BAOXIN AUTO GROUP LIMITED
寶信汽車集團有限公司

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立的有限公司）

Stock code 股份代號：1293

年報
2016
ANNUAL REPORT

BAOXIN AUTO GROUP LIMITED
寶信汽車集團有限公司

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LI Jianping *(Chairman)*
(appointed on 21 June 2016)
Mr. WANG Xinming *(President)*
(appointed on 21 June 2016)
Mr. LU Ao (appointed on 21 June 2016)
Mr. QI Junjie (appointed on 29 July 2016)
Mr. YANG Aihua (resigned on 21 June 2016)
Mr. YANG Hansong (resigned on 21 June 2016)
Mr. YANG Zehua (resigned on 21 June 2016)
Ms. HUA Xiuzhen (resigned on 21 June 2016)
Mr. ZHAO Hongliang (resigned on 29 July 2016)

Non-Executive Directors

Mr. ZHOU Yu (appointed on 21 June 2016)
Mr. LU Linkui

Independent Non-Executive Directors

Mr. DIAO Jianshen
Mr. WANG Keyi
Mr. CHAN Wan Tsun Adrian Alan

AUDIT COMMITTEE

Mr. DIAO Jianshen *(Chairman)*
Mr. WANG Keyi
Mr. CHAN Wan Tsun Adrian Alan

REMUNERATION COMMITTEE

Mr. DIAO Jianshen *(Chairman)*
Mr. LI Jianping (appointed on 21 June 2016)
Mr. WANG Keyi
Mr. YANG Hansong (resigned on 21 June 2016)

NOMINATION COMMITTEE

Mr. WANG Keyi *(Chairman)*
Mr. LI Jianping (appointed on 21 June 2016)
Mr. DIAO Jianshen
Mr. YANG Hansong (resigned on 21 June 2016)

COMPANY SECRETARY

Mr. CHEN Changdong

AUTHORISED REPRESENTATIVES

Mr. LI Jianping (appointed on 21 June 2016)
Mr. CHEN Changdong
Mr. YANG Hansong (resigned on 21 June 2016)

STOCK CODE

1293

WEBSITE

www.klbaoxin.com

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

No. 3998 Hongxin Road
Minhang District, Shanghai, PRC.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 2205, 22/F, Bank of America Tower,
12 Harcourt Road, Hong Kong.

REGISTERED OFFICE

P.O. Box 309, Ugland House
Grand Cayman KY1-1104, Cayman Islands

PRINCIPAL SHARE REGISTRAR

Maples Fund Services (Cayman) Limited
P.O. Box 1093, Boundary Hall, Cricket Square,
Grand Cayman, KY1-1102, Cayman Islands.

HONG KONG BRANCH SHARE REGISTRAR

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

LEGAL ADVISERS TO HONG KONG LAW

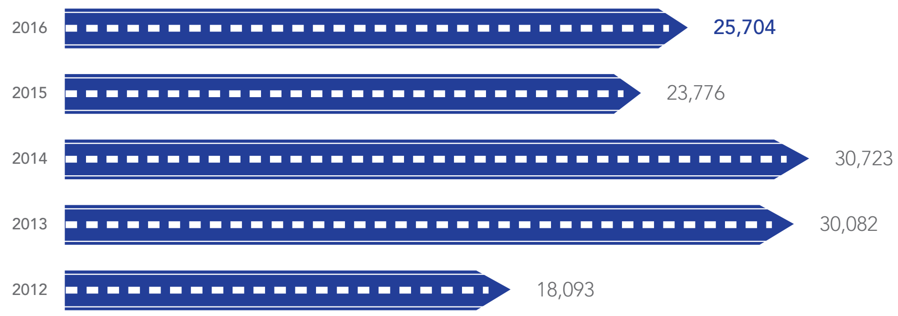
Kirkland & Ellis
26th Floor, Gloucester Tower, The Landmark,
15 Queen's Road Central, Hong Kong

AUDITORS

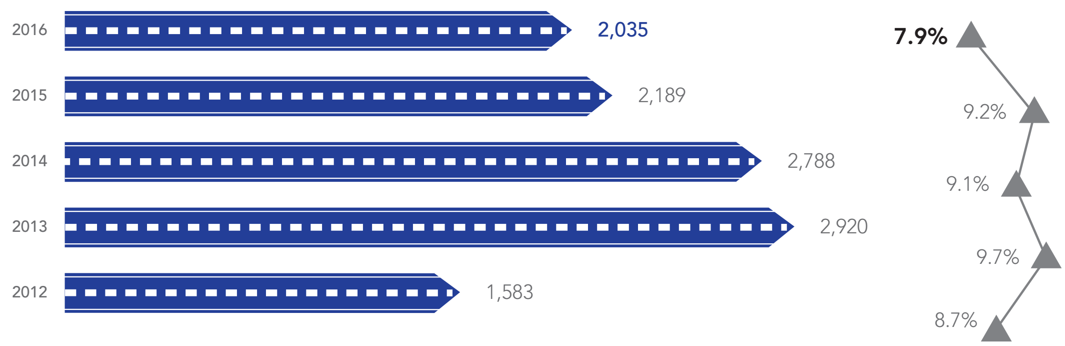
Ernst & Young
Certified Public Accountants
22/F CITIC Tower,
1 Tim Mei Avenue, Central, Hong Kong.

FINANCIAL HIGHLIGHTS

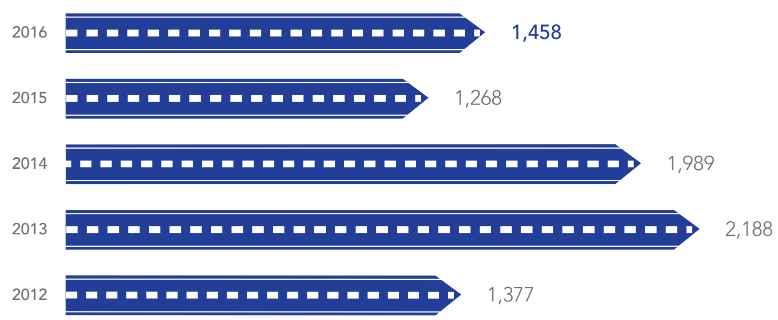
REVENUE
(RMB million)



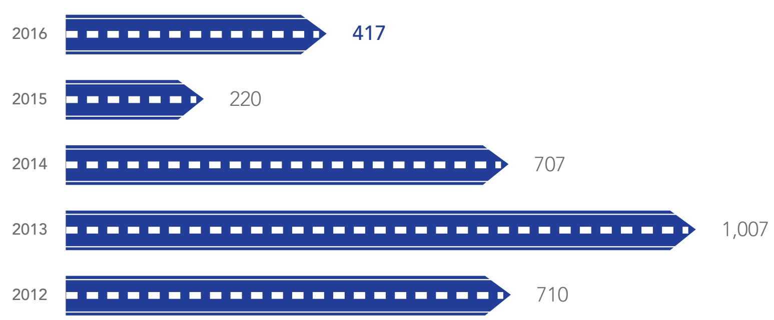
GROSS PROFIT AND GROSS PROFITS MARGIN
(RMB million)



EBITDA
(RMB million)



PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT
(RMB million)



CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

"On behalf of the board (the "Board") of Directors (the "Directors") and the management of Baoxin Auto Group Limited (the "Company" or "our Company") and its subsidiaries (the "Group", "our Group", "we" or "us"), I am pleased to present the annual results report of the Group for the year of 2016."

CHAIRMAN'S STATEMENT

The year of 2016, being the first year of China's 13th Five-Year Plan, witnessed mixed international and domestic economic conditions. Overall, China's economy ran steadily this year, with a gross domestic product (GDP) growth at 6.7%. In 2016, China's automobile industry continued with accelerated development through intensified supply-side reformation and product restructuring and update. After continuous slowdown of several years, China's automobile market experienced a stepwise recovery of growth in 2016 mainly attributable to a range of favorable policies including further increase in support for new energy vehicles and preferential policy on vehicle purchase tax. Similar to the general trend of China's automobile market, the luxury automobile market was also in a good trend, with the growth of most luxury brands beyond expectation. BMW and Jaguar & Land Rover, the major brands distributed by the Group, both obtained double digital growth in 2016.

The year of 2016 was a milestone for the development of the Group. After the official completion of acquisition of the Group by China Grand Automotive Services Co., Ltd.（廣匯汽車服務股份公司）("**CGA**", together with its subsidiaries, the "**CGA Group**"), we strengthened the refined management and business innovation through an efficient all-round integration with the CGA Group, improving the management level and profitability. Benefited from the successful strategic integration between the Group and CGA Group and the synergy of their management and business, the Company significantly improved its management efficiency and operating capability in the second half of 2016 and realized a significant growth in the financial results for the year 2016 as a result of measures such as further enhancement of cost control and operation efficiency. In 2016, total revenue of the Group amounted to RMB25.7 billion, representing a year-on-year growth of 8.1%; profit from operations amounted to RMB1.07 billion, representing a year-on-year growth of 16.0%; and net profit amounted to RMB420 million, representing a year-on-year growth of 87.2%.

In 2016, the Group collected and analyzed the statistics through regionalized management and leveraging on corporate resource management system so as to follow up on and make necessary adjustment to sales strategy in a timely manner, and reset performance evaluation goal for each dealership store in each region. As such, new car sales volume returned to a steady growth, reaching a year-on-year increase of 17.1%, among which, sales volume of luxury brand automobiles represented a year-on-year increase of 9.7%. At the same time, the Group exerted various efforts to render effective and quality services to customers and improved customer loyalty, and hence the value of after-sales services. The Group's after-sales and repair and maintenance businesses gradually recovered in the second half of 2016, with a rising customer retention rate. Since the second half of 2016, the Group has made more efforts on automobile value-added services, including automobile decoration, automobile insurance, warranty extension, insurance renewal, pre-owned automobile and automobile finance, etc. For the year of 2016, commission income from automobile value-added services recorded a year-on-year increase of 41.3% to RMB380 million. While increasing its income source, the Group also paid attention to cost control. In the second half of 2016, the Group strengthened its control over various costs to maximize the profit value to its shareholders. In 2016, sales and marketing costs, administrative expenses and finance costs of the Group represented a decrease of 8.7% as compared with last year and accounted for 7.7% of total revenue, representing a decrease of 1.4 percentage points as compared with last year.

In 2016, in addition to two new stores opened in Shanghai, the Group newly acquired thirteen 4S stores through the acquisition of the entire equity interest of Sichuan Ganghong Enterprise Management Co., Ltd.（四川港宏企業管理有限公司） with a view to better integrate resources and generate strategic synergies. At the same time, after consolidation with the CGA Group, we conducted a revaluation in relation to many aspects such as the profitability and capital efficiency of each dealership store and closed a BMW showroom and two Jaguar & Land Rover showrooms to strengthen the reasonable balance of the domestic dealership networks for luxury and ultra-luxury automobiles and improve the overall profitability of the Company.

Looking forward, in light of the overall development strategy established by the CGA Group, we will keep improving and implementing prudent business strategies, make timely adjustment to the development of the Group which shall be in its long-term interests and keep pace with the market trend, take opportunities in the market, and further expand its diversified source of profits. With the optimizing of the luxury and ultra-luxury brands of the Group, the start of the cycle of new BMW products and the business policy adjustment by BMW in relation to its dealers, it will be more helpful for the Company to improve profitability and reduce capital costs while increasing its sales volume. In addition to keeping the stable growth of sales of new automobiles, the Group will focus on developing the automobile after-sales market business and identify the profit potential for automobile value-added services. The Company will adjust relevant business weightings and accelerate the development of high-value-added businesses. We will proactively capture the market opportunities and expand the scale of automobile finance business and pre-owned automobile business.

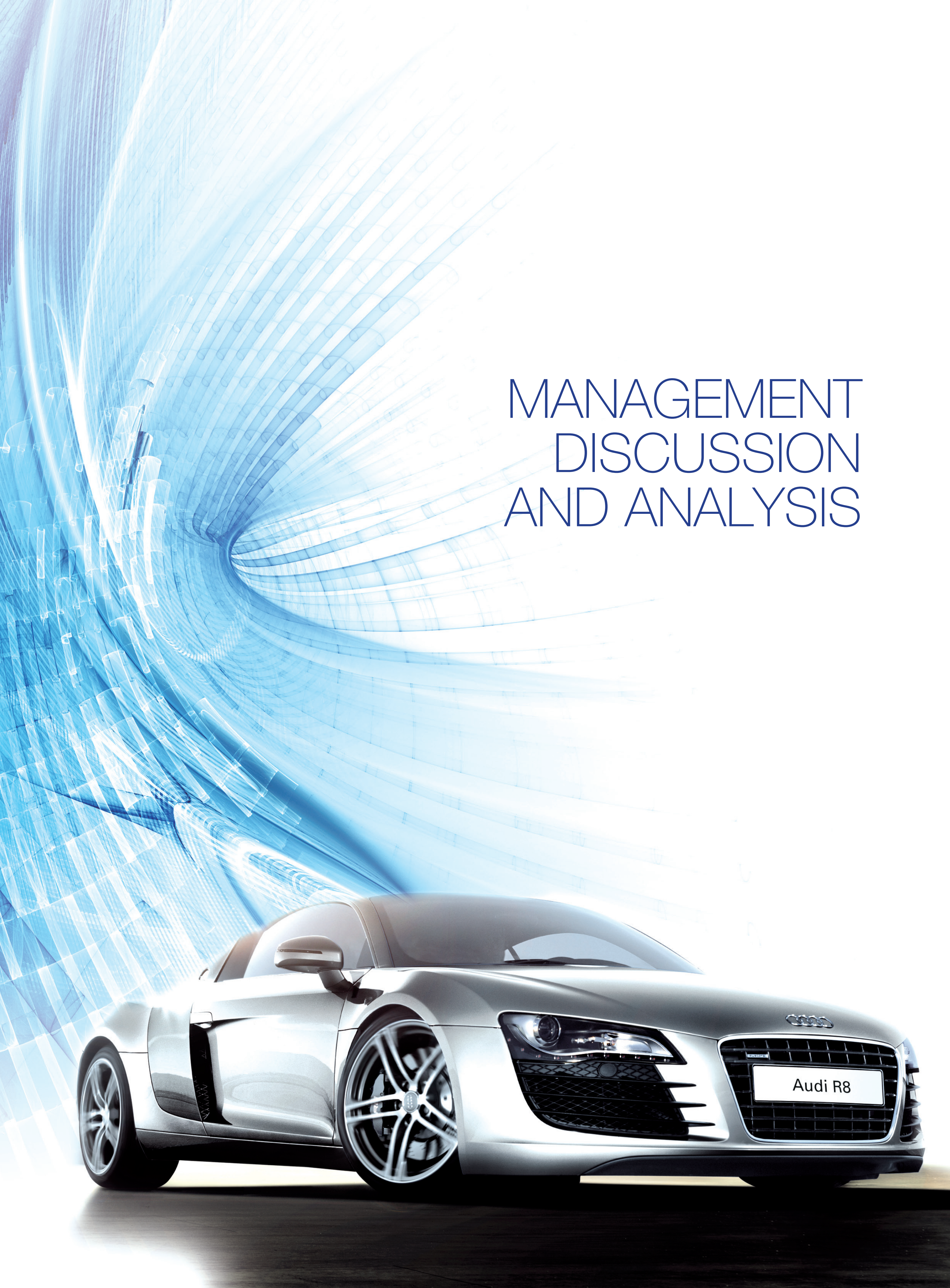
Meanwhile, the Group will make full use of the synergy effect and leverage on the CGA Group's edge in industry scale and business diversification to further reduce operation costs and improve profitability of the Group. With the optimization of management model and the efficient integration with the CGA Group in resources and channels, the Group will further exercise effective controls over costs, improve operation efficiency, and gradually reach the scale effect arising from the integration with the CGA. We are very confident to provide shareholders and investors with satisfied performance in 2017.

We believe that after the consolidation with CGA Group, the Group will create more business value addition and economic returns leveraging on the synergy effect resulting from the resource integration. We will continue to devote to providing our customers with professional and efficient services and strive to keep sound development in the complicated and changing industrial environment through continuous improvement of our management and operating ability. We are fully aware that the support from staff, investors and business partners is the momentum and cornerstone for us to advance. In this regard, on behalf of the Board, I would like to express my heartfelt gratitude to our shareholders, business partners, customers and employees for their long-term support and trust. We will make persistent efforts to pay back our shareholders with fruitful achievements and results.

Yours sincerely,
LI Jianping
Chairman

Hong Kong, 31 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS



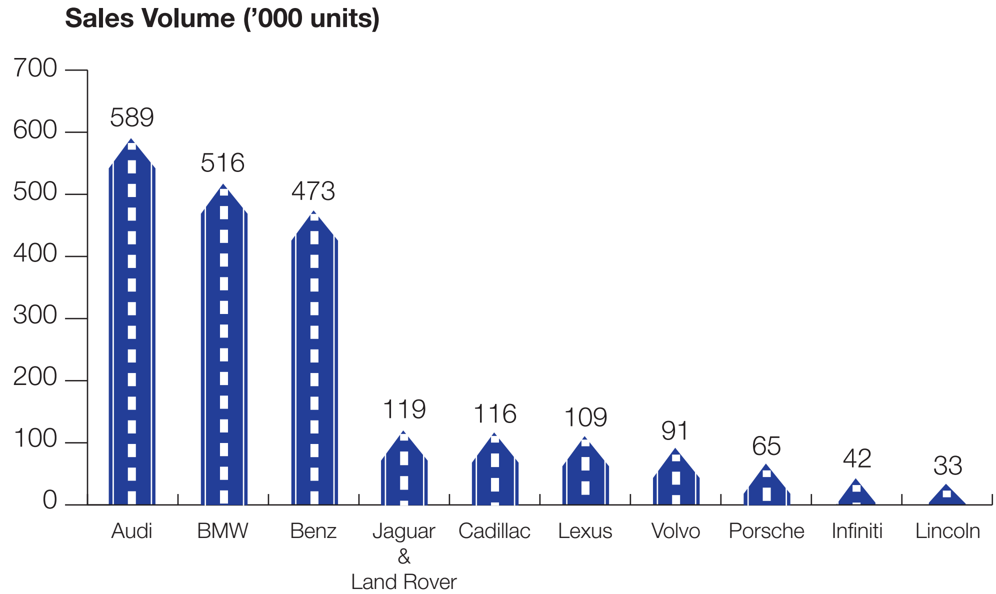
MANAGEMENT DISCUSSION AND ANALYSIS

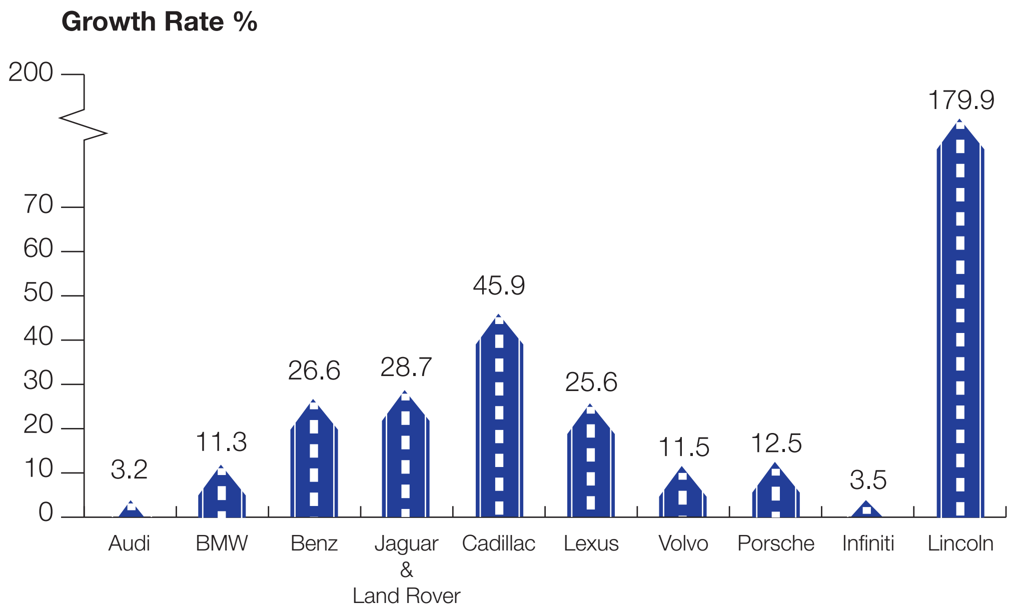
INDUSTRY OVERVIEW

The year of 2016, being the first year of China's 13th Five-Year Plan, witnessed mixed international and domestic economic conditions. Overall, China's economy ran steadily this year, with a gross domestic product (GDP) growth at 6.7%, implicating a shift of China's economy from high speed growth to medium- to high-speed growth. Despite a somewhat slow-down in 2016, China's economic growth outperformed the average growth of the developed countries as affected by a global slow and unbalanced economic recovery. Driven by continuous encouragement from the government, consumption has contributed the most to China's economic growth. Final consumption expenditure in 2016 contributed to 71% of the GDP growth as compared with 66.4% in 2015, representing the transition of China's economy from a growth model based on investment towards primary reliance on consumption. In 2016, China's automobile industry continued with accelerated development through intensified supply-side reformation and product restructuring and update. According to statistics from the China Association of Automobile Manufacturers, the automobile production and sales volume recorded 28,118,800 units and 28,028,200 units in 2016, representing a year-on-year growth of 14.46% and 13.65%, respectively, which were 11.21 percentage points and 8.97 percentage points higher, respectively, as compared with the previous year. The production and sales volume of passenger vehicles amounted to 24,420,700 units and 24,376,900 units, representing a year-on-year growth of 15.50% and 14.93%, respectively. Such sound growth in China's automobile market in 2016 was mainly attributable to a range of favourable policies including preferential policy on vehicle purchase tax and subsidy for new energy vehicles.

Similar to the general trend of China's automobile market, the luxury automobile market was also on a high curve, with the growth of most luxury brands beyond expectation. As indicated in the statistics published by the State Information Center, the year-on-year growth of sales volume of luxury automobile in 2016 was 15.8% (Note: representing the comparison of the aggregated sales volume of the top 10 luxury automobile brands, in the order of Audi, BMW, Benz, Jaguar & Land Rover, Cadillac, Lexus, Volvo, Porsche, Infiniti and Lincoln). Sales volume of all the above luxury automobiles in China showed different growth, with the leading ABB German brands (i.e. Audi, BMW and Benz) contributing 73.3% to the total sales volume of the top 10 luxury automobile brands.

Sales volume and year-on-year growth rate of top ten luxury automobile brands in China in 2016





Source: Automobile manufacturers

FAW Audi realized sales of 589,088 units in China during the year, representing a year-on-year growth of 3.2%. BMW hit historic high in terms of its new automobile sales of exceeding 500,000 units (including MINI) in China, representing a year-on-year growth of 11.3%, higher than its growth in the global market. In 2016, Benz recorded a year-on-year growth of 26.6% in China in terms of its new automobile sales, and sales of domestically manufactured sedans were also satisfactory. Among the second-tier luxury brands, each of Jaguar & Land Rover, Cadillac and Lexus recorded sales of more than 100,000 units in 2016, among which Jaguar & Land Rover was in a leading position.

