealth management products	**1,411,630**	861,700

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, trade and bills payables and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At each reporting date, the manager reports directly to the chief financial officer. At each reporting date, the finance department analyzes the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of wealth management products included in the financial assets at fair value through profit or loss have been estimated using a discounted cash flow valuation model based on assumptions that are supported by observable market prices or rates. The valuation requires the Directors to make estimates about the expected future cash flows from future proceeds when the investments mature by using inputs such as credit risk, gold prices and discount rates. The Directors believe that the estimated fair values resulting from the valuation techniques, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial assets at fair value through profit or loss:

	Fair value measurement as at 31 December 2016			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Recurring fair value measurement for:				
Financial assets at fair value through profit or loss:				
Wealth management products	**–**	**1,411,630**	**–**	**1,411,630**

	Fair value measurement as at 31 December 2015			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Financial assets at fair value through profit or loss:				
Wealth management products	–	861,700	–	861,700

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits and wealth management products included in financial assets at fair value through profit or loss. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below.

Foreign Currency Risk

The Group has transactional currency exposures. Such exposures arise from sales denominated in US$ by operating units whose functional currency is RMB. Approximately 2% (2015: 2%) of the Group's sales during the year were denominated in US$ undertaken by these operating units.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the retranslated value of monetary assets:

Group

	Increase/ (decrease) in the US$ exchange rate %	Increase/ (decrease) in profit before tax RMB'000
31 December 2016		
If RMB weakens against US$	**(5)**	**6,901**
If RMB strengthens against US$	**5**	**(6,901)**
31 December 2015		
If RMB weakens against US$	(5)	247
If RMB strengthens against US$	5	(247)

Credit Risk

The Group has no significant concentrations of credit risk. The carrying amounts of bank balances, and trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at the end of the reporting period, all pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

As at 31 December 2016

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	**218,984**	**2,379,231**	**689,184**	**–**	**3,287,399**
Financial liabilities included in other payables and accruals	**62,515**	**12,163**	**23,414**	**–**	**98,092**
	281,499	**2,391,394**	**712,598**	**–**	**3,385,491**

As at 31 December 2015

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	65	13,183	–	13,248
Trade and bills payables	187,708	1,794,473	898,250	–	2,880,431
Financial liabilities included in other payables and accruals	46,936	13,039	33,465	–	93,440
	234,644	1,807,577	944,898	–	2,987,119

Capital Management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank borrowings, trade and bills payables, financial liabilities included in other payables and accruals, less cash and cash equivalents and pledged bank deposits. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting period were as follows:

	2016 RMB'000	2015 RMB'000
Trade and bills payables	**3,287,399**	2,880,431
Other payables and accruals	**98,092**	93,440
Interest-bearing bank borrowings	**–**	12,997
Less: Cash and cash equivalents	**(1,801,405)**	(786,691)
Pledged bank deposits	**(777,073)**	(779,056)
Net debt	**807,013**	1,421,121
Equity attributable to owners of the parent	**2,220,570**	781,837
Capital and net debt	**3,027,583**	2,202,958
Gearing ratio	**27%**	65%

36. EVENTS AFTER THE REPORTING PERIOD

No material events were undertaken by the Group subsequent to 31 December 2016.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	168,176	75,574
Available-for-sale investment	14,683	8,223
Total non-current assets	182,859	83,797
CURRENT ASSETS		
Due from a subsidiary	109,390	1,218
Prepayments	–	816
Cash and cash equivalents	801,437	12,731
Total current assets	910,827	14,765
CURRENT LIABILITIES		
Due to a subsidiary	11,997	2,000
Other payables and accruals	1,098	–
Interest-bearing bank borrowings	–	12,997
Total current liabilities	13,095	14,997
NET CURRENT ASSETS/(LIABILITIES)	897,732	(232)
NET ASSETS	1,080,591	83,565
EQUITY		
Share capital	188	135
Reserves (note)	1,080,403	83,430
Total equity	1,080,591	83,565

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2015	121,316	75,574	(63)	–	196,827
Total comprehensive income for the year	–	–	1,051	(3,256)	(2,205)
Dividend paid to shareholders of the Company	(111,192)	–	–	–	(111,192)
At 31 December 2015 and 1 January 2016	**10,124**	**75,574**	**988**	**(3,256)**	**83,430**
Total comprehensive income for the year	**–**	**–**	**58,189**	**(16,215)**	**41,974**
Capitalization issue of shares	**(6)**	**–**	**–**	**–**	**(6)**
Issuance of shares for IPO	**1,044,791**	**–**	**–**	**–**	**1,044,791**
Share issue expense	**(89,786)**	**–**	**–**	**–**	**(89,786)**
At 31 December 2016	**965,123**	**75,574**	**59,177**	**(19,471)**	**1,080,403**

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 March 2017.