MANAGEMENT DISCUSSION AND ANALYSIS

BMW and Jaguar & Land Rover are major brands distributed by the Group. The launch of new X1 and domestically manufactured 2 Series in China in 2016 further diversified the brand portfolio of BMW. In 2016, X1 realized sales of 53,486 units in China during the year, representing a year-on-year growth of 27.3%. 5 Series Sedan and 3 Series Sedan remained a major driving force of the brand, accounting for 52% market share of BMW's sales in China, among which the sales of 3 Series hit a new high of more than 100,000 units in 2016. Looking forward to 2017, BMW will further implement its operating strategies in China, devote greater efforts in brand development, product improvement and localization, and adjust business policy in order to improve profitability of its distributors. Several new models of BMW and MINI will be launched in China in 2017, such as 1 Series Sport Sedan and the seventh-generation 5 Series. The 1 Series Sport Sedan is a model tailored specifically to meet the needs of Chinese customers and the new 5 Series is a global-oriented strategic model of BMW, which will be launched in China with a longer wheelbase to meet the needs of Chinese customers. Meanwhile, MINI will launch a new MINI COUNTRYMAN in 2017, following a brand restructuring strategy.

Given its key models like F-PACE and new XFL, Jaguar & Land Rover recorded a year-on-year sales growth of 28.7% in 2016. China has become the single largest market for Jaguar & Land Rover, of which more than half were taken up by models made in China. The launch of domestically manufactured XE sports sedan and the fifth-generation Discovery in 2017 will further enrich the product portfolio of Jaguar & Land Rover and play as a foundation for sustainable sales growth of the brand, apart from support to the brand's further development in China from its management team adjustment.

In 2016, various new policies were published in relation to China's automobile industry, including cutting of vehicle purchase tax by half until abolition, incorporating auto parts into recalling system, lifting limits on inflows of pre-owned automobiles from other regions and encouraging parallel imports, all of which will have profound influences on the trend of China's automobile industry. The automobile industry has improved the comprehensive economic strength of China and played an important role in national economy. It is not only a pioneer industry that contributes to the sustained healthy development of national economy, but also a crucial factor in China's industry restructuring. By the end of 2016, China's vehicle inventory reached 194 million units. With the increasing income of Chinese citizens and the growing automobile consumption ability and level, China's automobile market has a vast potential for future automobile consumption growth in China.

BUSINESS OVERVIEW

The year of 2016 is a milestone for the development of the Group. During the year, the CGA Group officially completed its offer for the Group, followed by an all-round integration. As the integration progressed well and the luxury automobile market gradually picked up in the second half of the year, each segment of the Group's business gradually improved.

Completion of high-efficiency integration with the CGA Group

100-day Integration Plan

The "100-day Integration Plan" was implemented by the CGA Group in a systematic manner immediately after the completion of its offer for the Group. It conducted consolidation in each aspect of business operation, management, finance, human resources, service standards and store layout of each dealership store in order to render standardized and high-quality services to customers across our distribution networks, while developing systematic approach to control costs, improve sales strategy and management efficiency. The CGA Group assigned 700 employees to work in each dealership store of the Group for asset checking and handover in respect of financial management, operating mode and ERP system within three months so as to realize a full-scale deployment of its management model within the Group. By way of refined management, it aims to improve the management level and operating efficiency as well as profitability of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Management restructuring

Management restructuring enabled the Group to optimize its personnel structure and management model. The Group has completed its transition from department-oriented management style to region-oriented management style. The prevailing "headquarter-regional platform-4S stores" hierarchy adopted by the Group allows higher executive capacity and efficiency. The headquarter is mainly responsible for overall strategic planning, unified financial management, comprehensive human resource management and performance assessment, expansion of business network, brand management and promotion of value-added businesses, etc. The headquarter sets performance target for each regional management platform which determines and finalizes specific plans to be implemented by local 4S stores towards fixed goals. The Group classifies its business network into six regions. The director of each region and chief store manager monitor and understand the operation conditions of each dealership store and make adjustments to operating strategies in view of market condition and operating performance in a timely manner.

Management system handover

The CGA Group is the first automobile dealership group who adopts SAP, a system for the management of dealership business, to manage business operations and determine the standards for automobile dealership business. Such system handover has been completed initially in each dealership store of the Group. The application of such system allows us to maintain reasonable control over standardized business procedure and key internal control elements, and improve the transparency and efficiency of the Group's management.

Distribution network layout

Mergers and acquisitions among domestic automobile dealers intensified in 2016. The Group expanded its distribution network into regions with great market potential based on its brand and regional strategies. In 2016, in addition to a new 4S store of Jaguar & Land Rover and a 4S store of Audi opened in Shanghai, the Group newly acquired thirteen 4S stores through the acquisition of the entire equity interests of Sichuan Ganghong Enterprise Management Co., Ltd. (四川港宏企業管理有限公司) ("**Sichuan Ganghong**"). Through the first expansion in Sichuan, the Group will acquire high-quality automobile dealership service assets in southwest region and commence its business layout in such region, which will in turn generate sound synergies with existing business of the Group in terms of brand coverage, geographic locations and services, and improve the nationwide dealership service networks of the Group.

After consolidation with the CGA Group, the Group conducted a revaluation in relation to the profitability of each dealership store and closed 3 under-performing stores, including a BMW showroom in Qingdao and Jaguar & Land Rover showrooms in Wuxi and Jiangyin to improve its capital efficiency and overall profitability. As at 31 December 2016, the Group had 103 automobile dealership stores, including 79 stores for luxury brands, 19 stores for mid- to high-end brands, 2 independent repair centers and 3 decoration and damage assessment centers.

Stable recovery of new car sales and after-sale services

In the second half of 2016, the management of the Group reset detailed performance evaluation goal for each dealership store in each region, and analyzed, monitored and made necessary adjustment to sales strategy in a timely manner through regionalized management and in response to the statistics from SAP system. Further, the Group placed great value on digital sales, reflected by closer cooperation with both internal and external e-commerce platforms of the Group, in a bid to identify potential customers and improve the percentage of internet and telephone sales. In such case, new car sales of the Group showed steady growth. For the year ended 31 December 2016, the Group sold 72,315 units of new automobiles, representing a year-on-year increase of 17.1%, among which, sales of luxury brand automobiles and mid- to high-end automobiles amounted to 56,380 units and 15,935 units, respectively, representing a year-on-year increase of 9.7% and 53.3%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2016, gross margin of the Group's new cars faced pressure to certain extent due to product cycle of major distributed brands. While enhancing new car sales, the Group was also committed to protecting sales profit by taking various measures to control gross margin of new car sales. Benefiting from the strict price control system and based on the gross margin appraisal indicators set for new cars in 4S stores, together with multi-level price approval authority and diversified sales channels, gross margin of the Group's new cars still reached 3.2% despite a year-on-year decline.

In the second half of 2016, the Group formulated a range of customer solicitation and maintenance schemes throughout the regions where it operates, including regular client visits, potential client identification, service improvement for in-store clients, etc., which were required to be implemented in each stores. At the same time, the Group continuously worked on the innovation of new car decoration products and after-sales services and introduced various new products and services to render effective and quality services to customers. Hence, the Company improved customer loyalty, as well as the value of after-sales services. The Group stresses and maintains a strict standard for the quality of after-sales services of each store, and establishes a comprehensive training system for its staff to improve their repair and maintenance skills to ensure the strict requirements on services rendered as well as the quality of after-sales services. At the BMW National Aftersales Skills Competition organized in China in December 2016, employees of the Group stood out from other after-sales service personnel from more than 500 authorized BMW dealers and won the championship. Through various measures taken, the Group's after-sales and repair and maintenance businesses gradually improved in the second half of the year, with a rising customer retention rate. In 2016, gross margin of the Group's after-sales services was 46%, representing a slight year-on-year growth.

More profit contribution from automobile value-added services

From the second half of 2016, the Group has made more efforts on automobile value-added services, including automobile decoration, automobile insurance, warranty extension, insurance renewal, pre-owned automobile and automobile finance, etc. For the year ended 31 December 2016, commission income from automobile value-added services recorded a year-on-year increase of 41.3% to RMB380.2 million.

Insurance business

Apart from maintaining cooperation with three major insurance companies, the Group also established close cooperation with the strategic partners of the CGA Group in the second half of 2016 to enrich its insurance products for customers. Higher retail ratio of new automobiles not only led to a 5.2% increase in insurance ratio, but also improved the insurance renewal rate. The Group proactively develops innovative insurance products to improve penetration rate and commission income and reduce customer churn rate. In addition to extension products from manufacturers, the Group co-launched its own warranty extension products with insurance companies, which witnessed quick improvement in penetration rate and great potential for future development. In 2016, commission income from the Group's automobile insurance business increased by 56.0% as compared with the same period in 2015.

Pre-owned automobile business

The pre-owned automobile business of the CGA Group was fully imported into the Group, whereby the Group has cooperated with various e-commerce platforms to develop online and offline platforms. Meanwhile, relying on the CGA Group's trading platform of pre-owned automobiles and its regional offline service centers, the Group has expanded diversified channels to improve the trading volume and traded price of pre-owned automobiles. In the second half of 2016, the trade-in ratio and penetration rate of pre-owned automobiles steadily improved every month, with a year-on-year increase of 6.5 percentage points in trade-in ratio. To strengthen the management of evaluation system for pre-owned automobiles, the Group currently adopts the certification standard of China Automobile Dealers Association to conduct a systematic certification via standardized testing on the condition of the pre-owned automobiles to be sold in order to boost consumer confidence and, in combination with the quality assurance services of pre-owned automobiles, protect customer interests. The development of pre-owned automobiles business of the Group also promotes the growth of value-added and post-market businesses, including decoration, insurance, pre-owned automobile finance and after-sales services.

Currently, policies and economic environment in the pre-owned automobile market in China have showed some positive signs gradually. In the first half of 2016, the General Office of the State Council issued Several Opinions on Facilitating the Trading of Second-hand Vehicles (關於促進二手車便利交易的若干意見), which prohibits local governments from formulating and imposing restrictions on the qualified inflows of pre-owned automobiles from other regions, and requires cancellation of such restrictions (if already in place) as soon as practicable. Such policy will significantly benefit the development of pre-owned automobile market. As at 31 December 2016, the restrictions on the inflows of pre-owned automobiles in certain regions including Sichuan, Hunan, Helongjiang, Xinjiang and Guangdong areas had been completely cancelled in compliance with the requirement of the State Council. We believe such policy will enable the Group to make cross-regional distribution of quality pre-owned automobiles, relying on its online sales platform and maximizes its profit through regional optimisation.

Automobile finance business

The Group's automobile finance business includes automobile financing business and automobile finance lease business. For the year ended 31 December 2016, the Group's penetration rate of automobile finance related to its new car business was 32.9%, representing an increase of three percentage points as compared with the same period in 2015. In terms of automobile financing business, the Group proactively explores its own financial products while cooperating with automobile manufacturers and related financial institutions. In respect of automobile finance lease business, from the second half of 2016, each store of the Group and Shanghai Dingxin Financial Leasing Co., Ltd (上海鼎信融資租賃有限公司) ("**Dingxin Leasing**"), a subsidiary of the Group, replicated the model of the CGA Group in managing automobile finance. Leveraging on the platform of the CGA Group, the Group is capable of providing more diversified financial products and services, and its capability in operating diversified business portfolio has also been improved.

For the purpose of facilitating the development of automobile finance industry, in 2016, the People's Bank of China and the China Banking Regulatory Commission jointly issued the Guiding Opinions on Reinforcing New Consumption Area Finance (關於加大對新消費領域金融支持的指導意見), which encourages automobile finance companies and consumer finance companies to broaden their financing channels by allowing automobile finance companies to provide facilities in relation to products attached to the automobiles sold (intangible products and services, for example, decoration, warranty extension and insurance, etc.), in addition to automobile loans and finance lease to consumers. It will promote the development of automobile finance business in the future. To include new automobile decoration and insurance fee into the scope of finance lease will also benefit the development of other high-value-added businesses.

Strengthen cost controls to improve operating efficiency

In 2016, the Group strengthened its control over various costs to maximize the profit value to its shareholders. For the year ended 31 December 2016, sales and marketing costs, administrative expenses and finance costs of the Group amounted to RMB2.0 billion, representing a decrease of 8.7% as compared with last period and accounting for 7.7% of total revenue, representing a decrease of 1.4 percentage points as compared with last period.

With respect to control of sales and operating costs, the Group made significant adjustments to its internal policies pursuant to market trends. On the basis of efficiency improvement, the Group exercised strict control over employee costs. For example, it adjusted the management structure by abolishing the previous personnel despatch system during the process of integration, which reduced the amount of despatch allowances and rent payment.

Regarding finance cost, the Group managed to decrease the cost of fund utilization by stringent control of inventory to reduce turnover cost, and strengthening management and control of cash flows by employing centralised fund management mode to effectively gather the idle funds of each store and significantly improve fund utilization rate of the Group. For the year ended 31 December 2016, the Group's finance cost decreased by 9.9% as compared with last period.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Significant Accounting Judgments and Estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, 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. The significant accounting judgments and estimates are set out in note 3 to the financial statements.

Revenue

The following table sets forth a breakdown of our revenue for the period indicated:

	Year ended 31 December			
	2016		2015	
Revenue source	**Revenue (RMB'000)**	**Contribution to total Revenue (%)**	Revenue (RMB'000)	Contribution to total Revenue (%)
Automobile sales	**22,862,434**	**88.9**	20,758,358	87.3
Luxury and ultra-luxury brands	**20,826,494**	**81.0**	19,434,146	81.7
Mid-to-upper market brands	**2,035,940**	**7.9**	1,324,212	5.6
After-sales business	**2,836,887**	**11.1**	3,011,922	12.7
Luxury and ultra-luxury brands	**2,697,913**	**10.5**	2,873,416	12.1
Mid-to-upper market brands	**138,974**	**0.6**	138,506	0.6
Finance leasing services	**4,366**	**0.0**	6,181	0.0
Total revenue	**25,703,687**	**100**	23,776,461	100

Revenue from the sales of automobiles increased by 10.1% due to the substantial increase in automobile sales volume of Jaguar & Land Rover and Maserati, in addition to a slight increase in BMW compared to 2015. Infiniti, the newly introduced brand, also contributed to certain sales.

Automobile sales generated a substantial portion of our revenue, accounting for 88.9% of our total revenue for the year ended 31 December 2016. Revenue generated from the sales of luxury and ultra-luxury brands and our mid-to-upper market brands accounted for approximately 91.1% (2015: 93.6%) and 8.9% (2015: 6.4%), respectively, of our revenue from the sales of automobiles.

Revenue from our after-sales business decreased by 5.8% from RMB3,011.9 million for the year ended 31 December 2015 to RMB2,836.9 million for the same period in 2016.

Cost of sales and services

For the year ended 31 December 2016, our cost of sales and services increased by 9.6%, from RMB21,588.0 million for the same period in 2015 to RMB23,668.9 million. This increase was basically consistent with the increase in our sales throughout the year ended 31 December 2016.

The cost of sales and services attributable to our automobile sales business amounted to RMB22,134.6 million for the year ended 31 December 2016, representing an increase of RMB2,197.2 million, or 11.0%, from the same period in 2015. The cost of sales attributable to our after-sales business amounted to RMB1,532.3 million for the year ended 31 December 2016, representing a decrease of RMB118.0 million, or 7.2% from the same period in 2015.

Gross profit and gross profit margin

Gross profit for the year ended 31 December 2016 was RMB2,034.7 million, representing a decrease of RMB153.8 million or 7.0% from the same period in 2015. Gross profit from automobile sales decreased by 11.3% from RMB821.1 million for the year ended 31 December 2015 to RMB727.9 million for the same period in 2016, of which RMB727.2 million were from the sales of luxury and ultra-luxury automobiles. Gross profit from after-sales business decreased by 4.2% from RMB1,361.6 million for the year ended 31 December 2015 to RMB1,304.6 million for the same period in 2016. Automobile sales and after-sales business contributed to 35.8% (2015: 37.5%) and 64.1% (2015: 62.2%), respectively, to the total gross profit for the year ended 31 December 2016.

Gross profit margin for the year ended 31 December 2016 was 7.9% (2015: 9.2%), of which the gross profit margin of automobile sales was 3.2% (2015: 4.0%) and of after-sales business was 46.0% (2015: 45.2%). The decrease in gross profit margin from automobile sales was mainly due to decline in selling price resulting from decreased new models of major brands distributed by the Company in 2016. The gross profit margin from after-sales business remained stable with a slight increase.

Other income and gains, net

The majority of other income is commission income, which increased from RMB269.0 million for the year ended 31 December 2015 to RMB380.2 million for the same period in 2016. Other income and gains, net increased by 46.6% from RMB357.3 million for the year ended 31 December 2015 to RMB524.0 million for the same period in 2016, primarily because the Company made preferential support to its insurance, financing and pre-owned automobile business and developed corresponding incentive measures to improve such businesses and achieved certain positive results in the second half of the year.

Selling and distribution costs and administrative expenses

For the year ended 31 December 2016, our selling and distribution costs decreased by 10.1%, from RMB977.0 million for the same period in 2015 to RMB877.9 million; and our administrative expenses decreased by 5.6% from RMB643.4 million for the same period in 2015 to RMB607.5 million. These decreases were mainly due to the Company's organizational restructuring through reduction of staff and relevant expenses since the second half of 2016, which made corresponding achievement and reduced sales and administrative expenses in the second half of the year.

Profit from operations

As a result of the foregoing, our profit from operations for the year ended 31 December 2016 increased by 16.0% to RMB1,073.3 million from RMB925.4 million for the same period in 2015.

Finance costs

Finance costs decreased by 9.9% from RMB540.1 million for the year ended 31 December 2015 to RMB486.5 for the same period in 2016, primarily because the Company effectively controlled the bank loans to a relatively lower level and achieved a decrease in finance costs.

Profit for the year

As a result of the cumulative effect of the foregoing, our profit for the year ended 31 December 2016 increased by 87.2% to RMB419.9 million from RMB224.3 million for the same period in 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

As at 31 December 2016, our cash and cash equivalents amounted to RMB3,721.3 million, representing an increase of 72.2% from RMB2,161.0 million as at 31 December 2015.

Our primary uses of cash were to pay for purchases of new automobiles, spare parts and automobile accessories, to establish new dealership stores and to fund our working capital and normal operating costs. We financed our liquidity requirements through a combination of short-term bank loans and other borrowings and cash flows generated from our operating activities.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of bank loans and other borrowings, cash flow generated from our operating activities and other funds raised from the capital markets from time to time. For the year ended 31 December 2016, our net cash generated from operating activities was RMB1,354.2 million (2015: RMB588.2 million). The significant growth in cash generated from operating activities indicates the Group's well-functioning amidst rapid development in operating activities.

Net current assets

As at 31 December 2016, we had net current assets of RMB4,931.4 million, representing an increase of RMB4,918.2 million from RMB13.2 million as at 31 December 2015.

Capital expenditure

Our capital expenditures primarily comprised expenditures on property, plant and equipment land use rights and intangible assets. During the year ended 31 December 2016, our total capital expenditures amounted to RMB522.1 million (2015: RMB729.1 million).

Inventories

Our inventories primarily consisted of new automobiles and spare parts and accessories. Each of our dealership stores individually manages their orders for new automobiles and after-sales products. We coordinate and aggregate orders for automobile accessories and other automobile-related products across our dealership network.

Our inventories increased by 19.6% from RMB2,454.9 million as at 31 December 2015 to RMB2,935.5 million as at 31 December 2016, primarily due to (1) increase of inventory balance in line with sales increase, and (2) increase of inventory from acquisition of Sichuan Ganghong.

Our average inventory turnover days for the year ended 31 December 2016 decreased to 41.0 days from 46.6 days in 2015, primarily due to the improvement of the turnover rate of inventories as a result of the increase in the income in 2016.

Trade Receivables

Trade receivables increased from RMB358.2 million for the year ended 31 December 2015 to RMB650.8 million for the year ended 31 December 2016, primarily due to the increase of balance of automobile loan receivables with the slowdown of lending by the manufacturers' finance departments closer to the year-end.

Interest-bearing bank and other borrowings

As at 31 December 2016, the Group's available and unutilised banking facilities amounted to approximately RMB6,259.7 million (31 December 2015: RMB12,358.0 million).

Our interest-bearing bank and other borrowings as at 31 December 2016 were RMB7,552.4 million, representing a decrease of RMB728.5 million from RMB8,280.9 million as at 31 December 2015. The decrease was due to various financing methods adopted by the Company to control the level of bank debts.

Interest rate risk and foreign exchange rate risk

As at 31 December 2016, the Group had not used any derivatives to hedge interest rate risk. The Group conducts its business primarily in Renminbi. Certain bank deposits, bank borrowings and credit enhanced bonds were denominated in foreign currencies. The Group has entered into various forward currency options to manage its exchange rate risk exposure. These forward currency options are not designated for hedging purposes and are measured at fair value through profit or loss. As at 31 December 2016, a fair value of RMB25.8 million (31 December 2015: RMB15.9 million) was recognised by the Group on the forward currency options. Although the Company entered into an ISDA (International Swaps and Derivatives Association, Inc.) 2002 Master Agreement with The Hongkong and Shanghai Banking Corporation Limited dated 30 September 2016, the Group only started to engage in USD interest rate swaps under the aforementioned agreement in January 2017.

Gearing ratio

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, trade, bills and other payables, accruals, and bonds less cash and cash equivalents. Our gearing ratio for the year ended 31 December 2016 was 71.2% (2015: 69.3%).

Human resources

As at 31 December 2016, the Group had 6,907 employees (31 December 2015: 5,941). Total staff costs for the year ended 31 December 2016, excluding Directors' remuneration were approximately RMB646.5 million (2015: RMB740.7 million).

The Group values the recruiting and training of quality personnel. We implement remuneration policy, bonus and long term incentive schemes with reference to the performance of the Group and individual employees. The Group also provides benefits, such as insurance, medical and retirement funds, to employees to sustain competitiveness of the Group.

Contingent liabilities

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

Pledge of the Group's assets

Our Group had pledged our group assets, shares in certain subsidiaries and letters of credit as securities against bank loans and other borrowings and bills payable which were used to finance daily business operation and acquisition. As at 31 December 2016, the pledged group assets amounted to approximately RMB4,507.3 million (31 December 2015: RMB3,941.2 million). The Group did not have any pledged letter of credits as at 31 December 2016 (31 December 2015: RMB13.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Material investments held, material acquisitions and disposals of subsidiaries and associates, and future plans of material investments or acquisition of capital assets

On 1 November 2016, (i) Beijing Yan Bao Auto Service Co., Ltd. (北京燕寶汽車服務有限公司, "**Beijing Yan Bao**", an indirect wholly-owned subsidiary of the Company) entered into a sale and purchase agreement (as amended) with Sichuan Ganghong Investment Holdings Group Co., Ltd. (四川港宏投資控股集團有限公司, "**Ganghong Investment**"), pursuant to which Beijing Yan Bao conditionally agreed to acquire, and Ganghong Investment conditionally agreed to sell, 51% of the equity interest of Sichuan Ganghong and (ii) the Company and Beijing Yan Bao entered into a sale and purchase agreement (as amended) with Itochu Corporation (伊藤忠商事株式会社) and Itochu (China) Holding Co., Ltd (伊藤忠 (中國) 集團有限公司, "**Itochu China**"), pursuant to which: (a) the Company conditionally agreed to acquire, and Itochu Corporation conditionally agreed to sell, 25% of the equity interest of Sichuan Ganghong; and (b) Beijing Yan Bao conditionally agreed to acquire, and Itochu China has conditionally agreed to sell, 24% of the equity interest of Sichuan Ganghong. Upon completion of the above-mentioned transactions in November 2016, Sichuan Ganghong became a wholly-owned subsidiary of the Company.

On 28 December 2016, Shanghai Kailong Automobile Trading Hongqiao Co., Ltd. (上海開隆汽車貿易虹橋有限公司) ("**Shanghai Kailong Qimao Hongqiao**"), an indirect wholly-owned subsidiary of the Company entered into a sale and purchase agreement with Guangxi Guanghui Investment Development Co., Ltd. (廣西廣匯投資發展有限公司) ("**Guangxi Guanghui**"), pursuant to which Shanghai Kailong Qimao Hongqiao agreed to sell, and Guangxi Guanghui agreed to purchase a 70% equity interest of Wuxi Kailong Real Estate Co., Ltd. (無錫開隆置業有限公司) . Guangxi Guanghui is indirectly owned as to approximately 85% by Xinjiang Guanghui Industry Investment Group Co., Ltd. (新疆廣匯實業投資(集團)有限責任公司), which is the controlling shareholder of CGA. CGA, through its wholly-owned subsidiary China Grand Automotive Services (Hong Kong) Limited, holds approximately 75% of the shares in the Company, and it is therefore a controlling shareholder of the Company. Guangxi Guanghui is an associate of CGA and therefore a connected person of the Company for the purpose of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Accordingly, the transaction constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. For further details, please refer to the Company's announcements dated 12 December 2016. This transaction was completed in December 2016.

Except as disclosed in this annual report, during the year ended 31 December 2016, the Company had no material investment held, had not carried out any material acquisition or disposal of subsidiaries and associates, and had no definite plan for material investment or acquisition of capital assets.

OUTLOOK AND STRATEGY

China has been the largest automobile market in terms of sales volume in the world for seven consecutive years since 2009. As at the end of 2016, the vehicle parc and vehicle parc per 1,000 people was 194 million and 138 units, respectively. In comparison with the vehicle parc of America, and taking into consideration of the big population base of China, there are huge potential for the automobile market of China. As one of the largest automobile dealer of luxury and ultra-luxury brands in China, we strongly believe there are various opportunities in the automobile market of China in the future.

With the preliminary completion of integration with the CGA Group in the second half of 2016, the Group has achieved initial results in terms of brand management, regional management, performance-linked remuneration management and overall capital management. Going forward, the Group will make full use of the synergy effect generated from the said integration and leverage on the CGA Group's edge in industry scale and business diversification to further reduce operating costs and improve profitability of the Group. The business strategy adjustment by BMW in relation to its dealers at the beginning of 2017 will be more helpful for BMW dealers to improve profit and reduce capital costs. As one of the largest BMW dealers in China, the Group will benefit from the continuous launch of new products by BMW.

In developed countries, the aftermarket is the primary source of profit for a developed automobile market, accounting for the largest share of profit and resulting in high level of profit margin. Currently, however, the primary source of profit in China's automobile industry arises from original equipment manufacturer, leaving less profit to the automobile aftermarket. Driven by both relevant policies from the government and the market trends, profit in China's automobile industry will gradually tilt towards the aftermarket. Accordingly, the Group will adjust relevant business weightings, improve the contributions from after-sales services and extended services, and accelerate the development of high-value-added businesses.

Compared with developed countries, the automobile finance in China embraces huge growth potential in the market and has developed rapidly in recent years, despite of a relatively lower penetration rate. According to the statistics from Roland Berger, the automobile finance lease market of China has been growing at a CAGR of 60% for the last five years, mainly attributable to the stable growth in the sales volume of new and pre-owned automobiles in China, changes in consumer group and consumption concept, diversified participants in automobile finance market, constant launching of automobile financial products and services, improvement in individual credit system, and positive policies for the automobile finance industry. The Group will take the opportunities in the market to expand its automobile finance business. From 2017 and onwards, Dingxin Leasing, a subsidiary of the Company, will cooperate with All Trust Leasing Company Limited ("**All Trust Leasing**"), a member of the CGA Group, in relation to sales and leaseback, so that the Group will be able to develop finance lease business and utilise its financial resources in an efficient manner.

In recent years, although the pre-owned automobile market in China has maintained a stable and rapid growth, there is huge potential for the development of pre-owned automobiles in terms of sales volume as compared with developed countries. As a large dealer of pre-owned automobiles, the Group enjoys incomparable advantages, i.e. quality source of pre-owned automobiles, most authentic evaluation data and convenient subsequent services. With the established platform and resources from the CGA Group, the Group will continue to improve the replacement rate and penetration rate of pre-owned automobiles for a higher profit, so as to further facilitate the development of pre-owned automobiles.

Meanwhile, with the optimization of management model and the efficient integration with the CGA Group in resources and channels, the Group will further exercise effective controls over costs and improve operating efficiency. Moreover, with the overall implementation of anti-monopoly regulations in the automobile industry by the government, the Group will make better use of the centralized procurement system which it shares with the CGA Group, cover more decoration products and spare and accessory parts, and realize cost-saving purchase and improvement in gross profit margin. The scale effect arising from the integration with the CGA Group is expected to emerge gradually.

In light of the overall development strategy established by the CGA Group, we will keep improving and implementing prudent business strategies, make timely adjustment to the development of the Group which shall be in its long-term interests, and keep pace with the times to take opportunities in the market. In respect of new automobile sales and after-sales services, we will continue to strengthen our strategic cooperation with automobile manufacturers, conduct resource integration, and identify the value over the entire life cycle of our customers to transform their loyalty towards automobile brands to loyalty towards the service brand of automobile dealer, thus improving customer loyalty and retention rate. In the meantime, we will rely on the established networks and platforms of the CGA Group to promote automobile value-added services. Against the backdrop of volatile market, we will continue to strictly control the level of inventory and costs of operation and management for the purpose of expansion of revenue source and cost-efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

Important events since 1 January 2017

On 24 January 2017, Dingxin Leasing, a direct wholly-owned subsidiary of the Company, and All Trust Leasing, an indirect wholly-owned subsidiary of CGA, entered into a sale and leaseback framework agreement (the "**Sale and Leaseback Framework Agreement**"), pursuant to which All Trust Leasing shall sell to Dingxin Leasing vehicles owned by All Trust Leasing, which shall then be leased back for use by All Trust Leasing. Upon expiry of the lease term, All Trust Leasing shall repurchase the leased assets in accordance with the agreed terms. The transactions contemplated under the Sale and Leaseback Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and a major transaction of the Company under Chapter 14 of the Listing Rules. For details of the Sale and Framework Agreement, please refer to the Company's announcements dated 24 January 2017 and 15 March 2017 and the Company's circular dated 24 February 2017.

On 27 March 2017, Suzhou Baoxin Automotive Distribution Services Co., Ltd. (蘇州寶信汽車銷售服務有限公司, "**Suzhou Baoxin**"), an indirect wholly-owned subsidiary of the Company, entered into an acquisition agreement (the "**Acquisition Agreement**") with Li Yuesheng (李躍勝), Li Zhirong (李志榮), Li Guoqin (李國琴), Wu Tingjie (吳挺捷), Wenzhou Kaiyuan Group Limited (溫州開元集團有限公司), Wenzhou Zhenan Electromechanical Equipment Co., Ltd. (溫州浙南機電設備有限公司) and Wenzhou Senyuan Electrical Co., Ltd (溫州市森源電器有限公司) (collectively, the "**Vendors**"), pursuant to which Suzhou Baoxin has conditionally agreed to acquire, and each of the Vendors has conditionally agreed to sell, the entire equity interest of each of the Target Companies (as defined in the Company's announcement dated 27 March 2017) which are principally engaged in the distribution of luxury and ultra-luxury automobiles, automobile repair and maintenance services, automobile leasing services and automobile insurance in Zhejiang Province in the People's Republic of China. The total consideration payable by Suzhou Baoxin under the Acquisition Agreement shall be no more than RMB900 million (equivalent to approximately HK$1.01 billion) in cash. As the applicable percentage ratios under Chapter 14 of the Listing Rules regarding the acquisition exceed 5% but are lower than 25%, the acquisition constitutes a discloseable transaction of the Company under the Listing Rules. Upon completion of the acquisition, each of the Target Companies will become an indirect wholly-owned subsidiary of the Company. For details of the Acquisition Agreement, please refer to the Company's announcement dated 27 March 2017.

The Board proposes to change the English name of the Company from "Baoxin Auto Group Limited" to "Grand Baoxin Auto Group Limited" and to adopt and register the Chinese name "廣匯寶信汽車集團有限公司" as the dual foreign name of the Company to replace its existing Chinese name "寶信汽車集團有限公司" (the "**Change of Company Name**"). The Board considers that the Change of Company Name will better reflect the current business focus of the Group and its direction of future development. The Board believes that the new English and Chinese names of the Company will provide the Company with a fresh corporate image and identity which will benefit the Company's future business development. Therefore, the Board considers that the Change of Company Name is in the best interests of the Company and the shareholders of the Company as a whole. The Company will make further announcement(s) with regard to the Change of Company Name as and when appropriate.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board of Directors of the Company (the "**Board**") is committed to achieving good corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value, formulate its business strategies and policies and enhance its accountability.

The Company has applied the principles set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules.

In the opinion of the Directors, throughout the year ended 31 December 2016, the Company has complied with most of the code provisions as set out in the CG Code, save and except for code provisions A.2.1 and A.4.1.

Under the code provision A.2.1, the division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Prior to the change of directors of the Company on 21 June 2016, our former chairman, Mr. Yang Aihua, was responsible for the operation and management of the Board, whilst our former vice-chairman and chief executive officer, Mr. Yang Hansong, was responsible for the business operations of the Company. The Board considers that the respective responsibilities of the chairman and chief executive officer were clear and distinctive and therefore written terms thereof were not necessary. With effect from 21 June 2016, Mr. Yang Aihua resigned as the chairman of the Company and Mr. Li Jianping was appointed in his stead; Mr. Wang Xinming was appointed as the President of the Company; and Mr. Yang Hansong resigned as a vice-chairman and the chief executive officer of the Company and no chief executive officer was appointed. With effect from 21 June 2016, the day-to-day management of the Group is delegated to other executive Directors and the management of the Company. The Board is of the view that the current management structure can effectively facilitate the Group's operation and business development.

Under code provision A.4.1, the non-executive Directors should be appointed for a specific term and subject to re-election. Mr. Lu Linkui, who was appointed as a non-executive Director with effect from 31 March 2014, did not enter into any service contract with the Company and does not have a specific term of appointment. However, Mr. Lu Linkui is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the articles of association of the Company. Mr. Lu Linkui retired and was re-elected as a non-executive Director at the annual general meeting of the Company held on 18 June 2015. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with the CG Code and align with the latest developments.

CORPORATE GOVERNANCE REPORT

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**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors.

Specific enquiry has been made to all the Directors who have confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

The Board has also adopted the Model Code as guidelines for its 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.

BOARD OF DIRECTORS

Role of the Board

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Directors take decisions objectively in the interests of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management. The delegated functions and powers are reviewed periodically to ensure that they remain appropriate.

Matters specifically reserved for the Board include the approval of financial statements, dividend policy, significant changes in accounting policies, strategies, budgets, internal control system, risk management system, material transactions (in particular those that may involve conflicts of interests), selection of directors, changes to appointments such as company secretary and external auditors, remuneration policy for Directors and senior management, terms of reference of Board committees, as well as major corporate policies such as the code of conduct and whistle-blowing policy.

Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Group are delegated to the executive Directors and senior management of the Company. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective defined written terms of reference.

Composition

During the year ended 31 December 2016 and up to the date of this annual report, there have been the following changes to the Board:

- Mr. Yang Aihua resigned as an executive Director and the Chairman of the Company on 21 June 2016;
- Mr. Yang Hansong resigned as an executive Director, chief executive officer, authorised representative and the Vice-Chairman of the Company on 21 June 2016;
- Mr. Yang Zehua resigned as an executive Director and the Vice President of the Company on 21 June 2016;
- Ms. Hua Xiuzhen resigned as an executive Director and the chief supervisor of treasury department of the Company on 21 June 2016;
- Mr. Zhao Hongliang resigned as an executive Director on 29 July 2016;
- Mr. Li Jianping was appointed as an executive Director, the Chairman and authorised representative of the Company on 21 June 2016;
- Mr. Wang Xinming was appointed as an executive Director and President of the Company on 21 June 2016;
- Mr. Lu Ao was appointed as an executive Director of the Company on 21 June 2016;
- Mr. Qi Junjie was appointed as an executive Director of the Company on 29 July 2016; and
- Mr. Zhou Yu was appointed as a non-executive Director of the Company on 21 June 2016.

The Board currently comprises nine members, consisting of four executive Directors, two non-executive Directors and three independent non-executive Directors as detailed below:

The Board

Executive Directors	Non-executive Directors	Independent non-executive Directors
Mr. Li Jianping *(Chairman)*	Mr. Zhou Yu	Mr. Diao Jianshen
Mr. Wang Xinming *(President)*	Mr. Lu Linkui	Mr. Wang Keyi
Mr. Lu Ao		Mr. Chan Wan Tsun Adrian Alan
Mr. Qi Junjie		

The biographical details of the Directors are set out on pages 35 to 37 of this annual report. In addition, a list of the names of the Directors and their role and function is published on the websites of the Company and the Stock Exchange.

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

CORPORATE GOVERNANCE REPORT

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

Insurance Coverage

Appropriate insurance cover on Director's and officer's liabilities in respect of legal actions against them arising from corporate activities has been arranged by the Company.

Chairman and Chief Executive Officer

The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The chief executive officer focuses on the Group's business development and daily management and operations generally. The positions of the chairman of the Board and the chief executive officer are held by separate individuals with a view to maintaining an effective segregation of duties in respect of the management of the Board and the day-to-day management of the Group's business.

During the financial year ended 31 December 2016, the position of Chairman was held by Mr. Yang Aihua until his resignation on 21 June 2016, upon which Mr. Li Jianping was appointed as the Chairman. Mr. Yang Hansong was the ex-chief executive officer until his resignation on 21 June 2016 and no replacement was appointed. On 21 June 2016, Mr. Wang Xinming was appointed as the President of the Company. The role and responsibilities of the chief executive officer are delegated to other executive Directors and management of the Company. The Board is of the view that the current management structure can effectively facilitate the Company's operation and business development.

Independent Non-executive Directors

During 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 one-third of the Board, with one of whom possesses appropriate professional qualification, 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 set out in Rule 3.13 of the Listing Rules.

The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company for a term of three years, unless terminated by not less than three months' notice in writing served by either the executive Director or the Company, with effect from their respective dates of appointment, subject to renewal.

Save for Mr. Lu Linkui, each of the non-executive Directors and independent non-executive Directors has signed an appointment letter with the Company for a term of one year with effect from their respective dates of appointment, subject to renewal. However, Mr. Lu Linkui is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the articles of association of the Company.

In accordance with the Company's articles of association, all Directors (including non-executive Directors) are required to retire by rotation at least once every three years and are eligible for re-election at the annual general meeting.

At each annual general meeting, one-third of the current Directors shall retire from office. Any new directors appointed either to fill a casual vacancy, or as an addition to the Board during the year by the Board following the recommendation of the Nomination Committee, are subject to re-election by shareholders of the Company at the following general meeting after their appointment.

Pursuant to article 16.2 of the articles of association, Mr. Li Jianping, Mr. Wang Xinming, Mr. Lu Ao, Mr. Qi Junjie and Mr. Zhou Yu, who were appointed by the Board as executive Directors and non-executive Directors to fill casual vacancies, shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves to be re-elected and re-appointed at the annual general meeting of the Company scheduled to be held on 28 June 2017 (the "**2017 AGM**").

In accordance with article 16.18 of the articles of association, Mr. Lu Linkui and Mr. Diao Jianshen will retire at the forthcoming annual general meeting, and being eligible, offer themselves to be re-elected and re-appointed at the 2017 AGM.

The Nomination Committee has confirmed that the Company will support their re-election.

Board Committees

The Board has established three Board committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are also published on the websites of the Company and the Stock Exchange.

The Board committees are provided with sufficient resources to discharge their duties and are able to seek independent professional advice where appropriate and upon request. Details of these Board committees, including their compositions, major responsibilities and functions, and work performed during the year ended 31 December 2016 are set out below.

Audit Committee

The Audit Committee consists of the following members during the year ended 31 December 2016:

Independent non-executive Directors
Mr. Diao Jianshen *(Chairman)*
Mr. Wang Keyi
Mr. Chan Wan Tsun Adrian Alan

The primary functions of the Audit Committee include (i) assisting the Board in reviewing financial information and the effectiveness of the financial reporting process; (ii) implementing internal control and risk management systems; (iii) planning audits and maintaining a good relationship with the Company's external auditors; and (iv) organizing a system to enable employees of the Company to raise, in confidence, any concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year ended 31 December 2016, the Audit Committee met twice to:

- review the consolidated financial statements, annual and interim reports before submission to the Board for approval; review any significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, any connected transactions of the Group;

- make arrangements for employees to discuss any possible operational improprieties; and

- make recommendation to the Board to revise its terms of reference in compliance with and to address the new provisions in the CG Code dealing with risk management and internal control systems.

The Audit Committee also met with the external auditors twice without the presence of the executive Directors.

Remuneration Committee

The Remuneration Committee consists of the following members during the year ended 31 December 2016:

Independent non-executive Directors
Mr. Diao Jianshen *(Chairman)*
Mr. Wang Keyi

Executive Director
Mr. Yang Hansong (resigned as a member on 21 June 2016)
Mr. Li Jianping (appointed as a member on 21 June 2016)

The primary functions of the Remuneration Committee include (i) reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all directors and senior management; and (ii) establishing transparent procedures for developing such remuneration policy and structure to attract, retain and motivate them to run the Company successfully. The remuneration policy for non-executive Directors, mainly comprising directors' fees, is subject to annual assessment with reference to the prevailing market standard. Individual Directors and senior management are not involved in deciding their own remuneration.

During the year ended 31 December 2016, the Remuneration Committee met once to:

- review the remuneration policy and structure of the Company and the remuneration packages of executive Directors and senior management; and

- review and make recommendations to the Board on remuneration packages of the Directors and senior management and other related matters.

During the review, no Director or any of his associates took part in any discussion about his own remuneration.

Nomination Committee

The Nomination Committee consists of the following members during the year ended 31 December 2016:

Independent non-executive Directors
Mr. Wang Keyi *(Chairman)*
Mr. Diao Jianshen

Executive Director
Mr. Yang Hansong (resigned as a member on 21 June 2016)
Mr. Li Jianping (appointed as a member on 21 June 2016)

The primary functions of the Nomination Committee include (i) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually; (ii) making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (iii) developing and formulating relevant procedures for the nomination and appointment of Directors; (iv) making recommendations to the Board on the appointment or re-appointment of Directors; (v) planning the succession of Directors; and (vi) assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

During the year ended 31 December 2016, the Nomination Committee met once to:

- review the structure, size and composition of the Board;
- assess the independence of the independent non-executive Directors;
- consider the qualifications of the retiring Directors standing for election at the annual general meeting; and
- review the Board diversity policy and the progress on achieving the measurable objectives implementing the Board diversity policy.

Board Meetings

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

During the year ended 31 December 2016, the Board has held four board meetings to review financial and operating performance of the Company and to discuss future strategies. The Directors participated in the Board meetings in person or through electronic means.

Draft agendas of each meeting are normally made available to Directors in advance. Notice and draft agendas of regular Board meetings are served to all Directors at least 14 days before the meeting, to enable them to include other matters in the agenda. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors updated of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

Where necessary, senior management would attend regular Board meetings and other Board and committee meetings to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

All the Directors have access to advice and services of the company secretary, who is responsible for ensuring that Board procedures and applicable regulations under the Company's articles of association or otherwise are complied with. Each Director is entitled, if necessary, to seek independent professional advice at the Company's expense.

All minutes are kept by the Company and are open for inspection by any Director during normal office hours with reasonable advance notice. Matters considered and decisions reached at Board and Committee meetings are recorded with sufficient detail in the minutes. Draft and final versions of minutes of Board meetings will be sent to all Directors for their comments and recorded within a reasonable time after the relevant meeting is held.

The Company's articles of association contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Attendance Record of Directors and Committee Members

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

	Number of meetings attended/held in 2016				
Name of Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Li Jianping[1]	2/2	N/A	0/0	0/0	N/A
Mr. Wang Xinming[2]	2/2	N/A	N/A	N/A	N/A
Mr. Lu Ao[3]	2/2	N/A	N/A	N/A	N/A
Mr. Qi Junjie[4]	2/2	N/A	N/A	N/A	N/A
Mr. Yang Aihua[5]	2/2	N/A	N/A	N/A	1/1
Mr. Yang Hansong[6]	2/2	N/A	1/1	1/1	1/1
Mr. Yang Zehua[7]	2/2	N/A	N/A	N/A	1/1
Ms. Hua Xiuzhen[8]	2/2	N/A	N/A	N/A	1/1
Mr. Zhao Hongliang[9]	2/2	N/A	N/A	N/A	1/1
Non-executive Directors					
Mr. Zhou Yu[10]	2/2	N/A	N/A	N/A	N/A
Mr. Lu Linkui	4/4	N/A	N/A	N/A	0/1
Independent non-executive Directors					
Mr. Diao Jianshen	4/4	2/2	1/1	1/1	1/1
Mr. Wang Keyi	4/4	2/2	1/1	1/1	1/1
Mr. Chan Wan Tsun Adrian Alan	4/4	2/2	N/A	N/A	0/1

Notes:

1. Mr. Li Jianping was appointed as an executive Director, a member of Remuneration Committee and a member of Nomination Committee with effect from 21 June 2016. Two board meetings were held after his appointment.

2. Mr. Wang Xinming was appointed as an executive Director with effect from 21 June 2016. Two board meetings were held after his appointment.

3. Mr. Lu Ao was appointed as an executive Director with effect from 21 June 2016. Two board meetings were held after his appointment.

4. Mr. Qi Junjie was appointed as an executive Director with effect from 29 July 2016. Two board meetings were held after his appointment.

5. Mr. Yang Aihua resigned as an executive Director with effect from 21 June 2016. Two board meetings and one annual general meeting were held before his resignation.

6. Mr. Yang Hansong resigned as an executive Director, a member of Remuneration Committee and a member of Nomination Committee with effect from 21 June 2016. Two board meetings, one remuneration committee meeting, one nomination committee meeting and one annual general meeting were held before his resignation.

7. Mr. Yang Zehua resigned as an executive Director with effect from 21 June 2016. Two board meetings and one annual general meeting were held before his resignation.

8. Ms. Hua Xiuzhen resigned as an executive Director with effect from 21 June 2016. Two board meetings and one annual general meeting were held before his resignation.

9. Mr. Zhao Hongliang resigned as an executive Director with effect from 29 July 2016. Two board meetings and one annual general meeting were held before his resignation.

10. Mr. Zhou Yu was appointed as a non-executive Director with effect from 21 June 2016. Two board meetings were held after his appointment.

Apart from regular Board meetings, the Chairman of the Board also held a meeting with the non-executive Director and independent non-executive Directors without the presence of executive Directors during the year ended 31 December 2016.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as Directors of the Company and of the conduct, business activities and development of the Company and to ensure that their contribution to the Board remains informed and relevant.

Each newly appointed Director will receive comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Group and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be issued to Directors where appropriate. There are also arrangements in place for providing continuing briefing and professional development to Directors at the Company's expenses whenever necessary.

The Company provides regular updates and presentations on changes and developments relating to the Group's business and the legislative and regulatory environments in which the Group conducts its business to the Directors.

During the year ended 31 December 2016, all Directors have been required to provide the Company with a record of the training they received on a half-year basis, and such records have been maintained by the Company.

A summary of the current Directors' participation in internal and other external training for the year ended 31 December 2016 is as follows:

Name of Directors	Attending briefing/ seminars	Reading materials/ regulatory updates/ management monthly updates
Executive Directors		
Mr. Li Jianping (appointed on 21 June 2016)	✓	✓
Mr. Wang Xinming (appointed on 21 June 2016)	✓	✓
Mr. Lu Ao (appointed on 21 June 2016)	✓	✓
Mr. Qi Junjie (appointed on 29 July 2016)	✓	✓
Mr. Yang Aihua (resigned on 21 June 2016)	✓	✓
Mr. Yang Hansong (resigned on 21 June 2016)	✓	✓
Mr. Yang Zehua (resigned on 21 June 2016)	✓	✓
Ms. Hua Xiuzhen (resigned on 21 June 2016)	✓	✓
Mr. Zhao Hongliang (resigned on 29 July 2016)	✓	✓
Non-executive Directors		
Mr. Zhou Yu (appointed on 21 June 2016)	✓	✓
Mr. Lu Linkui	✓	✓
Independent non-executive Directors		
Mr. Diao Jianshen	✓	✓
Mr. Wang Keyi	✓	✓
Mr. Chan Wan Tsun Adrian Alan	✓	✓

CORPORATE GOVERNANCE FUNCTIONS

The Audit Committee is responsible for performing the corporate governance functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed (i) the Company's corporate governance policies and practices; (ii) the training and continuous professional development of Directors and senior management; (iii) the Company's policies and practices on compliance with legal and regulatory requirements; (iv) the code of conduct applicable to the employees and Directors; and (v) the Company's compliance with the CG Code and disclosures in this Corporate Governance Report.

The Board and the Audit Committee will continue to review and improve the corporate governance practices and standards of the Company to ensure that their business and decision making processes are regulated in a proper and prudent manner.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy in 2013 which aims at achieving optimal diversity on the Board. The Board has considered that diversity of Board members shall include areas such as gender, age, cultural and educational background, professional qualification, skills, knowledge and industry and regional experience.

The Nomination Committee will discuss and agree on the measurable objectives for achieving diversity of the Board and recommend them to the Board for adoption. The Company aims to maintain an appropriate level of diversity of the Board that are relevant to the Company's business growth.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity criteria, including but not limited to gender, age, cultural and educational background, professional qualification, skills, knowledge and industry and regional experience. The ultimate decision will be based on merits and the contribution that the selected candidates will bring to the Board.

PERFORMANCE OF THE DEED OF NON-COMPETITION

The independent non-executive Directors were delegated with the authority to review, on an annual basis, the compliance with the deed of non-competition (the "**Deed of Non-Competition**") executed by Baoxin Investment Management Limited, Auspicious Splendid Global Investments Limited and Mr. Yang Aihua (for purpose of this paragraph only, the "**Controlling Shareholders**") on 23 November 2011, in favour of the Company (for itself and for the benefit of its subsidiaries). Each of the Controlling Shareholders has confirmed that he/it had complied with the Deed of Non-Competition during the period from 1 January 2016 to 27 June 2016, when they ceased to be the Controlling Shareholders. The independent non-executive Directors were not aware of any non-compliance of the Deed of Non-Competition given by the Controlling Shareholders. Details of the Deed of Non-Competition have been set out in the section headed "Relationship with our Controlling Shareholders — Non-Competition Undertaking" of the prospectus of the Company dated 2 December 2011.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

With the assistance of the finance department of the Group, the Directors have ensured that the financial statements of the Group are prepared in accordance with the statutory requirements and applicable accounting standards. The Directors have also ensured that the financial statements of the Group are published in a timely manner in accordance with the applicable laws and regulations.

The management of the Company has provided to the Board all explanation and information necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are submitted to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Directors has prepared the financial statements on a going concern basis.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditors' Report on pages 47 to 51 of this annual report.

AUDITORS' REMUNERATION

The remuneration paid to the Group's external auditors, Ernst & Young for the year ended 31 December 2016 is set out below:

Services provided	Fees (RMB'000)
Audit services	6,800
Non-audit services	–
Total	6,800

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The risk management and internal control systems, which include a defined management structure with specified limits of authority and control responsibilities, is designed to (i) facilitate effective and efficient operations; (ii) ensure reliability of financial reporting and compliance with applicable laws and regulations; (iii) identify and manage potential risks; and (iv) safeguard the assets of the Group.

The Company has developed the internal risk control systems and the corresponding management code, and the audit department of internal control is in place under each region of the Group, tracking the implementation of the risk control system and the management code on a regular basis.

The internal auditor reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

During its annual review, the Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programs and budgets.

To supplement the above, employees can report any misconduct, impropriety or fraud cases within the Group to the Audit Committee without the fear of recrimination.

Based on the results of evaluations and representations made by the management and the internal auditor during the year ended 31 December 2016, the Board, as supported by the Audit Committee is satisfied that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business objectives; and that appropriate systems of risk management and internal control have been in place during the year ended 31 December 2016 and up to the date of approval of this annual report.

COMPANY SECRETARY

Mr. Chen Changdong, the company secretary, is also the chief financial officer of the Company and has day-to-day knowledge of the Company's affairs. Mr. Chen reports to the Chairman of the Board and is responsible for advising the Board on governance matters.

According to Rule 3.29 of the Listing Rules, Mr. Chen has confirmed that he has taken no less than 15 hours of professional training to update his skills and knowledge for the year ended 31 December 2016. The biographical details of Mr. Chen are set out on page 37 of this annual report.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on the remuneration of senior management of the Group. Details of the remuneration of each Director for the year ended 31 December 2016 are set out in note 9 to the financial statements of this annual report.

For the year ended 31 December 2016, the aggregate emolument paid to members of non-director senior management was within the following bands:

By Band	Number of Individuals
HK$1,500,001–HK$2,000,000	1
HK$2,000,001–HK$2,500,000	1

SHAREHOLDERS' RIGHTS

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

Except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings will 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 Company's articles of association, any two or more shareholders (or any one shareholder which is a recognised clearing house) 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 of Directors/Company Secretary, at Unit 2205, 22/F, Bank of America Tower, 12 Harcourt Road, Hong Kong) or via email (info@klbaoxin.com). The Board shall, within 21 days from the date of deposit of the requisition, duly convene a general meeting to be held within another 21 days.

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 or mail (For the attention of the Board of Directors/Company Secretary, at Unit 2205, 22/F, Bank of America Tower, 12 Harcourt Road, Hong Kong) or via email (info@klbaoxin.com).

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 Unit 2205, 22/F, Bank of America Tower, 12 Harcourt Road, Hong Kong) or via email (info@klbaoxin.com).

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, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

The Shareholders Communication Policy and Procedures for Shareholders to Propose a Person for Election as Director are available on the website of the Company.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

The 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.klbaoxin.com, 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.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2016, the Company did not made any changes to its articles of association. An up-to-date version of the Company's article of association is available on both the websites of the Stock Exchange and the Company.

DIRECTORS

Executive Directors

Mr. LI Jianping (李建平), aged 56, has been an executive Director, the chairman of the Board and a member of the Remuneration Committee and the Nomination Committee of the Company since 21 June 2016. Mr. Li has been the chairman of the board of directors of CGA since July 2015 and has been an executive director of China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司) ("CGA Limited") and its predecessor since September 2013. Mr. Li was a president of CGA Limited and its predecessor from August 2013 to July 2015 and a vice president of CGA Limited and its predecessor from May 2012 to August 2013. Mr. Li was the chairman and general manager of Xinjiang Military Imported Auto Parts Co., Ltd. (新疆軍工進口汽車配件有限公司), currently a subsidiary of CGA, from August 1988 to April 2008. Mr. Li has been serving as the general manager and chairman of Urumqi Huatong Toyota Sales and Services Co., Ltd. (烏魯木齊華通豐田汽車銷售服務有限公司), currently a subsidiary of CGA, since October 2002. Mr. Li was the chairman and general manager of a subsidiary of CGA, Xinjiang Tianhui Automobile Services Co., Ltd. (新疆天匯汽車服務有限公司) from April 2008 to August 2013. Mr. Li obtained a university diploma in economics and management by taking correspondence courses from Urumqi Army Institute (烏魯木齊陸軍學院) in June 2006.

Mr. WANG Xinming (王新明), aged 44, has been an executive Director and the President of the Company since 21 June 2016. Mr. Wang has been a director of CGA since June 2016, and a president of CGA since May 2016. Mr. Wang served as a vice president of CGA from July 2015 to May 2016. From December 2013 to July 2015, Mr. Wang was the assistant to the president of CGA Limited and its predecessor. Mr. Wang served successively as a deputy store manager, vice general manager of operations, executive vice general manager of operations and general manager of Hebei region, general manager of the north China region and general manager of the greater north China region of CGA from November 2008 to November 2013. Mr. Wang served successively as the store manager and general manager for store operations of Shijiazhuang Tianhe Automobile Dealership Co., Ltd. (石家莊天河汽車貿易有限公司) from January 2002 to November 2008. Mr. Wang obtained a bachelor's degree in administrative management from Hebei University of Economics and Business (河北經貿大學) in July 1994.

Mr. LU Ao (盧翱), aged 44, has been an executive Director of the Company since 21 June 2016. Mr. Lu has been the vice president and chief financial officer of CGA since July 2015. Mr. Lu served as the chief business development officer, vice president and chief financial officer of CGA Limited and its predecessor from January 2007 until July 2015. Mr. Lu served as a manager of the corporate development department of the Asia Pacific region of Danone from August 2005 to September 2006, and a manager of the corporate investment and M&A strategic consulting department of PricewaterhouseCoopers from January 2004 to August 2005. Mr. Lu obtained a bachelor's degree in economics from Southwest University of Finance & Economics (西南財經大學) in July 1995, and obtained an MBA degree from Fordham University in the Beijing International MBA program at Peking University in February 2004. Mr. Lu was admitted as a certified public accountant of PRC by Chinese Institute of Certified Public Accountants in August 1998.

Mr. QI Junjie (戚俊傑), aged 44, has been an executive Director of the Company since 29 July 2016. Mr. Qi has been the secretary of the party committee of CGA since May 2016 and was the chairman of the board of directors of Xinjiang Guanghui Liquefied Natural Gas Development Co., Ltd. (新疆廣匯液化天然氣發展有限責任公司) from September 2015 to July 2016. Mr. Qi has been a director of Xinjiang Guanghui Energy Company Limited (新疆廣匯能源股份有限公司) since October 2015. Mr. Qi served as the deputy county chief and deputy secretary of Xinjiang Jimunai County (新疆吉木乃縣) and the director of the National Border Co-operative District (國家邊境合作區) from July 2008 to September 2014. Mr. Qi was an official of the Forest Bureau of Xinjiang Aletai District (新疆阿勒泰地區林業局) from July 1994 to July 2008. Mr. Qi obtained a master degree in botanical architecture specialty from Xinjiang Agricultural University (新疆農業大學) in July 1997 and obtained a bachelor's degree in plant protection specialty from Xinjiang Agricultural University (新疆農業大學) in July 1994.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. ZHOU Yu (周育), aged 48, has been a non-executive Director since 21 June 2016. Mr. Zhou has been a vice president of CGA since July 2015. From May 2012 to July 2015, Mr. Zhou was a vice president of CGA Limited and its predecessor. Mr. Zhou worked at Anhui Fengzhixing Investment Holding Co., Ltd. (安徽風之星投資控股有限責任公司), currently a subsidiary of CGA, as the general manager from September 2006 to March 2011, and at CGA as the general manager of the central China region from September 2006 to April 2012. Mr. Zhou served as the general manager at Anhui Fengzhixing Automobile Company Limited (安徽風之星汽車股份有限公司) from March 2004 to September 2006. Mr. Zhou served successively as the vice-general manager and general manager of corporate banking department of China Everbright Bank Hefei branch from February 2000 to February 2004. Mr. Zhou obtained a bachelor's degree in planned economics from Renmin University of China in July 1990.

Mr. LU Linkui (陸林奎), aged 71, is a non-executive Director of the Company. Mr. Lu joined the predecessor of FAW (First Automobile Works) Group Corporation ("**FAW**") in April 1970 and served various roles such as technician, deputy section chief, section chief, deputy director and later director of the quality control department. In May 1985 and November 1991, he assumed the positions of assistant factory manager and executive assistant factory manager respectively; and later became the deputy general manager of FAW. From January 1996 to December 2001, Mr. Lu was the director and general manager of FAW-Volkswagen Automotive Co. Ltd. In June 2002, he was engaged by Volkswagen and received management training, following which he assumed the position as general manager of Volkswagen Transmission (Shanghai) Co., Ltd from January 2003 to October 2008. He retired from Volkswagen in November 2008. He graduated from Beijing Mechanics College with a bachelor degree in mechanics in 1968. Mr. Lu was appointed as a non-executive Director on 31 March 2014.

Independent non-executive Directors

Mr. DIAO Jianshen (刁建申), aged 63, is an independent non-executive Director, the Chairman of each of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee of the Company. Mr. Diao has been a vice president of the China Automobile Dealers Association since 2008. He was a director and executive deputy general manager of 華星新世界汽車服務有限公司 (Huaxing New World Auto Service Company Limited) from 2002 to 2008. From 1998 to 2002, he was a general manager of 中國汽車貿易華北公司 (China Automobile Trading (North China) Corporation). He graduated from 中共北京市委黨校 (CPC Beijing Municipal Party School) with a major in economic management in 1988 and from the Chinese Academy of Social Sciences with a major in business economics in 1998. Mr. Diao was appointed as an independent non-executive Director on 22 November 2011.

Mr. WANG Keyi (汪克夷), aged 72, is an independent non-executive Director, the Chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee of the Company. Since 1982, Mr. Wang has been a lecturer and professor at Dalian University of Technology. From 1992 to 1996, Mr. Wang was an assistant to the principal of Dalian University of Technology and was responsible for business management affairs. Mr. Wang was an independent director of 瓦房店軸承股份有限公司 (Wa Fang Dian Zhou Cheng Stock Company Limited) (stock code: 200706), a company whose shares are listed on the Shenzhen Stock Exchange, from 2009 to 2013. He was also an independent director of 遼寧紅陽能源投資股份有限公司 (Liaoning Hongyang Energy Resource Invest Co., Ltd.) (stock code: 600758), a company whose shares are listed on the Shanghai Stock Exchange, from 2005 to 2011. Mr. Wang graduated with an undergraduate degree in automotive control from the Dalian University of Technology in 1966. He obtained a master's degree in systems engineering from Dalian University of Technology in 1982 and then a PhD degree in systems engineering from the same university in 1988. Mr. Wang was appointed as an independent non-executive Director on 22 November 2011.

Mr. CHAN Wan Tsun Adrian Alan (陳弘俊), aged 38, is an independent non-executive Director and a member of the Audit Committee of the Company. Mr. Chan has been the chief financial officer of Sun Ray Capital Investment Corporation since July 2015, From 2009 to June 2015, he was the chief financial officer of Enviro Energy International Holdings Limited (stock code: 1102), a company whose shares are listed on the Stock Exchange. He has over 14 years of experience in corporate finance. He was an associate director of UOB Asia (Hong Kong) Limited from 2005 to 2009, mainly responsible for the execution of financial advisory, initial public offering, merger and acquisitions, privatisation and other equity capital market transactions in the Greater China Region and Southeast Asia. He has also previously worked for the equity capital markets department of DBS Asia Capital Limited from 2002 to 2005, the corporate finance department of DBS Vickers Securities (formerly known as Vickers Ballas Holdings Limited) from 2000 to 2001, and as auditor for a top-tier international accounting firm. Mr. Chan graduated from the University of New South Wales, Australia with a Bachelor of Commerce degree in Accounting and Finance in 2000. He is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants, respectively. Mr. Chan was appointed as an independent non-executive Director on 22 November 2011.

SENIOR MANAGEMENT

Our senior management team are as follows:

Mr. WANG Xinming (王新明) is the president of the Company. Please refer to "Directors and Senior Management — Senior Management" for a description of his biography.

Mr. ZHAO Hongliang (趙宏良), aged 50, is the vice president of the Company. Mr. Zhao has substantial experience in the automobile dealership industry. He joined Shanghai Kailong Automobile Trading Co., Ltd. in 1999 and served as deputy general manager until 2001. Mr. Zhao served as the general manager of Shanghai Kailong Automobile Services Co., Ltd. from 2002 to 2006. Mr. Zhao was the general manager of Suzhou Baoxin Automobile Sales & Services Co., Ltd. from 2006 to 2008. Mr. Zhao was appointed vice president of the Company in 2008 and has since maintained that role. Prior to joining the Group, he was the deputy general manager of 上海華順汽車銷售有限公司 (Shanghai Huashun Automobile Sales Company Limited) from 1995 to 1998. He obtained an MBA degree from the University of Management and Technology (long distance teaching service) in 2005.

Mr. CHEN Changdong (陳長東), aged 55, is the chief financial officer and Company Secretary of the Company. Mr. Chen has more than 27 years of experience in finance. He first joined the Group in 2002 as the financial manager of Shanghai Kailong Automobile Trading Co., Ltd. until 2004. From 2004, he was appointed as the chief financial officer of the Group. Prior to joining the Group in 2002, he worked at Alstom Shanghai Instrument Transformers Company Limited, a Sino-French joint venture, from 2001 to 2002. From 1981 to 2000, Mr. Chen worked at 上海電器集團股份有限公司 (Shanghai Electric Group Company Limited) (stock code: 02727), a company whose shares are listed on the Hong Kong Stock Exchange, where he assumed various positions such as the head of the finance bureau, the deputy financial manager and chief accountant of one of its subsidiaries. Mr. Chen is an accountant recognised by the Ministry of Finance of the PRC and obtained a diploma from East China Normal University majoring in economic management in 1991.

COMPANY SECRETARY

Mr. CHEN Changdong (陳長東), please refer to "Directors and Senior Management — Senior Management" for a description of his biography.

REPORT OF THE DIRECTORS

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

PRINCIPAL PLACE OF BUSINESS

The Company is a company incorporated in the Cayman Islands. Its principal place of business in Hong Kong is situated at Units 2205, 22/F, Bank of America Tower, 12 Harcourt Road, Hong Kong, and have been registered as a non-Hong Kong company under the Companies Ordinance on 16 November 2011 under the same address.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 1 to the financial statements.

BUSINESS REVIEW

The business review of the Group as at 31 December 2016 is set out in the section headed "Management Discussion and Analysis" from pages 7 to 20 of this annual report.

RESULTS

The Group's results for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income on page 53 of this annual report.

FINANCIAL STATEMENTS

The profits of the Group for the year ended 31 December 2016 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 52 to 139 of this annual report.

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 last five financial years are set out on page 140 of this annual report.

RESERVES

As at 31 December 2016, distributable reserves of the Company amounted to RMB1,767.1 million (2015: RMB1,767.1 million). Details of movements in reserves of the Company during the year are set out in note 51 to the financial statements.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2016 (2015: Nil).

There is no agreement that any shareholder of the Company has waived or agreed to waive any dividend.

ANNUAL GENERAL MEETING

The 2017 AGM will be held on 28 June 2017. Notice of the 2017 AGM will be published and issued to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders of the Company who are eligible to attend and vote at the 2017 AGM, the register of members of the Company will be closed from 23 June 2017 to 28 June 2017, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the 2017 AGM, all duly stamped share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 22 June 2017.

PROPERTY AND EQUIPMENT

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

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 38 to the financial statements.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

Save and except for (i) the property lease agreement dated 6 July 2016 entered into between Shanghai Kailong Automobile Trading Co., Ltd. (上海開隆汽車貿易有限公司), an indirect wholly-owned subsidiary of the Company, and CGA Limited in relation to the leasing of certain properties of the Group to CGA Limited for office use for a term of three years with the annual caps of RMB2,000,000, RMB3,800,000 and RMB4,000,000 for the three years ending 30 June 2019; (ii) the finance lease framework agreement dated 29 July 2016 entered into between the Company and All Trust Leasing Company Limited (匯通信誠租賃有限公司) ("All Trust Leasing"), an indirect wholly-owned subsidiary of CGA, in relation to the vehicle sales transactions and the provision of certain services to All Trust Leasing by the Group for a term of three years with the annual caps of RMB119,220,000, RMB318,240,000 and RMB358,005,000 for the three years ending 31 December 2018, both transactions are disclosed in the Company's announcement dated 29 July 2016; (iii) the sale and purchase agreement dated 28 December 2016 entered into between Shanghai Kailong Qimao Hongqiao (上海開隆汽車貿易虹橋有限公司) (as seller), an indirect wholly-owned subsidiary of the Company, and Guangxi Guanghui Investment Development Co., Ltd. (廣西廣匯投資發展有限公司) (as buyer), a subsidiary of the controlling shareholder of CGA, in relation to the disposal of 70% equity interest in Wuxi Kailong Real Estate Co., Ltd. (無錫開隆置業有限公司) for a consideration of RMB88,515,000; and (iv) the sales and purchases of passengers vehicles, automotive parts and accessories from the CGA Group for the four months period from September 2016 to December 2016 for an aggregate amount of approximately RMB30 million (the "**Procurement Transactions**"), as disclosed in the Company's announcement dated 31 March 2017, all of which are subject to the reporting and announcement requirements, but are exempt from the circular and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules, all related-party transactions set out in note 47 to the financial statements did not constitute connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Confirmation by auditor

The external auditor of the Company was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagement Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the conclusions in respect of the above-mentioned continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules and submitted a copy of the auditor's letter to the Stock Exchange.

Confirmation by independent non-executive Directors

The independent non-executive Directors reviewed the nature, the implementation of the annual caps (except for the Procurement Transactions), pricing policy and internal control procedure of the above-mentioned continuing connected transactions, and confirmed that the transactions were entered into:

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

(b) on normal commercial terms or better; and

(c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

On 24 January 2017, Dingxin Leasing, a direct wholly-owned subsidiary of the Company, and All Trust Leasing entered into a sale and leaseback framework agreement (the "**Sale and Leaseback Framework Agreement**"), pursuant to which All Trust Leasing shall sell to Dingxin Leasing vehicles owned by All Trust Leasing, which shall then be leased back for use by All Trust Leasing. Upon expiry of the lease term, All Trust Leasing shall repurchase the leased assets in accordance with the agreed terms. The transactions contemplated under the Sale and Leaseback Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and a major transaction of the Company under Chapter 14 of the Listing Rules. For details of the Sale and Framework Agreement, please refer to the Company's announcements dated 24 January 2017 and 15 March 2017 and the Company's circular dated 24 February 2017.

On 31 March 2017, the Company and CGA entered into the procurement framework agreement (the "**Procurement Framework Agreement**"), pursuant to which the parties have agreed that the CGA Group and the Group will purchase from and sell to each other certain passenger vehicles, automotive parts and accessories in accordance with the terms of the Procurement Framework Agreement with a proposed annual cap of RMB50 million. The transactions contemplated under the Procurement Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. For details of the Procurement Framework Agreement, please refer to the Company's announcement dated 31 March 2017.

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

During 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.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors
Mr. LI Jianping *(Chairman)* (appointed on 21 June 2016)
Mr. WANG Xinming *(President)* (appointed on 21 June 2016)
Mr. LU Ao (appointed on 21 June 2016)
Mr. QI Junjie (appointed on 29 July 2016)
Mr. YANG Aihua# (resigned on 21 June 2016)
Mr. YANG Hansong# (resigned on 21 June 2016)
Mr. YANG Zehua# (resigned on 21 June 2016)
Ms. HUA Xiuzhen# (resigned on 21 June 2016)
Mr. ZHAO Hongliang@ (resigned on 29 July 2016)

Non-Executive Directors
Mr. ZHOU Yu (appointed on 21 June 2016)
Mr. LU Linkui

Independent Non-Executive Directors
Mr. DIAO Jianshen
Mr. WANG Keyi
Mr. CHAN Wan Tsun Adrian Alan

In accordance with articles 16.18 of the Company's articles of association, Mr. Lu Linkui and Mr. Diao Jianshen shall retire at the 2017 AGM. In addition, Mr. Li Jianping, Mr. Wang Xinming, Mr. Lu Ao and Mr. Zhou Yu who were appointed by the Board on 21 June 2016 and Mr. Qi Junjie who was appointed on 29 July 2016 shall hold office until the 2017 AGM pursuant to Article 16.2 of the Company's articles of association. All of the above retiring Directors, being eligible, will offer themselves for re-election at the 2017 AGM.

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

\# Mr. Yang Aihua, Mr. Yang Hangsong, Mr. Yang Zehua and Ms. Hua Xiuzhen resigned as Directors with effect from 21 June 2016. Their resignations were all due to the close of the voluntary cash partial offered by CMB International Capital Limited on behalf of China Grand Automotive Services (Hong Kong) Limited to acquire a maximum of 75% of the issued share capital of the Company from qualifying shareholders of the Company and to cancel a maximum of 75% of the outstanding share options of the Company.

@ Mr. Zhao Hongliang resigned as a Director with effect from 29 July 2016 to restore public float of the Company. After his resignation, he ceased to be a core connected person (as defined in Chapter 1 of the Listing Rules) of the Company for the purpose of the Company's compliance with the public float requirement under Rule 8.08 of the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or its subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or 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.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office in defending any proceedings in which judgement is given in his/her favour, or which he/she is acquitted. The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and officers arising out of corporate activities.

EQUITY-LINK ARRANGEMENTS

Apart from the Share Option Scheme of the Company set forth in note 39 to the financial statements, the Company did not enter into any equity-linked agreement during the year ended 31 December 2016, nor was there any subsisting equity-linked agreement entered into by the Company at the end of the reporting year.

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

As at 31 December 2016, the interests of the Directors or the chief executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (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 were as follow:

Name of Director/ chief executive	Capacity	Number of underlying shares held in long position	Approximate percentage of interests
Mr. Cheng Changdong	Beneficial owner	4,376,349	0.17%

Saved as disclosed above, as at 31 December 2016, none of the Directors or the chief executives and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (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 otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The Share Option Scheme became effective on 14 December 2011 and will remain valid and effective for a period of 10 years from that date. A summary of the terms of the Share Option Scheme is set out in appendix VI to the Company's prospectus dated 2 December 2011.

During the year ended 31 December 2016 and as at 31 December 2016, no share option was granted or outstanding. Particulars to the Company's share option scheme are set out in note 39 to the financial statements.

RETIREMENT BENEFIT SCHEME

As stipulated by the PRC state regulations, the subsidiaries of the Company in Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 11% to 21% (2015: 11% to 21%) of the year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

None of the retirement schemes have provisions for the forfeiture of contributions made to the scheme. Contributions to these plans are expensed as incurred. The Group's contributions to the retirement benefit schemes charged to the consolidated statement of profit or loss for the year ended 31 December 2016 was RMB65 million (2015: RMB60 million).

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 5% to 15% (2015: 5% to 15%) of the salaries and wages of the employees, which is administered by the Public Accumulation Funds Administration Center. There is no further obligation on the part of the Group except for such contributions to the accommodation fund.

As at 31 December 2016, the Group had no significant obligation apart from the contributions as stated above.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2016, the interests or short positions of substantial shareholders, other than the Directors or the chief executives of the Company whose interests or short positions in the shares and underlying shares of the Company and of its associated corporations (within the meaning of Part XV of the SFO) as set out above, who had 5% or more interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

Name of shareholders	Capacity/ Nature of Interest	Number of Shares Held or Deemed to be Held	Approximate percentage (%) in the Company's total share capital
China Grand Automotive Services (Hong Kong) Limited (廣匯汽車服務(香港)有限公司)[(1)(3)]	Beneficial owner	1,917,983,571 (L) 1,917,983,571 (S)	75.00 (L) 75.00 (S)
China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司)[(1) (3)]	Interests of controlled corporation	1,917,983,571 (L) 1,917,983,571 (S)	75.00 (L) 75.00 (S)
Shanghai Huiyong Automotive Distribution Co., Ltd. (上海匯湧汽車銷售有限公司)[(1) (3)]	Interests of controlled corporation	1,917,983,571 (L) 1,917,983,571 (S)	75.00 (L) 75.00 (S)
China Grand Automotive Services Co., Ltd. (廣匯汽車服務股份公司)[(1) (3)]	Interests of controlled corporation	1,917,983,571 (L) 1,917,983,571 (S)	75.00 (L) 75.00 (S)
Xinjiang Guanghui Industry Investment Group Co., Ltd. (新疆廣匯實業投資(集團)有限責任公司)[(1) (3)]	Interests of controlled corporation	1,917,983,571 (L) 1,917,983,571 (S)	75.00 (L) 75.00 (S)
Mr. Sun Guangxin[(1) (3)]	Interests of controlled corporation	1,917,983,571 (L) 1,917,983,571 (S)	75.00 (L) 75.00 (S)
China Merchants Bank Co., Ltd. (Shanghai Songjiang Branch) (招商銀行有限公司上海松江支行) [(3)]	Person having a security interest in shares	1,917,983,571 (L)	75.00 (L)
Baoxin Investment Management Ltd.[(2)]	Beneficial owner	252,754,130 (L)	9.88 (L)
Mr. Yang Aihua[(2)]	Interests of controlled corporation	252,754,130 (L)	9.88 (L)

(L) — long position; (S) — short position

Notes:

(1) China Grand Automotive Services (Hong Kong) Limited (廣匯汽車服務(香港)有限公司) is wholly owned by Shanghai Huiyong Automotive Distribution Co., Ltd. (上海匯湧汽車銷售有限公司) (which is in turn owned as to approximately 49.37% by CGA Limited and approximately 50.63% by CGA). CGA Limited is wholly owned by CGA which is owned as to approximately 37.26% by Xinjiang Guanghui Industry Investment Group Co., Ltd. (新疆廣匯實業投資(集團)有限責任公司). Mr. Sun Guangxin holds approximately 71.73% of the shares in Xinjiang Guanghui Industry Investment Group Co., Ltd. (新疆廣匯實業投資(集團)有限責任公司). Each of CGA Limited, Shanghai Huiyong Automotive Distribution Co., Ltd. (上海匯湧汽車銷售有限公司), CGA, Xinjiang Guanghui Industry Investment Group Co., Ltd. (新疆廣匯實業投資(集團)有限責任公司) and Mr. Sun Guangxin are deemed to be interested in the Shares held by China Grand Automotive Services (Hong Kong) Limited (廣匯汽車服務(香港)有限公司).

(2) Baoxin Investment Management Ltd. is wholly owned by Mr. Yang Aihua. Mr. Yang Aihua is deemed to be interested in the Shares held by Baoxin Investment Management Ltd.

(3) On 1 September 2016, China Grand Automotive Services (Hong Kong) Limited (廣匯汽車服務(香港)有限公司) executed a share charge over the 1,917,983,571 Shares held by it (in favour of China Merchants Bank Co., Ltd. (Shanghai Songjiang Branch) China Merchants Bank Co., Ltd. (Shanghai Songjiang Branch) (招商銀行有限公司上海松江支行) as the security agent under a syndicated loan facility granted to CGA.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the shares or underlying shares representing 5% or more of the issued share capital of the Company as at 31 December 2016.

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 92.0% (2015: 93.7%) and the largest supplier accounted for approximately 31.5% (2015: 36.4%) 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 close associates or any shareholder of the Company (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 as at the latest practicable date prior to the issue of this annual report (the "**Latest Practicable Date**"), the Company maintained the prescribed public float as required by the Listing Rules as at the Latest Practicable Date.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF FOR HOLDERS OF LISTED SECURITIES

As at 31 December 2016, holders of listed securities of the Company were not entitled to obtain any relief from taxation by reason of their holding of such securities pursuant to the laws of the Cayman Islands. Cayman counsel to confirm

ASSESSMENT OF PROPERTY INTERESTS OR TANGIBLE ASSETS

During the year ended 31 December 2016, the Company has not valued its property interests or other tangible assets in accordance with Chapter 5 of the Listing Rules.

BANKING FACILITIES WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF CONTROLLING SHAREHOLDER

In accordance with the requirements under rule 13.21 of the Listing Rules, the Directors report below details of loan facilities, which existed during the year ended 31 December 2016 and up to the date of this annual report and included conditions relating to specific performance of the controlling shareholder of the Company:

On 23 August 2016, the Company (as the borrower) entered into a loan agreement (the "**Facility Agreement**") with, among others, a syndicate of banks (collectively, the "**Lenders**") with Standard Chartered Bank (Hong Kong) Limited acting as the facility agent of the Lenders for a term loan facility in the principal amount of up to US$750,000,000. Pursuant to the Facility Agreement, among other things, China Grand Automotive Services Co., Ltd. (the shares of which are listed on the Shanghai Stock Exchange (SSE Stock Code: 600297, and which indirectly holds 75% of the issued share capital of the Company as at the date of this report) shall beneficially own (whether directly or indirectly) at least 51% of the voting shares of and economic rights in the Company at any time before the final maturity date of the loan facility. Otherwise, it will constitute an event of default under the Facility Agreement and the loan facility may become immediately due and payable.

AUDITORS

Our external auditors, Ernst & Young, will retire and their re-appointment as the external auditors of the Company has been recommended by the Audit Committee, endorsed by the Board and is subject to approval by the shareholders of the Company at the forthcoming annual general meeting of the Company.

On behalf of the Board

LI Jianping
Chairman

Hong Kong, 31 March 2017

EY 安永

To the shareholders of Baoxin Auto Group Limited
(Incorporated in the Cayman Islands as an exempted company with limited liability)

OPINION

We have audited the consolidated financial statements of Baoxin Auto Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 139, 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.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matters	How our audit addressed the key audit matter
Assessment of the carrying value of goodwill The carrying value and impairment provision of goodwill amounted to RMB224,776,000 and RMB25,051,000 as at 31 December 2016, respectively. The Group is required to perform an impairment test for goodwill at least annually. The impairment test is based on the recoverable value of the respective cash-generating units ("CGU") to which the goodwill were assigned to. We focused on this area because management's impairment assessment processes were complex and involved significant judgements, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the discount rate applied. Specific disclosures about goodwill are included in note 2.4 summary of significant accounting policies, note 3 significant accounting judgements and estimates and note 18 goodwill to the financial statements.	Our audit procedures included, among others, evaluating the forecasts used in the determination of the recoverable value with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective CGU and the business development plan. We involved our valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group, in particular, the discount rate and long term growth rate.
Vender rebate The Group recognised volume-related vendor rebates on an accrual basis based on the terms of the suppliers' contracts. As at 31 December 2016, the rebate recognised in the consolidated statement of financial position amounted to approximately RMB3,777,684,000. We focused on this area because the balance of rebate was significant and the process of calculating the accrual was complex. Specific disclosures about vender rebate are included in note 2.4 summary of significant accounting policies and note 24 prepayments, deposits and other receivables to the financial statements.	Our audit procedures included, among others, checking the rebate policies adopted against the terms of the relevant supplier contracts and checking the calculation of the rebate based on the rebate policies. We also checked subsequent settlement of the rebates against the accrued balances.

KEY AUDIT MATTERS *(Continued)*

Key audit matters	How our audit addressed the key audit matter
Impairment of inventories The Group's inventories primarily consist of motor vehicles, spare parts and accessories. Impairment is assessed on individual basis for each motor vehicle brand and model. The gross inventories and impairment provision as at 31 December 2016 amounted to RMB2,935,521,000 and RMB112,015,000, respectively, which are material to the financial statements. Management estimated net realisable value and forecasted inventory usage based on the current market condition and the historical experience of selling products of a similar nature, which could change significantly due to changes in customer taste or competitor actions. Specific disclosures about inventories are included in note 2.4 summary of significant accounting policies, note 3 significant accounting judgements and estimates, note 6 profit before tax and note 22 inventories to the financial statements.	We have evaluated, amongst others, the analysis and assessments of the sales forecasts and selling prices based on the existing orders with customers. We also checked subsequent selling price to verify the accuracy of management's estimates. We tested the ageing of the unsold motor vehicles, latest sales and gross margin of motor vehicles sold which management used in the provision calculation.

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 the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of 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.

INDEPENDENT AUDITORS' REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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.

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.

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

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.

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 Leung Wai Lap, Philip.

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

31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5(a)	**25,703,687**	23,776,461
Cost of sales and services provided	6(b)	**(23,668,945)**	(21,587,955)
Gross profit		**2,034,742**	2,188,506
Other income and gains, net	5(b)	**523,990**	357,311
Selling and distribution expenses		**(877,890)**	(977,024)
Administrative expenses		**(607,515)**	(643,434)
Profit from operations		**1,073,327**	925,359
Finance costs	7	**(486,540)**	(540,111)
Share of profits and losses of:			
A joint venture	19	**5,795**	5,830
Associates	20	**(137)**	(16,151)
Profit before tax	6	**592,445**	374,927
Income tax expense	8	**(172,583)**	(150,656)
Profit for the year		**419,862**	224,271
Attributable to:			
Owners of the parent		**417,189**	220,094
Non-controlling interests		**2,673**	4,177
		419,862	224,271
Earnings per share attributable to ordinary equity holders of the parent	12		
Basic and diluted			
— For profit for the year (RMB)		**0.16**	0.09

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	**419,862**	224,271
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	**(332,406)**	(268,837)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(332,406)**	(268,837)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(332,406)**	(268,837)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**87,456**	(44,566)
Attributable to:		
Owners of the parent	**84,783**	(48,743)
Non-controlling interests	**2,673**	4,177
	87,456	(44,566)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,740,983**	3,697,075
Prepaid land lease payment	14	**498,706**	646,610
Intangible assets	15	**989,736**	882,855
Prepayments and deposits	16	**258,534**	256,730
Finance lease receivables	17	**4,589**	17,606
Goodwill	18	**224,776**	100,725
Derivative financial instruments	33	**1,421**	9,490
Investment in a joint venture	19	**56,641**	50,846
Investments in associates	20	**38,623**	–
Available-for-sale investment	21	**17,747**	16,621
Deferred tax assets	36(a)	**121,858**	78,454
Total non-current assets		**5,953,614**	5,757,012
CURRENT ASSETS			
Inventories	22	**2,935,521**	2,454,946
Trade receivables	23	**650,830**	358,159
Finance lease receivables	17	**18,757**	28,231
Prepayments, deposits and other receivables	24	**6,118,226**	5,449,306
Amounts due from related parties	47(c)	**103,797**	55,324
Equity investments at fair value through profit or loss	25	**12,050**	46,864
Derivative financial instruments	33	**24,424**	6,457
Pledged bank deposits	26	**2,142,842**	2,332,021
Cash in transit	27	**108,602**	78,224
Cash and cash equivalents	28	**3,721,285**	2,160,980
		15,836,334	12,970,512
Non-current asset classified as held for sale	29	**–**	83,902
Total current assets		**15,836,334**	13,054,414
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	**4,800,609**	8,280,936
Trade and bills payables	31	**4,624,595**	3,945,184
Other payables and accruals	32	**1,202,460**	646,283
Dividends payable	11	**–**	–
Income tax payable		**277,260**	168,795
Total current liabilities		**10,904,924**	13,041,198
NET CURRENT ASSETS		**4,931,410**	13,216
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,885,024**	5,770,228

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	**2,751,757**	–
Bonds	34	**–**	441,683
Senior perpetual capital securities	37	**2,708,415**	–
Other payables		**25,510**	30,472
Deferred tax liabilities	36(b)	**357,871**	325,617
Total non-current liabilities		**5,843,553**	797,772
Net assets		**5,041,471**	4,972,456
EQUITY			
Equity attributable to owners of the parent			
Share capital	38	**20,836**	20,836
Reserves	40	**4,980,904**	4,914,094
		5,001,740	4,934,930
Non-controlling interests		**39,731**	37,526
Total equity		**5,041,471**	4,972,456

LI Jianping
Director

LU Ao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Share capital RMB '000 Note 38	Share premium* RMB '000 Note 38	Share option reserve* RMB '000 Note 39	Statutory reserve* RMB '000 Note 40(i)	Merge reserve* RMB '000 Note 40(ii)	Other reserve* RMB '000 Note 40(iii)	Exchange fluctuation reserve* RMB '000 Note 40(iv)	Retained profits* RMB '000	Proposed final dividend* RMB '000	Total RMB '000	Non-controlling interests RMB '000	Total equity RMB '000
At 31 December 2014	20,836	1,767,128	31,670	350,069	(58,327)	–	7,677	2,868,364	101,244	5,088,661	60,139	5,148,800
Profit for the year	–	–	–	–	–	–	–	220,094	–	220,094	4,177	224,271
Other comprehensive income for the year:												
Exchange differences related to foreign operations	–	–	–	–	–	–	(268,837)	–	–	(268,837)	–	(268,837)
Total comprehensive income for the year	–	–	–	–	–	–	(268,837)	220,094	–	(48,743)	4,177	(44,566)
Acquisition of non-controlling interests	–	–	–	–	–	(3,744)	–	–	–	(3,744)	(26,790)	(30,534)
Final 2014 dividend declared	–	–	–	–	–	–	–	–	(101,244)	(101,244)	–	(101,244)
Transfer from retained profits	–	–	–	33,207	–	–	–	(33,207)	–	–	–	–
At 31 December 2015	20,836	1,767,128	31,670	383,276	(58,327)	(3,744)	(261,160)	3,055,251	–	4,934,930	37,526	4,972,456
At 31 December 2015	20,836	1,767,128	31,670	383,276	(58,327)	(3,744)	(261,160)	3,055,251	–	4,934,930	37,526	4,972,456
Profit for the year	–	–	–	–	–	–	–	417,189	–	417,189	2,673	419,862
Other comprehensive income for the year:												
Exchange differences related to foreign operations	–	–	–	–	–	–	(332,406)	–	–	(332,406)	–	(332,406)
Total comprehensive income for the year	–	–	–	–	–	–	(332,406)	417,189	–	84,783	2,673	87,456
Equity-settled share-based trans actions	–	–	(2,651)	–	–	2,651	–	–	–	–	–	–
Acquisition of non-controlling interests	–	–	–	–	–	(17,973)	–	–	–	(17,973)	(18,027)	(36,000)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	17,559	17,559
Transfer from retained profits	–	–	–	67,124	–	–	–	(67,124)	–	–	–	–
At 31 December 2016	20,836	1,767,128	29,019	450,400	(58,327)	(19,066)	(593,566)	3,405,316	–	5,001,740	39,731	5,041,471

* These reserve accounts comprise the consolidated reserves of RMB4,980,904,000 (2015: RMB4,914,094,000) 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		**592,445**	374,927
Adjustments for:			
Share of profit of a joint venture	19(b)	**(5,795)**	(5,830)
Share of loss of associates	20	**137**	16,151
Depreciation of property, plant and equipment	13	**329,828**	307,576
Amortisation of prepaid land lease payment	14	**10,236**	6,594
Amortisation of intangible assets	15	**38,998**	38,381
Gain on disposal of a subsidiary	5	**(51,174)**	–
Gain on deemed disposal of a subsidiary	5	**–**	(19,408)
Fair value (gain)/loss, net:			
Derivative instruments	5	**(29,203)**	1,066
Equity investments at fair value through profit or loss	5	**12,904**	(1,998)
Interest income	5	**(20,828)**	(28,262)
Net loss/(gain) on disposal of items of property, plant and equipment	5	**3,593**	(3,626)
Net gain on disposal of items of intangible assets	5	**(488)**	(109)
Write-down of inventories to net realisable value	6	**78,566**	21,662
Finance costs	7	**486,540**	540,111
Net gain on disposal of a held for sale asset	5	**(16,098)**	–
Impairment of goodwill	6	**25,051**	–
		1,454,712	1,247,235
Decrease in pledged bank deposits		**505,001**	104,447
(Increase)/decrease in cash in transit		**(30,378)**	56,763
(Increase)/decrease in trade receivables		**(248,242)**	34,996
Increase in prepayments, deposits and other receivables		**(403,676)**	(237,689)
(Increase)/decrease in inventories		**(113,803)**	580,169
Decrease/(increase) in finance lease receivables		**22,491**	(20,899)
Increase/(decrease) in trade and bills payables		**28,692**	(932,729)
Increase/(decrease) in other payables and accruals		**244,183**	(132,427)
Decrease in amounts due from related parties — trade related		**7,642**	–
Cash generated from operations		**1,466,622**	699,866
Income tax paid		**(112,391)**	(111,701)
Net cash flows generated from operating activities		**1,354,231**	588,165

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Investing activities			
Purchase of items of property, plant and equipment		**(482,614)**	(546,832)
Proceeds from disposal of items of property, plant and equipment		**253,470**	349,065
Proceeds from disposal of intangible assets		**1,168**	1,043
Purchase of land use rights		**(34,949)**	(4,612)
Purchase of intangible assets		**(7,313)**	(493)
Acquisition of subsidiaries, net of cash paid		**(47,531)**	–
Deemed disposal of a subsidiary		**–**	(100,151)
Proceeds from disposal of a held for sale asset		**100,000**	–
Proceeds from disposal of equity investments at fair value through profit or loss		**12,994**	100,828
Purchase of equity investments at fair value through profit or loss		**(100)**	(145,694)
Disposal of a subsidiary, net of cash		**31,315**	–
Interest received		**20,828**	28,262
Dividends paid		**–**	(101,244)
Net cash flows used in investing activities		**(152,732)**	(419,828)
Financing activities			
Received a refundable earnest money from a third party		**–**	41,102
Acquisition of non-controlling interests		**(36,000)**	(30,534)
Proceeds from interest-bearing bank and other borrowings		**12,766,070**	10,417,929
Repayment of interest-bearing bank and other borrowings		**14,214,738**	(10,030,248)
Interest paid		**(479,379)**	(529,159)
Repayment of the bonds	34	**(448,547)**	–
Proceeds from senior perpetual capital securities	37	**2,697,146**	–
Net cash flows generated from/(used in) financing activities		**284,552**	(130,910)
Net increase in cash and cash equivalents		**1,486,051**	37,427
Cash and cash equivalents at the beginning of year		**2,160,980**	2,202,892
Effect of foreign exchange rate changes, net		**74,254**	(79,339)
Cash and cash equivalents at the end of year	28	**3,721,285**	2,160,980

1. CORPORATE AND GROUP INFORMATION

Baoxin Auto Group Limited (the "Company") was incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 14 December 2011.

During the year, the Group was principally engaged in the sale and service of motor vehicles.

In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is China Grand Automotive Service Co. Limited ("CGA"), the shares of which are listed on the Shanghai Stock Exchange.

Information about subsidiaries

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

Company name	Place of operation/ date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
開隆投資管理有限公司 (Kailong Investments Management Limited)	Hong Kong, the PRC 2010	Authorised capital of HK$10,000, issued capital of HK$1 and paid-in capital of nil	–	100%	Investment holding
Mclarty Consulting Hong Kong Limited	Hong Kong, the PRC 2010	Registered and paid-in capital of HK$100	–	100%	Consulting services
金花企業集團（香港）有限公司 (Gin Wi Enterprises Group (HK) Limited)	Hong Kong, the PRC 1999	Registered and paid-in capital of HK$10,000	–	100%	Investment holding
上海寶信汽車銷售服務有限公司 (Shanghai Baoxin Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2004	Registered and paid-in capital of RMB214,650,000	–	100%	Sale and service of motor vehicles
上海開隆汽車貿易有限公司 (Shanghai Kailong Automobile Trading Co., Ltd.)	Shanghai, the PRC 1999	Registered and paid-in capital of RMB87,000,000	–	100%	Sale and service of motor vehicles
蘇州寶信汽車銷售服務有限公司 (Suzhou Baoxin Automobile Sales & Services Co., Ltd.)	Suzhou, the PRC 2004	Registered and paid-in capital of RMB500,000,000	–	100%	Sale and service of motor vehicles
青島信寶行汽車銷售服務有限公司 (Qingdao Xinbaohang Automobile Sales & Services Co., Ltd.)	Qingdao, the PRC 2008	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Company name	Place of operation/ date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
天津寶信汽車銷售服務有限公司 (Tianjin Baoxin Automobile Sales & Services Co., Ltd.)	Tianjin, the PRC 2008	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
寧波寶信汽車銷售服務有限公司 (Ningbo Baoxin Automobile Sales & Services Co., Ltd.)	Ningbo, the PRC 2008	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
常熟寶信汽車銷售服務有限公司 (Changshu Baoxin Automobile Sales & Services Co., Ltd.)	Changshu, the PRC 2006	Registered and paid-in capital of RMB90,000,000	–	100%	Sale and service of motor vehicles
上海天華汽車銷售有限公司 (Shanghai Tianhua Automobile Sales Co., Ltd.)	Shanghai, the PRC 2002	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
杭州寶信汽車銷售服務有限公司 (Hangzhou Baoxin Automobile Sales & Services Co., Ltd.)	Hangzhou, the PRC 2008	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
揚州信寶行汽車銷售服務有限公司 (Yangzhou Xinbaohang Automobile Sales & Services Co., Ltd.)	Yangzhou, the PRC 2010	Registered and paid-in capital of RMB33,000,000	–	100%	Sale and service of motor vehicles
泰州信寶行汽車銷售服務有限公司 (Taizhou Xinbaohang Automobile Sales & Services Co., Ltd.)	Taizhou, the PRC 2010	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
蘇州信寶行汽車銷售服務有限公司 (Suzhou Xinbaohang Automobile Sales & Services Co., Ltd.)	Suzhou, the PRC 2010	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
嘉興天華汽車銷售服務有限公司 (Jiaxing Tianhua Automobile Sales & Services Co., Ltd.)	Jiaxing, the PRC 2011	Registered and paid-in capital of RMB43,000,000	–	100%	Sale and service of motor vehicles
瑞安市寶隆汽車銷售服務有限公司 (Rui'an Baolong Auto Sales and Services Co., Ltd.)	Rui'an, the PRC 2012	Registered and paid-in capital of RMB43,800,000	–	90%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Company name	Place of operation/ date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
上海寶信行汽車銷售服務有限公司 (Shanghai Baoxinhang Auto Sales and Services Co., Ltd.)	Shanghai, the PRC 2012	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
陝西天華汽車銷售服務有限公司 (Shaanxi Tianhua Auto Sales and Services Co., Ltd.)	Shaanxi, the PRC 2012	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
燕駿汽車有限公司 (Yan Jun Auto Co., Limited)	Hong Kong, the PRC 1993	Registered and paid-in capital of HK$59,900,000	–	100%	Investment holding
北京燕寶汽車服務有限公司 (Beijing Yan Bao Auto Services Co., Ltd.)	Beijing, the PRC 1995	Registered and paid-in capital of RMB89,350,000	–	100%	Rendering of car repair and maintenance services
陝西金花汽車貿易有限責任公司 (Shaanxi Gin Wa Auto Trade Co., Ltd.)	Xi'an, the PRC 2001	Registered and paid-in capital of RMB52,000,000	–	100%	Sale of motor vehicles
大連燕寶汽車有限公司 (Dalian Yanbao Auto Co., Ltd.)	Dalian, the PRC 1995	Registered and paid-in capital of US$7,920,000	–	100%	Rendering of motor vehicle maintenance services
北京燕德寶汽車銷售有限公司 (Beijing Yan De Bao Auto Sales Co., Ltd.)	Beijing, the PRC 2002	Registered and paid-in capital of RMB120,030,000	–	100%	Sale of motor vehicles
烏魯木齊燕寶汽車銷售服務有限公司 (Urumqi Yanbao Auto Sales & Services Co., Ltd.)	Urumqi, the PRC 2005	Registered and paid-in capital of RMB35,600,000	–	100%	Rendering of motor vehicle repair and maintenance services
北京燕英捷汽車銷售服務有限公司 (Beijing Yan Ying Jie Auto Sales & Services Co., Ltd.)	Beijing, the PRC 2010	Registered and paid-in capital of US$10,000,000	–	100%	Sale of motor vehicles
北京燕英捷燕順捷汽車銷售服務有限公司 (Beijing YanYingJie & YanShunJie Auto Sales & Services Co., Ltd.)	Beijing, the PRC 1998	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Company name	Place of operation/ date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
北京燕豪汽車銷售服務有限公司 (Beijing YanHao Auto Sales & Services Co., Ltd.)	Beijing, the PRC 2010	Registered capital of RMB144,130,000 and paid-in capital of RMB112,133,507	–	100%	Sale of motor vehicles
大連燕德寶汽車銷售有限公司 (Dalian Yan De Bao Auto Sales Co., Ltd.)	Dalian, the PRC 2002	Registered and paid-in capital of RMB76,000,000	–	100%	Sale of motor vehicles
西安金花寶鼎汽車銷售服務有限公司 (Xi'an Gin Wi Baoding Auto Services Co., Ltd.)	Xi'an, the PRC 2001	Registered and paid-in capital of RMB26,000,000	–	100%	Rendering of motor vehicle repair and maintenance services
北京晨德寶汽車銷售服務有限公司 (Beijing Chen De Bao Auto Sales and Services Co., Ltd.)	Beijing, the PRC 2003	Registered and paid-in capital of RMB94,500,000	–	100%	Sale of motor vehicles
廊坊燕寶汽車銷售服務有限公司 (Langfang Yanbao Auto Sales & Services Co., Ltd.)	Langfang, the PRC 2011	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
上海太平洋虹橋汽車貿易有限公司 (Shanghai Pacific Hongqiao Automobile Trading Co., Ltd.)	Shanghai, the PRC 2003	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
上海太平洋申隆汽車貿易有限公司 (Shanghai Pacific Shenlong Automobile Trading Co., Ltd.)	Shanghai, the PRC 2005	Registered and paid-in capital of RMB5,000,000	–	100%	Sale and service of motor vehicles
無錫天華汽車銷售服務有限公司 (Wuxi Tianhua Automobile Sales & Services Co., Ltd.)	Wuxi, the PRC 2011	Registered and paid-in capital of RMB65,000,000	–	100%	Sale and service of motor vehicles
寧波天華汽車銷售服務有限公司 (Ningbo Tianhua Automobile Sales & Services Co., Ltd.)	Ningbo, the PRC 2011	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles
天津申隆汽車銷售服務有限公司 (Tianjin Shenlong Automobile Sales & Services Co., Ltd.)	Tianjin, the PRC 2011	Registered and paid-in capital of RMB10,000,000	–	90%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Company name	Place of operation/ date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
天津燕鵬捷汽車銷售服務有限公司 (Tianjin YanPengJie Auto Sales & Services Co., Ltd.)	Tianjin, the PRC 2011	Registered and paid-in capital of RMB18,000,000	–	100%	Rendering of motor vehicle repair and maintenance services
天津燕英捷汽車銷售服務有限公司 (Tianjin YanYingJie Auto Sales & Services Co., Ltd.)	Tianjin, the PRC 2010	Registered and paid-in capital of US$5,000,000	–	100%	Sale of motor vehicles
NCGA Holdings Limited	Hong Kong, the PRC 2006	Registered and paid-in capital of US$93,181,961	–	100%	Investment holding
四川港宏汽車銷售有限責任公司 (Sichuan Ganghong Auto Sales Co., Ltd.)	Sichuan, the PRC 1996	Registered and paid-in capital of RMB35,000,000	–	100%	Sale and service of motor vehicles
四川港宏西物時代汽車銷售有限公司 (Sichuan Ganghong XiWu Shidai Automobile Sales Co., Ltd.)	Sichuan, the PRC 2003	Registered capital of RMB13,000,000 and paid-in capital of nil	–	64%	Sale and service of motor vehicles

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") and 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 certain derivative financial instruments, and equity investments which have been measured at fair value. Non-current asset classified as held for sale is stated at the lower of its carrying amount and fair value less costs to sell as further explained in Note 2.4. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (together, 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 the above new and revised standards 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 upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

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 adoption 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 and joint venture

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint venture *(Continued)*

The Group's investments in associates and joint venture are 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.

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

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 or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments and equity investments at fair value 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 minimising 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 recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (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 inventories, financial assets and non-current assets classified as held for sale), 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 recognised 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 the statement of 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 recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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/ amortisation) had no impairment loss been recognised 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the statement of 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 capitalised 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 recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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 estimated useful lives and residual values of property, plant and equipment are as follows:

Category	Estimated useful life	Estimated residual value
Buildings	30 years	5%
Leasehold improvements	Over the shorter of the lease terms and 5 years	–
Plant and machinery	5–10 years	5%
Furniture and fixtures	3–5 years	5%
Motor vehicles	4–5 years	5%

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 recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery under construction or pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

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 amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The estimated useful lives of intangible assets are as follows:

Category	Estimated useful life
Software	5 years
Dealership agreements	20–40 years
Customer relationship	15 years
Club membership	29 years
Car licence	Indefinite useful life

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases.

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

Where the Group is the lessee, at the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land and buildings lease payment under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, and are depreciated over their estimated useful lives.

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payment

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the rights to use certain land and the consideration paid for such rights is recorded as prepaid land lease payment, which is amortised over the lease terms of 40 to 50 years using the straight-line method.

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 recognised 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 recognised 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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.

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 recognised 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.

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 amortised cost using the effective interest rate method less any allowance for impairment. Amortised 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 amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in administrative expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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 unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised 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 recognised in the statement of profit or loss as other income.

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 amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised 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 derecognised (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 recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises 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 reorganisation 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 amortised cost

For financial assets carried at amortised 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, recognised are not included in a collective assessment of impairment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost *(Continued)*

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).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of 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 realised 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 recognised, the previously recognised 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.

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 amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised 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. "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 recognised in the statement of profit or loss — is removed from other comprehensive income and recognised 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 recognised 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 recognised 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, bonds, and bank loans and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities 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.

Loans, borrowings and bonds

After initial recognition, interest-bearing loans, borrowings and bonds are subsequently measured at amortised 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 recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised 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 amortisation is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Derecognition of financial liabilities

A financial liability is derecognised 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 recognised in the statement of 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as currency options, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated on the specific identification basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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 consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits with initial terms of three months or less, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised 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 recognised 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, associates and joint venture, 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.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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 utilised, except:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

- 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, associates and joint venture, deferred tax assets are only recognised 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 utilised.

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 utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised 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 realised 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 recognised 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 recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised 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;

(b) from the rendering of services, on the percentage of completion basis, in the period in which the services are rendered;

(c) rental income, on a time proportion basis over the lease terms;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(d) 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 to the net carrying amount of the financial asset;

(e) dividend income, when the shareholders' right to receive payment has been established; and

(f) finance lease income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of the finance lease or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease.

Vendor rebates

Volume-related vendor rebates are recognised as a deduction from cost of sales on an accrual basis according to the expected entitlement earned up to the reporting date for each relevant supplier contract.

Rebates relating to items purchased but still held at the reporting date are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates.

Share-based payments

The Company operates a share option scheme 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 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in Note 39 to the financial statements.

The cost of equity-settled transactions is recognised 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 recognised 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 recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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 recognised. 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 recognised 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 recognised 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.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

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.

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 capitalised as part of the cost of those assets. The capitalisation 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 capitalised. 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.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 5.17% has been applied to the expenditure on the individual assets.

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB. 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 are initially recorded using the 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 recognised in the statement of profit or loss.

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 retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and certain overseas subsidiaries are currencies other than the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The resulting exchange differences are recognised 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 recognised in the statement of profit or loss.

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 overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of entities with functional currencies other than RMB 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 recognised in the financial statements:

Deferred tax assets

Deferred tax assets are recognised 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 utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets as at 31 December 2016 was RMB124,391,000 (2015: RMB83,948,000). More details are given in Note 36(a).

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, discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimation of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount as at 31 December 2016 of goodwill was RMB224,776,000 (2015: RMB100,725,000). Further details are given in note 18.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Estimation uncertainty *(Continued)*

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and the related depreciation charge for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of receivables. The assessment of impairment of receivables involves the use of estimates and judgements. An estimate for doubtful debts is made when collection of the full amount under the invoice is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Where the actual outcome or expectation in the future is different from the original estimate, such difference will affect the carrying value of receivables and thus the impairment loss in the period in which such estimate is changed. There was no impairment provision for receivables during the two years ended 31 December 2016 and 2015.

Write-down of inventories to net realisable value

The Group's inventories are stated at the lower of cost and net realisable value. The assessment of impairment of inventories involves the use of estimates and judgements. These estimates are made with reference to aged inventories, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the estimated net realisable values of inventories decline below their carrying amounts. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

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. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other 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.

4. OPERATING SEGMENT INFORMATION

The Group's principal business is the sale and service of motor vehicles. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the sale of motor vehicles and the provision of related services.

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

Information about geographical areas

Since most of the Group's revenue was generated from the sale and service of motor vehicles in Mainland China and most of the Group's non-current assets other than deferred tax assets were located in Mainland China, geographical information as required by HKFRS 8 *Operating Segments* is not presented.

Information about major customers

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year, major customer information as required by HKFRS 8 *Operating Segments* is not presented.

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

	2016 **RMB'000**	2015 RMB'000
Revenue from the sale of motor vehicles	**22,862,434**	20,758,358
Revenue from after-sales services	**2,836,887**	3,011,922
Finance leasing services	**4,366**	6,181
	25,703,687	23,776,461

5. REVENUE, OTHER INCOME AND GAINS, NET *(Continued)*

(b) Other income and gains, net:

	2016 RMB'000	2015 RMB'000
Commission income	**380,191**	269,012
Advertisement support received from motor vehicle manufacturers	**4,379**	10,522
Rental income	**3,076**	1,304
Government grants	**20,693**	10,899
Interest income	**20,828**	28,262
Net (loss)/gain on disposal of items of property, plant and equipment	**(3,593)**	3,626
Net gain on disposal of items of intangible assets	**488**	109
Fair value gain/(loss), net:		
Derivative instruments	**29,203**	(1,066)
Equity investments at fair value through profit or loss	**(12,904)**	1,998
Net gain on deemed disposal of a subsidiary	**–**	19,408
Net gain on disposal of a held for sale asset	**16,098**	–
Net gain on disposal of a subsidiary	**51,174**	–
Others	**14,357**	13,237
Total	**523,990**	357,311

6. PROFIT BEFORE TAX

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

	2016 RMB'000	2015 RMB'000
(a) Employee benefit expense (including Directors' and chief executive's remuneration (Note 9)):		
Wages and salaries	**480,546**	557,806
Other welfare	**171,867**	193,145
	652,413	750,951

6. PROFIT BEFORE TAX *(Continued)*

	2016 RMB'000	2015 RMB'000
(b) Cost of sales and services:		
Cost of sales of motor vehicles	**22,066,505**	19,937,329
Others	**1,602,440**	1,650,626
	23,668,945	21,587,955

	Notes	2016 RMB'000	2015 RMB'000
(c) Other items:			
Depreciation of items of property, plant and equipment	13	**329,828**	307,576
Amortisation of prepaid land lease payment	14	**10,236**	6,594
Amortisation of intangible assets	15	**38,998**	38,381
Advertisement and business promotion expenses		**113,134**	56,756
Auditors' remuneration		**6,800**	5,100
Bank charges		**49,608**	57,985
Foreign exchange differences, net		**20,822**	11,001
Lease expenses		**207,651**	286,210
Logistics and petroleum expenses		**44,806**	26,120
Office expenses		**27,356**	20,849
Write-down of inventories to net realisable value		**78,566**	21,662
Net loss/(gain) on disposal of items of property, plant and equipment		**3,593**	(3,626)
Net gain on disposal of items of intangible assets		**(488)**	(109)
Fair value (gain)/loss, net:			
Derivative instruments		**(29,203)**	1,066
Equity investments at fair value through profit or loss		**12,904**	(1,998)
Net gain on deemed disposal of a subsidiary		**–**	(19,408)
Net gain on disposal of a held for sale asset		**(16,098)**	–
Net gain on disposal of a subsidiary		**(51,174)**	–
Impairment of goodwill		**25,051**	–

7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank loans, overdrafts and other loans	**470,869**	552,322
Interest expense on bonds	**20,688**	20,718
Interest expense on the senior perpetual capital securities	**9,852**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**501,409**	573,040
Less: Interest capitalised	**(14,869)**	(32,929)
	486,540	540,111

8. INCOME TAX

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

	2016 RMB'000	2015 RMB'000
Current:		
Mainland China corporate income tax	**213,881**	158,157
Deferred tax (Note 36)	**(41,298)**	(7,501)
Total tax charge for the year	**172,583**	150,656

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gain or appreciation shall apply to the Company or its operations.

The subsidiaries incorporated in the BVI are not subject to income tax as these subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2015: 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.

According to the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), the income tax rate is 25% (2015: 25%).

According to the CIT Law and the Taxation Policies on In-depth Implementation of Western Region Development Strategy, a subsidiary of the Company has been approved by the authority to pay income tax at the reduced tax rate of 15%.

8. INCOME TAX *(Continued)*

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

A reconciliation of the tax expense applicable to profit before tax using the applicable rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2016 RMB'000	2015 RMB'000
Profit before tax	**592,445**	374,927
Tax at the applicable tax rate (25%)	**148,111**	93,732
Lower tax rates enacted by local authority	**(1,225)**	(803)
Tax losses not recognised	**14,321**	46,703
Tax effect of non-deductible expenses	**13,377**	8,444
(Profit)/Loss attributable to a joint venture and associates	**(1,415)**	2,580
Tax losses utilised from previous periods	**(586)**	–
Tax charge	**172,583**	150,656

The share of tax attributable to joint venture and associates is included in "Share of profits and losses of a joint venture and associates" in the consolidated statement of profit or loss.

9. 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:

	Year ended 31 December 2016			
	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Contributions to defined contributions retirement scheme RMB'000	Total RMB'000
Independent non-executive directors				
— Diao Jianshen	268	–	–	268
— Wang Keyi	268	–	–	268
— Chan Wan Tsun Adrian Alan	268	–	–	268
Executive directors				
— Yang Aihua[(1)]	–	900	43	943
— Yang Hansong[(1)]	–	480	43	523
— Zhao Hongliang[(2)]	–	420	43	463
— Hua Xiuzhen[(1)]	–	420	–	420
— Yang Zehua[(1)]	–	420	43	463
— Li Jianping[(3)] *(Chairman)*	–	528	–	528
— Wang Xinming[(3)]	–	422	–	422
— Lu Ao[(3)]	–	422	–	422
— Qi Junjie[(4)]	–	333	–	333
Non-executive directors				
— Lu Linkui	268	–	–	268
— Zhou Yu[(3)]	317	–	–	317
	1,389	4,345	172	5,906

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

	Year ended 31 December 2015			
	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Contributions to defined contributions retirement scheme RMB'000	Total RMB'000
Independent non-executive directors				
— Diao Jianshen	251	–	–	251
— Wang Keyi	251	–	–	251
— Chan Wan Tsun Adrian Alan	251	–	–	251
Executive directors				
— Yang Aihua[1]	–	2,800	79	2,879
— Yang Hansong[1]	–	1,800	79	1,879
— Yang Zehua[1]	–	1,600	79	1,679
— Zhao Hongliang[2]	–	1,500	79	1,579
— Hua Xiuzhen[1]	–	1,200	–	1,200
Non-executive directors				
— Lu Linkui	251	–	–	251
	1,004	8,900	316	10,220

(1) Mr. Yang Aihua, Mr. Yang Hansong, Mr. Yang Zehua and Ms. Hua Xiuzhen resigned on June 21, 2016.

(2) Mr. Zhao Hongliang resigned on July 29, 2016.

(3) Mr. Li Jianping, Mr. Wang Xinming, Mr. Zhou Yu and Mr. Lu Ao were appointed on June 21, 2016.

(4) Mr. Qi Junjie was appointed on July 29, 2016.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No emoluments were paid to the non-executive directors of the Company during the year (2015: Nil).

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included none of the Directors (2015: three), details of whose remuneration are detailed in Note 9 above. Details of the remuneration for the year of the five (2015: two) highest paid employees 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	**7,982**	4,013
Pension scheme contributions	**413**	79
	8,395	4,092

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

	Number of employees	
	2016	2015
HK$1,500,001 to HK$2,000,000	**4**	1
HK$2,500,001 to HK$3,000,000	**1**	1

In prior years, share options were granted to the two non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in Note 39 to the financial statements.

11. DIVIDENDS

No final dividend was proposed for 2016 and 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 2,557,311,429 (2015: 2,557,311,429) 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 or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2016 and 2015 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during 2016 and 2015.

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

Earnings	2016 RMB'000	2015 RMB'000
Profit attributable to ordinary equity holders of the parent	**417,189**	220,094

Shares	2016	2015
Weighted average number of ordinary shares in issue during the year	**2,557,311,429**	2,557,311,429

Earnings per share	2016 RMB	2015 RMB
Basic and diluted	**0.16**	0.09

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 31 December 2015 and at 1 January 2016:							
Cost	2,387,746	420,030	249,226	236,568	644,477	759,304	4,697,351
Accumulated depreciation	377,644	138,531	130,043	137,841	216,217	–	1,000,276
Net carrying amount	2,010,102	281,499	119,183	98,727	428,260	759,304	3,697,075
At 1 January 2016, net of accumulated depreciation	2,010,102	281,499	119,183	98,727	428,260	759,304	3,697,075
Additions	16,162	14,240	24,406	9,504	–	450,508	514,820
Acquisition of subsidiaries (Note 41)	50,680	29,002	8,911	4,331	15,887	7,168	115,979
Disposals	(947)	–	(3,647)	(8,712)	(243,757)	–	(257,063)
Depreciation provided during the year (Note 6)	(80,235)	(83,142)	(29,816)	(39,305)	(97,330)	–	(329,828)
Transfers	335,735	53,513	12,633	16,495	271,671	(690,047)	–
At 31 December 2016, net of accumulated depreciation	2,331,497	295,112	131,670	81,040	374,731	526,933	3,740,983
At 31 December 2016:							
Cost	2,815,445	544,801	289,817	258,497	534,330	526,933	4,969,823
Accumulated depreciation	(483,948)	(249,689)	(158,147)	(177,457)	(159,599)	–	(1,228,840)
Net carrying amount	2,331,497	295,112	131,670	81,040	374,731	526,933	3,740,983

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015							
At 31 December 2014 and at 1 January 2015:							
Cost	2,089,468	407,834	235,938	220,894	743,310	900,485	4,597,929
Accumulated depreciation	(303,123)	(97,358)	(105,348)	(107,224)	(196,339)	–	(809,392)
Net carrying amount	1,786,345	310,476	130,590	113,670	546,971	900,485	3,788,537
At 1 January 2015, net of accumulated depreciation	1,786,345	310,476	130,590	113,670	546,971	900,485	3,788,537
Additions	164,659	17,141	–	–	–	402,622	584,422
Deemed disposal of a subsidiary	–	(11,442)	(1,372)	(3,606)	–	(6,449)	(22,869)
Disposals	(85,337)	(17,275)	(569)	(273)	(241,985)	–	(345,439)
Depreciation provided during the year	(75,619)	(51,189)	(26,987)	(32,180)	(121,601)	–	(307,576)
Transfers	220,054	33,788	17,521	21,116	244,875	(537,354)	–
At 31 December 2015, net of accumulated depreciation	2,010,102	281,499	119,183	98,727	428,260	759,304	3,697,075
At 31 December 2015:							
Cost	2,387,746	420,030	249,226	236,568	644,477	759,304	4,697,351
Accumulated depreciation	377,644	138,531	130,043	137,841	216,217	–	1,000,276
Net carrying amount	2,010,102	281,499	119,183	98,727	428,260	759,304	3,697,075

As at 31 December 2016, the application for the property ownership certificates for certain buildings with a net book value of approximately RMB305,021,000 (2015: RMB324,343,000) was still in progress.

As at 31 December 2016, certain of the Group's building with an aggregate net book value of approximately RMB12,187,000 (2015:Nil) were pledged as security for the Group interest-bearing bank and other borrowings (Note 30(c)(i)).

14. PREPAID LAND LEASE PAYMENT

	2016 RMB'000	2015 RMB'000
Cost:		
At the beginning of the year	**698,419**	572,507
Additions	**–**	125,912
Acquisition of subsidiaries (Note 41)	**15,814**	–
Disposal of a subsidiary (Note 42)	**(155,530)**	–
At the end of the year	**558,703**	698,419
Accumulated amortisation:		
At the beginning of the year	**51,809**	35,368
Charge for the year	**10,236**	6,594
Amortisation capitalised	**3,507**	9,847
Disposal of a subsidiary (Note 42)	**(5,555)**	–
At the end of the year	**59,997**	51,809
Net book value:		
At the end of the year	**498,706**	646,610

As at 31 December 2016, the application for the land use rights certificates for certain land with a net book value of approximately RMB3,059,000 (2015: RMB3,666,000) was still in progress.

The lease prepayments of the Group represent the costs of the Group's land use rights in respect of lands located in Mainland China which are held under medium term leases.

As at 31 December 2016, certain of the Group's land use rights with an aggregate net book value of RMB14,492,000 (2015: RMB4,826,000) were pledged as security for the Group's banking facilities (Note 30(c)(i)).

15. INTANGIBLE ASSETS

	Software RMB'000	Dealership agreements RMB'000	Customer relationship RMB'000	Car licence RMB'000	Club membership RMB'000	Total RMB'000
Cost:						
At 1 January 2016	**17,953**	**682,688**	**299,894**	**6,080**	**2,454**	**1,009,069**
Additions	**6,753**	**–**	**–**	**560**	**–**	**7,313**
Acquisition of subsidiaries (Note 41)	**7,406**	**131,840**	**–**	**–**	**–**	**139,246**
Disposal	**–**	**–**	**–**	**(680)**	**–**	**(680)**
At 31 December 2016	**32,112**	**814,528**	**299,894**	**5,960**	**2,454**	**1,154,948**
Accumulated amortisation:						
At 1 January 2016	**12,122**	**51,191**	**62,632**	**–**	**269**	**126,214**
Charge for the year	**1,800**	**17,120**	**19,993**	**–**	**85**	**38,998**
At 31 December 2016	**13,922**	**68,311**	**82,625**	**–**	**354**	**165,212**
Net book value:						
At 31 December 2016	**18,190**	**746,217**	**217,269**	**5,960**	**2,100**	**989,736**

	Software RMB'000	Dealership agreements RMB'000	Customer relationship RMB'000	Car licence RMB'000	Club membership RMB'000	Total RMB'000
Cost:						
At 1 January 2015	18,294	682,688	299,894	6,900	2,454	1,010,230
Additions	493	–	–	–	–	493
Deemed disposal of a subsidiary	(633)	–	–	–	–	(633)
Disposal	(201)	–	–	(820)	–	(1,021)
At 31 December 2015	17,953	682,688	299,894	6,080	2,454	1,009,069
Accumulated amortisation:						
At 1 January 2015	10,642	34,300	42,915	–	184	88,041
Charge for the year	1,688	16,891	19,717	–	85	38,381
Deemed disposal of a subsidiary	(121)	–	–	–	–	(121)
Disposal	(87)	–	–	–	–	(87)
At 31 December 2015	12,122	51,191	62,632	–	269	126,214
Net book value:						
At 31 December 2015	5,831	631,497	237,262	6,080	2,185	882,855

The Group's principal identifiable intangible assets represent dealership agreements in Mainland China with various vehicle manufacturers and customer relationships acquired from third parties. The dealership agreements do not include a specified contract period or termination arrangement. The customer relationship is amortised over 15 years and the dealership agreements are amortised from 20 to 40 years, which is management's best estimation of their useful lives.

16. PREPAYMENTS AND DEPOSITS

	31 December 2016 RMB'000	31 December 2015 RMB'000
Prepayments for purchase of items of property, plant and equipment	**216,000**	216,000
Long term deposits	**42,534**	40,730
	258,534	256,730

17. FINANCE LEASE RECEIVABLES

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

	31 December 2016 RMB'000	31 December 2015 RMB'000
Analysed as:		
Current	**18,757**	28,231
Non-current	**4,589**	17,606
	23,346	45,837

At 31 December 2016, the future minimum lease receivables under finance leases and their present values were as follows:

	Minimum lease receivables 31 December 2016 RMB'000	Present value of minimum lease receivables 31 December 2016 RMB'000
Finance lease receivables:		
Within one year	**19,829**	**18,757**
Later than one year and not later than five years	**4,821**	**4,589**
	24,650	**23,346**
Less: Unearned finance income	**1,304**	
Present value of minimum lease payment receivables	**23,346**	

17. FINANCE LEASE RECEIVABLES *(Continued)*

	Minimum lease receivables 31 December 2015 RMB'000	Present value of minimum lease receivables 31 December 2015 RMB'000
Finance lease receivables:		
Within one year	31,353	28,231
Later than one year and not later than five years	19,780	17,606
	51,133	45,837
Less: Unearned finance income	5,296	
Present value of minimum lease payment receivables	45,837	

18. GOODWILL

	31 December 2016 RMB'000	31 December 2015 RMB'000
Cost:		
At the beginning of the year	**100,725**	100,725
Acquisition of subsidiaries (Note 41)	**149,102**	–
Impairment	**(25,051)**	–
	224,776	100,725

Impairment testing of goodwill

In the opinion of the Directors, the goodwill comprises the fair value of expected business synergies arising from acquisitions, which is not separately recognised.

Goodwill acquired through business combinations has been allocated to the cash-generating units, i.e. the individual acquired subsidiaries for impairment testing.

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of the cash-generating unit beyond the five-year period from the end of the reporting period is 3% for all years. The pre-tax discount rate applied to the cash flow projections beyond the one-year period is 13.5%.

18. GOODWILL *(Continued)*

Key assumptions used in the value in use calculation

The following describes the key assumptions of the cash flow projections.

Revenue from the sale and service of motor vehicles — the bases used to determine the future earnings from the sale and service of motor vehicles are historical sales and the average growth rate of similar 4S stores of the Group over the last two years.

Operating expenses — the bases used to determine the values assigned are cost of inventories, staff costs, depreciation, amortisation and other operating expenses. The values assigned to the key assumptions reflect past experience and management's commitment to maintain its operating expenses at an acceptable level.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value, including goodwill, of the cash-generating unit to materially exceed the recoverable amount.

19. INVESTMENT IN A JOINT VENTURE

	31 December 2016 RMB'000	31 December 2015 RMB'000
Share of net assets	**56,641**	50,846

瀋陽信寶行汽車銷售服務有限公司 (Shenyang Xinbaohang Automobile Sales & Services Co., Ltd., "Shenyang Xinbaohang") is a joint venture of the Group and is considered to be a related party of the Group.

(a) Particulars of a joint venture

Joint venture	Place of registration and business	Registered and paid-in capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Shenyang Xinbaohang	Shenyang, the PRC	RMB10,000,000	50%	50%	50%	Sale and service of motor vehicles

19. INVESTMENT IN A JOINT VENTURE *(Continued)*

(b) The following table illustrates the summarised financial information of the Group's joint venture:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Share of the joint venture's profit for the year	**5,795**	5,830
Share of the joint venture's total comprehensive income for the year	**5,795**	5,830
Aggregate carrying amount of the Group's investment in the joint venture	**56,641**	50,846

The Group's amount due from the joint venture is disclosed in Note 47 in the financial statements.

20. INVESTMENTS IN ASSOCIATES

	31 December 2016 RMB'000	31 December 2015 RMB'000
Share of net assets	**38,623**	–

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

(a) Particulars of associates

			Percentage of			
Associates	**Place of registration and business**	**Registered and paid-in capital**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activities**
Wuxi Kailong Real Estate Co., Ltd.	Jiangsu, the PRC	RMB12,000,000	30%	30%	30%	Investment services
Deyang Nan Ling Gang Hong Automobile Sales & Services Co., Ltd.	Sichuan, the PRC	RMB25,000,000	49%	49%	49%	Sale and service of motor vehicles
Sichuan Gang Hong Vehicle Trade Co., Ltd.	Sichuan, the PRC	RMB31,000,000	40%	40%	40%	Sale and service of motor vehicles

20. INVESTMENTS IN ASSOCIATES *(Continued)*

(b) The following table illustrates the summarised financial information of the Group's associates:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Share of the associates' profit for the year	**(137)**	(16,151)
Share of the associates' total comprehensive income for the year	**(137)**	(16,151)
Aggregate carrying amount of the Group's investments in associates	**38,623**	–

21. AVAILABLE-FOR-SALE INVESTMENT

	31 December 2016 RMB'000	31 December 2015 RMB'000
Unlisted equity investment, at cost	**17,747**	16,621

The Company acquired NCGA Holdings Limited (the "NCGA Group") on 1 December 2012. The NCGA Group held a 26% ownership interest of Qingdao Motors (H.K.) Limited and agreed not to exercise its 26% voting power. The investment was classified as an available-for-sale investment accordingly.

The available-for-sale investment was stated at cost less impairment because the investment does not have a quoted market price in an active market and the Directors are of the opinion that the fair value cannot be measured reliably. The Group does not have the intention to dispose of it in the near future.

22. INVENTORIES

	31 December 2016 RMB'000	31 December 2015 RMB'000
Motor vehicles	**2,692,247**	2,143,756
Spare parts and accessories	**243,274**	311,190
	2,935,521	2,454,946

As at 31 December 2016, vehicle certificates ("車輛合格證") for certain of the Group's inventories with an aggregate carrying amount of RMB188,393,000 (2015: RMB121,554,000) were pledged as security for the Group's interest-bearing bank and other borrowings (Note 30(a)(i)).

As at 31 December 2016, vehicle certificates for certain of the Group's inventories with an aggregate carrying amount of RMB2,149,384,000 (2015: RMB1,482,774,000) were pledged as security for the Group's bills payable.

As at 31 December 2016, the carrying amount of inventories with provision carried at net realisable value was RMB919,355,000 (2015: RMB206,244,000).

23. TRADE RECEIVABLES

	31 December 2016 RMB'000	31 December 2015 RMB'000
Trade receivables	**650,830**	358,159

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. The Group does not offer any credit to the Group's customers for automobile purchases or for out-of-warranty repairs that are not covered by insurance. However, the Group generally provides a credit term of two to three months to automobile manufacturers for the reimbursement of costs relating to the in-warranty repair services. 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.

23. TRADE RECEIVABLES *(Continued)*

An aged analysis of the trade receivables as at each reporting date (based on the invoice date, net of impairment) is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Within 3 months	**611,148**	313,814
More than 3 months but less than 1 year	**39,682**	42,177
Over 1 year	**–**	2,168
	650,830	358,159

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Neither past due nor impaired	**650,830**	355,991
Over 1 year past due	**–**	2,168
	650,830	358,159

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.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. 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.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2016 RMB'000	31 December 2015 RMB'000
Prepayments to suppliers	**1,769,505**	1,649,574
Rebate	**3,777,684**	3,328,263
VAT recoverable (i)	**194,669**	177,818
Prepaid lease for buildings and land use rights	**103,897**	65,441
Prepayments of purchase of items of property, plant and equipment	**23,540**	30,159
Prepaid interest expense	**23,013**	21,636
Staff loans	**11,353**	8,107
Others	**214,565**	168,308
	6,118,226	5,449,306

Note:

(i) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. 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%.

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

25. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2016 RMB'000	31 December 2015 RMB'000
Listed equity investments, at market value	**12,050**	46,864

The above equity investments at 31 December 2016 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

26. PLEDGED BANK DEPOSITS

	31 December 2016 RMB'000	31 December 2015 RMB'000
Deposits pledged with banks as collateral against		
— letters of credit granted by the banks	**91,095**	79,104
— bill facilities granted by the banks	**1,890,611**	1,706,631
— short term bank loans granted by the banks	**161,136**	546,286
	2,142,842	2,332,021

Pledged bank deposits amounted to RMB2,142,842,000 (31 December 2015: RMB2,105,489,000) were denominated in RMB at the end of the reporting period, and earned interest at interest rates stipulated by respective finance institutions.

27. CASH IN TRANSIT

	31 December 2016 RMB'000	31 December 2015 RMB'000
Cash in transit	**108,602**	78,224

Cash in transit represents the sales proceeds settled by credit cards, which have yet to be credited to the Group by the banks.

28. CASH AND CASH EQUIVALENTS

	31 December 2016 RMB'000	31 December 2015 RMB'000
Cash and bank balances	**3,721,285**	2,160,980
Cash and cash equivalents	**3,721,285**	2,160,980

At the end of the reporting period, the cash and bank balances and short term deposits of the Group denominated in Renminbi ("RMB") amounted to RMB1,953,934,000 (2015: RMB1,875,515,000). The 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 deposits are made for varying periods ranging from one day to 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 short term deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

29. NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE

	31 December 2016 RMB'000	31 December 2015 RMB'000
Unlisted equity investment of Autostreets, at cost	**–**	83,902

In August 2016, the Group disposed of the entire investment in Autostreets Development Limited ("Autostreets") to Orient Rich Investment Development Limited, a company controlled by Mr. Yang Aihua, ex-controlling shareholder of the Group, at a total consideration of RMB100,000,000.

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2016		
	Effective interest rate (%)	Original maturity	RMB'000
Current			
Bank borrowings			
— guaranteed (b)	4.8	2017	19,997
— secured (a)	4.8-9.0	2017	17,764
— secured (a)	6.6	On demand	29,000
— secured (d)	Libor*+2.25	2017	2,364,886
— unsecured	2.7–6.5	2017	1,890,812
— secured and guaranteed (c)	5.0–7.1	2017	115,000
			4,437,459
Other borrowings			
— guaranteed (b)	6.7	2017	7,627
— secured (a)	5.2-8.6	2017	154,513
— unsecured	6.7	2017	60,645
— secured and guaranteed (c)	6.7	2017	140,365
			363,150
			4,800,609
Non-current			
Bank borrowings			
— secured (d)	Libor*+3.3	2018-2019	2,751,757
			7,552,366

30. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	31 December 2015		
	Effective interest rate (%)	Original maturity	RMB'000
Current			
Bank borrowings			
— guaranteed	6.6	On demand	29,000
— secured	2.7	2016	327,580
— secured	Libor*+3.5	2016	324,941
— secured	Libor*+2.7	On demand	194,082
— unsecured	Hibor**+3.4	2016	318,356
— unsecured	1.6	2016	125,670
— unsecured	1.9	2016	43,757
— unsecured	4.4-6.7	2016	3,061,568
— unsecured	Libor*+3.7	2016	769,786
— unsecured	Libor*+3.5	On demand	1,540,682
— unsecured	Libor*+3.7	On demand	896,954
— unsecured	Libor*+3.7	On demand	490,916
			8,123,292
Other borrowings			
— secured	5.3–7.8	2016	157,644
			8,280,936

* London Inter-Bank Offered Rate
** Hong Kong Inter-Bank Offered Rate

30. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

(a) The Group's certain bank and other borrowings were secured by:

(i) mortgages over the vehicle certificates for certain of the Group's inventories, which had an aggregate carrying value of approximately RMB188,393,000 (2015: RMB121,554,000) as at 31 December 2016;

(ii) the pledge of certain of the Group's time deposits amounting to RMB147,465,000 (2015: RMB546,286,000) as at 31 December 2016;

(b) Certain of the Group's bank and other borrowings which amounted to RMB27,624,000 were guaranteed by CGA as at 31 December 2016.

(c) The Group's certain bank and other borrowings are secured and guaranteed by:

(i) Certain of the Group's bank borrowings which amounted to RMB100,000,000 were secured by the prepaid land lease payment amounted to RMB14,492,000, and property, plant and equipment amounted to RMB12,187,000 and guaranteed by certain third parties as at 31 December 2016; and

(ii) Certain of the Group's bank and other borrowings which amounted to RMB155,365,000 were secured by the bank deposits amounted to RMB13,671,000 and guaranteed by certain third parties as at 31 December 2016.

(d) Certain bank borrowings of the Group amounted to RMB5,116,643,000 were secured by the entire shareholding of Yan Jun (China) Investment Co., Ltd. which was held by Yanjun Auto Co., Ltd., a wholly-owned subsidiary of the Group.

(e) As at 31 December 2016, the Group had unutilized banking facilities of RMB6,259,660,000 (2015: RMB12,357,956,000).

31. TRADE AND BILLS PAYABLES

	31 December 2016 RMB'000	31 December 2015 RMB'000
Trade payables	**287,744**	267,883
Bills payable	**4,336,851**	3,677,301
Trade and bills payables	**4,624,595**	3,945,184

An aged analysis of the trade and bills payables as at the end of the reporting period is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Within 3 months	**4,185,164**	3,658,491
3 to 6 months	**426,994**	266,919
6 to 12 months	**2,804**	1,402
Over 12 months	**9,633**	18,372
	4,624,595	3,945,184

The trade and bills payables are non-interest-bearing. The trade payables are normally settled on 60-day terms.

32. OTHER PAYABLES AND ACCRUALS

	31 December 2016 RMB'000	31 December 2015 RMB'000
Advances from customers	**699,663**	359,973
Advances and deposits from distributors	**18,444**	2,005
Taxes payable (other than income tax)	**78,360**	62,028
Payables for purchase of items of property, plant and equipment	**22,721**	12,003
Payables for purchase of items of land use rights	**18,240**	18,240
Deposit from third parties to buy equity interests of the Company	**–**	41,102
Payables for currency options	**4,214**	13,068
Lease payables	**18,344**	52,406
Interest payables	**28,909**	15,354
Staff payroll and welfare payables	**87,532**	33,976
Payables for purchase of equity interests from third parties	**176,172**	–
Others	**49,861**	36,128
	1,202,460	646,283

33. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2016 RMB'000	31 December 2015 RMB'000
Currency options	**24,424**	15,947
Currency forward	**1,421**	–
	25,845	15,947
Portion classified as non-current:		
Currency options	**–**	9,490
Currency forward	**1,421**	–
	24,424	6,457
Current portion:		
Current options	**24,424**	6,457

The Group has entered into various currency contracts. These currency options are not designated for hedge purposes and are measured at fair value through profit or loss. Gain of changes in the fair value of non-hedging currency derivatives amounting to RMB29,203,000 were charged to the statement of profit or loss during the year (2015: Loss of RMB1,066,000).

34. BONDS

	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current	–	441,683

The movements in the carrying amount of the bonds during the year are as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
At the beginning of the year	441,683	396,095
Interest expense	20,688	20,718
Exchange realignment	6,864	24,870
Repayment	(469,235)	–
At the end of the year	–	441,683

35. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries of Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 11% to 21% (2015: 11% to 21%) of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries. The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 5% to 15% (2015: 5% to 15%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for such contributions to the accommodation fund.

As at 31 December 2016, the Group had no significant obligation apart from the contributions stated above.

36. DEFERRED TAX

(a) Deferred tax assets

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

	Losses available for offsetting against future taxable profits RMB'000	Fair value derivative instruments RMB'000	Equity investments at fair value through profit or loss RMB'000	Deferred rental expenses RMB'000	Inventory impairment RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	64,862	7,050	–	4,426	–	4,349	80,687
Deferred tax recognised in the consolidated statement of profit or loss during the year (Note 8(a))	15,152	(7,050)	–	1,454	–	(452)	9,104
Deemed disposal of a subsidiary	(5,843)	–	–	–	–	–	(5,843)
At 31 December 2015	74,171	–	–	5,880	–	3 ,897	83,948
At 31 December 2015 and 1 January 2016	74,171	–	–	5,880	–	3,897	83,948
Deferred tax recognised in the consolidated statement of profit or loss during the year (Note 8(a))	13,136	–	2,078	1,080	10,624	9,428	36,346
Acquisition of subsidiaries (Note 41)	3,159	–	–	–	–	938	4,097
At 31 December 2016	90,466	–	2,078	6,960	10,624	14,263	124,391

36. DEFERRED TAX *(Continued)*

(b) Deferred tax liabilities

	Depreciation allowances in excess of elated depreciation RMB'000	Capitalisation of costs in relation to construction in progress RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Gain on exchange of assets RMB'000	Total RMB'000
At 1 January 2015	5,283	30,717	239,508	54,000	329,508
Deferred tax recognised in the consolidated statement of profit or loss during the year (Note 8(a))	1,879	9,535	(9,811)	—	1,603
At 31 December 2015	7,162	40,252	229,697	54,000	331,111
At 31 December 2015 and 1 January 2016	7,162	40,252	229,697	54,000	331,111
Deferred tax recognised in the consolidated statement of profit or loss during the year (Note 8(a))	2,581	2,703	(10,236)	—	(4,952)
Acquisition of subsidiaries (Note 41)	—	—	34,245	—	34,245
At 31 December 2016	9,743	42,955	253,706	54,000	360,404

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**121,858**	78,454
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(357,871)**	(325,617)
	(236,013)	(247,163)

36. DEFERRED TAX *(Continued)*

(b) Deferred tax liabilities *(Continued)*

Pursuant to the CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. Under the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or the China-HK Tax Arrangement, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5%. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from retained earnings as at 31 December 2007 are exempted from withholding tax.

At 31 December 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and a joint venture established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries and the joint venture will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and the joint venture in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB5,019,941,000 at 31 December 2016 (2015: RMB4,337,261,000).

Deferred tax assets have not been recognised in respect of tax losses arising in Mainland China of RMB205,334,000 (2015: RMB150,394,000) as they have arisen in 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 utilised. These tax losses will expire in one to five years.

37. SENIOR PERPETUAL CAPITAL SECURITIES

On 15 December 2016 and 23 December 2016, Baoxin Auto Finance I Limited ("the Issuer"), a wholly-owned subsidiary of the Group, issued senior perpetual capital securities with principal amounts of US$300 million and US$100 million, respectively, at initial interest rate of 8.75% ("Senior Perpetual Capital Securities"). Distribution payments of 8.75% per annum on the Senior Perpetual Capital Securities are payable semi-annually in arrears from June 2017. The Senior Perpetual Capital Securities have no fixed maturity and can be redeemed at the Issuer's option on or after 15 December 2019 at their principal amounts redeemed together with any accrued, unpaid distribution payments. After 15 December 2019, the coupon rate will be reset to a percentage per annum equal to the sum of (a) the initial spread of 7.616%, (b) the Adjusted Treasury Rate and (c) a margin of 5.00% per annum. The Senior Perpetual Securities were unconditionally and irrevocably guaranteed by CGA and its direct wholly-owned subsidiary, China Grand Automotive Service (Hong Kong) Limited (the "Guarantors"), who guarantee on a joint and several basis the due payment in full of all sums expressed to be payable by the Issuer.

Pursuant to the terms of the Senior Perpetual Capital Securities, the Issuer has contractual obligation to repay its principal and to pay the distribution, which meet the definition of financial liabilities according to IAS 32 *Financial Instruments: Presentation*, and is classified as financial liabilities recorded in non-current liabilities. The Issuer incurred issuance costs amounting to approximately RMB76,154,000, for the Senior Perpetual Capital Securities, which was net off against the balance of non-current liabilities of these senior perpetual securities.

	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current	**2,708,415**	–

The movements in the carrying amount of the senior perpetual capital securities during the years are as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Nominal value of senior perpetual capital securities issued during year 2016	**2,773,300**	–
Direct transaction costs attributable to the securities	**(76,154)**	–
At the issuance date	**2,697,146**	–
Interest expense	**9,852**	–
Exchange realignment	**1,417**	–
At the end of the year	**2,708,415**	–

38. SHARE CAPITAL

Shares	2016
Authorised:	
Ordinary shares	**5,000,000,000 shares of HK$0.01 each**
Issued and fully paid:	
Ordinary shares	**2,557,311,429 shares of HK$0.01 each**
Equivalent to RMB'000	**20,836**

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

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares HK$'000	Share premium HK$'000	Equivalent nominal value of ordinary shares RMB'000	Equivalent share premium RMB'000
At 1 January 2015	2,557,311,429	25,573	2,154,661	20,836	1,767,128
Final 2015 dividend declared	–	–	–	–	–
At 31 December 2015 and 1 January 2016	2,557,311,429	25,573	2,154,661	20,836	1,767,128
Final 2016 dividend declared	–	–	–	–	–
At 31 December 2016	2,557,311,429	25,573	2,154,661	20,836	1,767,128

Note:

Details of the Company's share option scheme and the share options issued under the scheme are included in Note 39 to the financial statements.

39. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include employees of the Company and its subsidiaries. The Scheme became effective on 14 December 2011, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at the listing date. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options may be accepted within 30 days from the date of offer, an amount of HK$1.00 is payable upon acceptance of the grant of options and such payment shall not be refundable and shall not be deemed to be a part of the payment of the exercise price. The exercise period of the share options granted is determinable by the Directors, and commences after a vesting period of one year and ends on the expiry date of the Scheme.

The exercise price of share options is determinable by the Directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average of the closing prices of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

39. SHARE OPTION SCHEME *(Continued)*

	2016 Weighted average exercise price HK$ per share	2016 Number of options
At 1 January	**5.724**	**15,550,000**
Cancelled during the period	**5.724**	**(11,662,464)**
Expired during the year	**5.724**	**(3,887,536)**
At 31 December		**–**

CGA extended an appropriate offer to holders of the share options to cancel up to 11,662,500 outstanding share options pursuant to Rule 13 of the Hong Kong Code on Takeovers and Mergers (the "Option Offer"). A total number of 11,662,464 share options were cancelled under the Option Offer.

No share option was exercised during the year.

During the year ended 31 December, 2016, no expense was recognised in the statement of profit or loss for the Share Option Scheme (2015: Nil).

	2015 Weighted average exercise price HK$ per share	2015 Number of options
At 1 January and 31 December	5.724	15,550,000

40. RESERVES

(i) Statutory reserve

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

(ii) Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company and the excess of the consideration over the carrying amount of the non-controlling interests acquired.

(iii) Other reserve

The other reserve of the Group represents the excess of the consideration over the carrying amount of the non-controlling interests acquired.

(iv) Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of the Company and certain overseas subsidiaries of which the functional currencies are other than the RMB.

41. BUSINESS COMBINATION

(a) As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired 100% of the equity interests of Dandong Xinbaohang Auto Sales and Services Co., Ltd. (丹東信寶行汽車銷售有限公司, "Dandong Xinbaohang"), which is engaged in the motor vehicle sales and service business in Mainland China, from a third party on 8 January 2016 at a total consideration of RMB10,000,000. The purchase consideration for the acquisition was in the form of cash, and was fully paid during the year.

The fair values of the identifiable assets and liabilities of Dandong Xinbaohang as at the date of acquisition were as follows:

	Notes	Fair values recognised on acquisition date RMB'000
Property, plant and equipment	13	30,176
Intangible assets	15	2,100
Inventories		553
Prepayments, deposits and other receivables		1,930
Cash and cash equivalents		282
Trade and bills payables		(183)
Other payables and accruals		(24,858)
Total identifiable net assets at fair value		10,000
Goodwill on acquisition	18	–
Total purchase consideration		10,000

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'000
Cash consideration paid	(10,000)
Cash and cash equivalents acquired	282
Net cash outflow	(9,718)

Since the acquisition, the acquired business contributed RMB45,399,000 to the Group's revenue and RMB2,357,000 to the consolidated profit for the year ended 31 December 2016.

41. BUSINESS COMBINATION *(Continued)*

(b) As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired the equity interests in the following companies, which are engaged in the motor vehicle sales and service business in Mainland China, from three third parties on 1 November 2016, at a total consideration of RMB350,020,000. The purchase consideration for the acquisition was in the form of cash, with RMB173,848,000 paid by the end of 31 December 2016.

Company Name	Acquired equity interest %
Sichuan Ganghong Enterprise Management Co., Ltd.	100%
Sichuan Ganghong Auto Sales Co., Ltd.	100%
Sichuan Ganghong FengShen Auto Sales Co., Ltd.	100%
Sichuan Ganghong Xiwu Shidai Automobile Sales Co., Ltd.	64%
Sichuan Ganghong XinTong Auto Sales Co., Ltd.	100%
Sichuan Ganghong ShengYe Auto Sales and Services Co., Ltd.	100%
Sichuan Ganghong ShengFeng Auto Sales and Services Co., Ltd.	100%
Sichuan Ganghong LongXiang Auto Sales and Services Co., Ltd.	100%
Chongzhou Ganghong JiTai Auto Sales and Services Co., Ltd.	70%
Sichuan Ganghong KaiWeiHang Auto Sales and Services Co., Ltd.	100%
Sichuan Ganghong DingXin Auto Sales and Services Co., Ltd.	100%
Ziyang Ganghong TaiRui Auto Sales and Services Co., Ltd.	70%
Ziyang Ganghong DingYi Auto Sales and Services Co., Ltd.	70%
Sichuan Ganghong XinYue Auto Services Co., Ltd.	100%
Deyang Nanling Ganghong Auto Sales and Services Co., Ltd.	49%
Sichuan Ganghong Auto Trade Co., Ltd.	40%

41. BUSINESS COMBINATION *(Continued)*

(b) *(Continued)*

	Notes	Fair values recognised on acquisition date RMB'000
Property, plant and equipment	13	85,803
Prepaid land lease payment	14	15,814
Prepayments and deposits		7,759
Intangible assets	15	137,146
Investments in associates		17,760
Deferred tax assets	36(a)	4,097
Inventories		444,785
Trade receivable		44,429
Prepayments, deposits and other receivables		215,158
Pledged bank deposits		315,822
Cash and cash equivalents		136,035
Trade and bills payables		(650,536)
Other payables and accruals		(193,782)
Interest-bearing bank and other borrowings		(320,593)
Income tax payable		(6,975)
Deferred tax liabilities	36(b)	(34,245)
Total identifiable net assets at fair value		218,477
Non-controlling interest arising from acquisition		(17,559)
		200,918
Goodwill on acquisition	18	149,102
Total purchase consideration		350,020

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'000
Cash consideration paid	(173,848)
Cash and cash equivalent acquired	136,035
Net cash outflow	(37,813)

Since the acquisition, the acquired business contributed RMB920,591,000 to the Group's revenue and RMB14,946,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB28,921,677,000 and RMB452,528,000 respectively.

42. DISPOSAL OF A SUBSIDIARY

On 28 December 2016, Shanghai Kailong Automobile Trading Hongqiao, an indirect wholly-owned subsidiary of the Company, sold a 70% equity interest of Wuxi Kailong Real Estate Co., Ltd. to Guangxi Guanghui Investment Development Co., Ltd., an indirectly owned subsidiary of the controlling shareholder of CGA, at a total consideration of RMB88,515,000.

	Notes	2016 RMB'000
Net assets disposed of:		
Cash and cash equivalents		1,085
Prepaid land lease payment	14	149,975
Prepayments, deposits and other receivables		30
Other payables and accruals		(92,749)
Net assets disposed of		58,341
Consideration		88,515
Investment in an associate		21,000
Gain on disposal of a subsidiary	5(b)	51,174

An analysis of the cash flows of cash and cash equivalents in respect of disposal of a subsidiary is as follows:

	2016 RMB'000
Cash consideration received	32,400
Cash and cash equivalents disposed of	(1,085)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	31,315

43. FINANCIAL INSTRUMENTS BY CATEGORY

The Group's financial assets were categorized into three groups 1) financial assets at fair value through profit or loss — held for trading, including equity investments at fair value through profit or loss and derivative financial instruments; 2) loans and receivables, including trade receivables, finance lease receivables, financial assets included in prepayments, deposits and other receivables, amounts due from related parties, pledged bank deposits, cash in transit and cash and cash equivalents; 3) available-for-sale financial assets, including available-for-sale investment.

The carrying amount of financial assets at fair value through profit or loss — held for trading, loans and receivables and available-for-sale financial assets as at 31 December 2016 were approximately RMB37.9 million, RMB10,960.6 million and RMB17.7 million, respectively (2015: RMB62.8 million, RMB8,576.0 million and RMB16.6million, respectively).

The Group's financial liabilities were categorized as financial liabilities at amortised cost, including trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank loans and other borrowings, senior perpetual capital securities and bonds. The carrying amount of financial liabilities at amortised cost as at 31 December 2016 was amounted to RMB15,921.6 million (2015: RMB12,862.0 million).

44. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any contingent liabilities.

45. COMMITMENTS

(a) Capital commitments

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

	31 December 2016 RMB'000	31 December 2015 RMB'000
Contracted, but not provided for:		
Land use rights and buildings	**80,446**	182,500
Authorised, but not contracted for:		
Land use rights and buildings	**74,398**	250,000
	154,844	432,500

(b) Operating lease commitments

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

	At 31 December 2016			At 31 December 2015		
	Properties RMB'000	**Land RMB'000**	**Vehicles RMB'000**	Properties RMB'000	Land RMB'000	Vehicles RMB'000
Within 1 year	**110,028**	**38,066**	**10,731**	92,398	57,310	8,924
After 1 year but within 5 years	**339,394**	**126,590**	**37,994**	265,516	163,568	35,635
After 5 years	**511,539**	**233,673**	**18,136**	305,704	534,688	30,438
	960,961	**398,329**	**66,861**	663,618	755,566	74,997

The Group is the lessee in respect of a number of properties, land and vehicles held under operating leases.

46. PLEDGE OF ASSETS

Details of the Group's assets pledged for its bank loans and other borrowings and bills payable are disclosed in Note 13, Note 14, Note 22 and Note 26 to the consolidated financial statements.

47. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions with related parties

The following transactions were carried out with related parties during the year:

		31 December 2016 RMB'000	31 December 2015 RMB'000
Purchase of goods:	(i)		–
Sichuan Shen Rong Jiu Xing Auto Sales & Service Co., Ltd.		**9,698**	–
Hebei remit Investment Co., Ltd.		**2,103**	–
Sichuan Shen Rong Xing Hong Auto Sales & Service Co., Ltd.		**680**	–
Sichuan Shen Rong Hong Zheng Auto Sales & Service Co., Ltd.		**444**	–
Xinjiang Tian Hui Hua Chi Auto Sales & Service Co., Ltd.		**3**	–
Sichuan Shen Rong Hong Jia Auto Sales & Service Co., Ltd.		**3**	–
Sichuan Shen Rong Hong Jin Auto Sales & Service Co., Ltd.		**1**	–
		12,932	–
Sales of goods:	(ii)		
Chengdu Rong Rong Auto Sales & Service Co., Ltd.		**9,474**	–
Yili Auto Sales & Service Co., Ltd.		**2,620**	–
Ziyang He Xin Auto Sales & Service Co., Ltd.		**2,451**	–
Cangzhou De Lian Hui Yuan Auto Trading Co., Ltd.		**1,400**	–
Sichuan Shen Rong Xing Hong Auto Sales & Service Co., Ltd.		**626**	–
Guigang Hong Gong Auto Trading Co., Ltd.		**557**	–
Hami Hui Chi Auto Sales & Service Co., Ltd.		**90**	–
Guangxi Grand Auto Maintenance Service Co., Ltd.		**62**	–
Shenzhen Xinao Auto Trading Co., Ltd.		**29**	–
Yulin Hong Tong Auto Sales & Service Co., Ltd.		**19**	–
Yulin Hong Biao Auto Sales & Service Co., Ltd.		**17**	–
Liuzhou Hong Yao Auto Sales & Service Co., Ltd.		**13**	–
Xinjiang Kashi Hua Chi Auto Sales & Service Co., Ltd.		**12**	–
Shandong Yong Da Auto Sales & Service Co., Ltd.		**5**	–
Sichuan Shen Rong Jiu Xing Auto Sales & Service Co., Ltd.		**4**	–
Sichuan Shen Rong Hong Jia Auto Sales & Service Co., Ltd.		**4**	–
Guangxi Hong Shun Auto Sales & Service Co., Ltd.		**2**	–
		17,385	–

47. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(a) Transactions with related parties *(Continued)*

		31 December 2016 RMB'000	31 December 2015 RMB'000
Rental income:	(iii)		
China Grand Auto Services Co., Ltd.		**1,536**	–
Disposal of a subsidiary:	(iv)		
Guangxi Grand Investment Development Co., Ltd.			
Lease expenses:	(v)		
Shaanxi Tang Xing Auto Sales & Service Co., Ltd.		**370**	–
Commission income:	(vi)		
China Grand Auto Services Co., Ltd.		**5,315**	–
Shanghai Grand Insurance Agency Co., Ltd. Xinjiang branch		**399**	–
		5,714	–

(i) The purchases of goods were made according to the published prices and conditions offered by related parties to their major customers.

(ii) The sales of goods were made according to the published prices and conditions offered to the major customers of the Group.

(iii) The charge of lease fee arose from rental of Baoxin Building, RMB1,536,000 per year.

(iv) Details of the disposal of subsidiary please refer to Note 42.

(v) The lease expenses were charged by Shaanxi Tang Xing Auto Sales & Service Co., Ltd.

(vi) The commission income were made according to the published prices and conditions offered to the major customers of the Group.

47. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Other transaction with related parties:

The company's ultimate holding company has guaranteed certain bank loans made to the Group of up to RMB27,624,000 as at the end of the reporting period, as further detailed in note 30(b) to the financial statements.

(c) Balances with related parties

The Group had the following significant balances with its related parties during the year:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Xinjiang Grand Real Estate Development Co., Ltd.	**56,115**	–
Shenyang Xinbaohang	**40,835**	40,835
China Grand Auto Services Co., Ltd.	**6,810**	
Shenzhen Xinao Automobile Trading Co., Ltd.	**34**	–
Shaanxi Tang Xing Automobile Sales & Service Co., Ltd.	**3**	–
Autostreets	**–**	14,127
Original shareholder — Mr. Yang Aihua	**–**	362
	103,797	55,324

As at 31 December 2016, balances with related parties were unsecured and non-interest-bearing, and had fixed repayment terms.

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

	31 December 2016 RMB'000	31 December 2015 RMB'000
Short term employee benefits	**9,176**	17,169
Post-employee benefits	**340**	634
Total compensation paid to key management personnel	**9,516**	17,803

Further details of Directors' and chief executive's emoluments are included in Note 9 to the consolidated financial statements.

48. 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		Fair values	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Senior perpetual capital securities	**2,708,415**	–	**2,792,170**	–
Bonds	**–**	441,683	**–**	461,497

Management has assessed that the fair values of cash and cash equivalents, cash in transit, pledged bank deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, amounts due from related parties, the current portion of finance lease receivables, trade and bills payables, financial liabilities included in other payables and accruals, amounts due to related parties and the current portion of bank loans and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's treasury department headed by the treasury manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The treasury manager reports directly to the chief financial officer and the audit committee. At each reporting date, the treasury department analyses 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 valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of pledged deposits, finance lease receivables, senior perpetual capital securities and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease receivables, and interest-bearing bank and other borrowings as at 31 December 2016 was assessed to be insignificant. Management has assessed that the fair values of the non-current portion of bank loans and other borrowings with floating interest rates approximate to their carrying amounts because the interest rates are adjusted periodically by reference to the fair market interest rates. The fair value of the liability portion of the bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar bond with consideration of the Group's own non-performance risk.

The fair values of listed equity investments and derivative instruments are based on quoted prices in active markets (Level 1).

48. 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 instruments:

Liabilities for which fair values are disclosed:

As at 31 December 2016

	Fair value measurement using 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
Senior perpetual capital securities	**2,792,170**	**–**	**–**	**2,792,170**

As at 31 December 2015

	Fair value measurement using 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
Bonds	–	–	461,497	461,497

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts, senior perpetual capital securities, other interest-bearing loans, bonds and cash and short term deposits. 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 receivables, trade and bills payables and other payables, which arise directly from its operations.

The Group also enters into derivative transactions, including for currency options. The purpose is to manage currency risks arising from the Group's operations and its sources of finance.

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

Interest rate risk

The Group has no significant interest-bearing assets other than pledged bank deposits (Note 26) and cash and cash equivalents (Note 28).

The Group's interest rate risk arises from its interest-bearing bank and other borrowings and senior perpetual capital securities, details of which are set out in Note 30 and Note 37. Borrowings at variable rates expose the Group to the risk of changes in market interest rates.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2016		
US$	**50**	**(10,795)**
US$	**(50)**	**10,795**
HK$	**50**	**–**
HK$	**(50)**	**–**
2015		
US$	50	(15,597)
US$	(50)	15,597
HK$	50	(1,627)
HK$	(50)	1,627

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise pledged bank deposits, cash in transit, cash and cash equivalents, trade receivables, finance lease receivables and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

As at 31 December 2016, all pledged bank deposits and cash and cash equivalents were deposited with high quality financial institutions without significant credit risk.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 23 to the financial statements.

49. 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	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	**29,000**	**1,065,930**	**3,864,792**	**2,897,132**	**–**	**7,856,854**
Trade and bills payables	**287,744**	**3,956,576**	**380,275**	**–**	**–**	**4,624,595**
Financial liabilities in other payables and accruals	**1,036,239**	**–**	**–**	**–**	**–**	**1,036,239**
Senior perpetual capital securities	**–**	**60,666**	**181,998**	**3,258,628**	**–**	**3,501,292**
	1,352,983	**5,083,172**	**4,427,065**	**6,155,760**	**–**	**17,081,980**

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	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	4,579,557	1,546,789	2,381,854	–	–	8,508,200
Bonds	–	–	–	454,770	–	454,770
Trade and bills payables	267,882	3,412,539	264,763	–	–	3,945,184
Financial liabilities in other payables and accruals	144,423	–	–	–	–	144,423
	4,991,862	4,959,328	2,646,617	454,770	–	13,052,577

Foreign currency risk

The Group conducts its business primarily in Renminbi. Certain bank deposits, bank loans and credit enhanced bond were denominated in foreign currencies. However, the Group's operating cash flow and liquidity has not been subject to significant influence from fluctuations in exchange rate. The Group has entered into various forward currency options/forward currencies contracts to manage its exchange rate exposures. These forward currency options and forward currencies contracts are not designated for hedge purposes and are measured at fair value through profit or loss. As at 31 December 2016, a fair value of RMB25,845,000 (31 December 2015: RMB15,900,000) was recognised by the Group on the forward currency options and forward currencies contracts.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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 years ended 31 December 2016 and 31 December 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, senior perpetual capital securities, trade, bills and other payables, accruals, and bonds less cash and cash equivalents. The gearing ratios as at the end of the reporting periods are as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Interest-bearing bank and other borrowings	**7,552,366**	8,280,936
Trade and bills payables	**4,624,595**	3,945,184
Other payables and accruals	**1,227,970**	676,755
Bonds	**–**	441,683
Senior perpetual capital securities	**2,708,415**	–
Less: Cash and cash equivalents	**3,721,285**	2,261,954
Net debt	**12,392,061**	11,082,604
Equity attributable to owners of the parent	**5,001,740**	4,934,930
Gearing ratio	**71.2%**	69.3%

50. EVENTS AFTER THE REPORTING PERIOD

On 27 March 2017, the Group entered into acquisition agreement with several third parties to purchase the entire equity interests of six 4S stores, three maintenance stations and one exhibition hall for luxury and ultra-luxury automobile brands in Zhejiang Province in the Mainland China.

51. 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:

	31 December 2016 RMB'000	31 December 2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,708,451**	1,639,420
Total non-current assets	**1,708,451**	1,639,420
CURRENT ASSETS		
Prepayments, deposits and other receivables	**5,865**	1,574
Amounts due from subsidiaries	**5,082,308**	4,236,599
Derivative financial instruments	**24,424**	–
Pledged bank deposits	**–**	209,995
Cash and cash equivalents	**227,347**	317,049
Total current assets	**5,339,944**	4,765,217
CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**2,886,897**	4,535,718
Trade and bills payables	**581**	–
Other payables and accruals	**120,270**	141
Amounts due to subsidiaries	**122,578**	8,085
Total current liabilities	**3,130,326**	4,543,944
NET CURRENT ASSETS	**2,209,618**	221,273
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,918,069**	1,860,693
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**2,751,757**	–
Bonds	**–**	441,683
Total non-current liabilities	**2,751,757**	441,683
NET ASSETS	**1,166,312**	1,419,010
EQUITY		
Share capital	**20,836**	20,836
Reserves	**1,145,476**	1,398,174
Total equity	**1,166,312**	1,419,010

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

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

	Share premium RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2015	1,868,372	31,670	(64,642)	–	(296,289)	1,539,111
Total comprehensive income for the year	–	–	72,947	–	(112,640)	(39,693)
Final 2014 dividend declared	(101,244)	–	–	–	–	(101,244)
As at 31 December 2015 and 1 January 2016	1,767,128	31,670	8,305	–	(408,929)	1,398,174
Total comprehensive income for the year	–	–	(148,978)	–	(103,720)	(252,698)
Equity settled share-based transaction	–	(2,651)	–	2,651	–	–
As at 31 December 2016	1,767,128	29,019	(140,673)	2,651	(512,649)	1,145,476

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in Note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

52. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of Directors on 31 March 2017.

FIVE-YEAR FINANCIAL SUMMARY

Year ended 31 December 2016

	Year ended December 31,				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**25,703,687**	23,776,461	30,723,432	30,081,687	18,092,903
Cost of sales and services provided	**(23,668,945)**	(21,587,955)	(27,935,772)	(27,161,294)	(16,510,006)
Gross profit	**2,034,742**	2,188,506	2,787,660	2,920,393	1,582,897
Other income and gains, net	**523,990**	357,311	454,574	468,872	373,793
Selling and distribution expenses	**(877,890)**	(977,024)	(983,221)	(946,815)	(461,187)
Administrative expenses	**(607,515)**	(643,434)	(608,813)	(538,713)	(261,411)
Profit from operations	**1,073,327**	925,359	1,650,200	1,903,737	1,234,092
Finance costs	**(486,540)**	(540,111)	(617,234)	(544,601)	(336,906)
Share of profit of a joint venture	**5,795**	5,830	6,783	10,544	14,443
Share of profit/(loss) of an associate	**(137)**	(16,151)	–	–	–
Profit before tax	**592,445**	374,927	1,039,749	1,369,680	911,629
Income tax expense	**(172,583)**	(150,656)	(326,115)	(355,345)	(190,743)
Profit for the year	**419,862**	224,271	713,634	1,014,335	720,886
Attributable to:					
Owners of the parent	**417,189**	220,094	706,644	1,006,805	709,699
Non-controlling interests	**2,673**	4,177	6,990	7,530	11,187
	419,862	224,271	713,634	1,014,335	720,886
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**21,789,948**	18,811,426	19,776,287	17,871,726	16,567,725
TOTAL LIABILITIES	**(16,748,477)**	(13,838,970)	(14,627,487)	(13,148,461)	(12,633,074)
NON-CONTROLLING INTEREST	**(39,731)**	(37,526)	(60,139)	(53,149)	(61,010)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**5,001,740**	4,934,930	5,088,661	4,670,116	3,873,641

BAOXIN AUTO GROUP LIMITED
寶信汽車集團有限公司