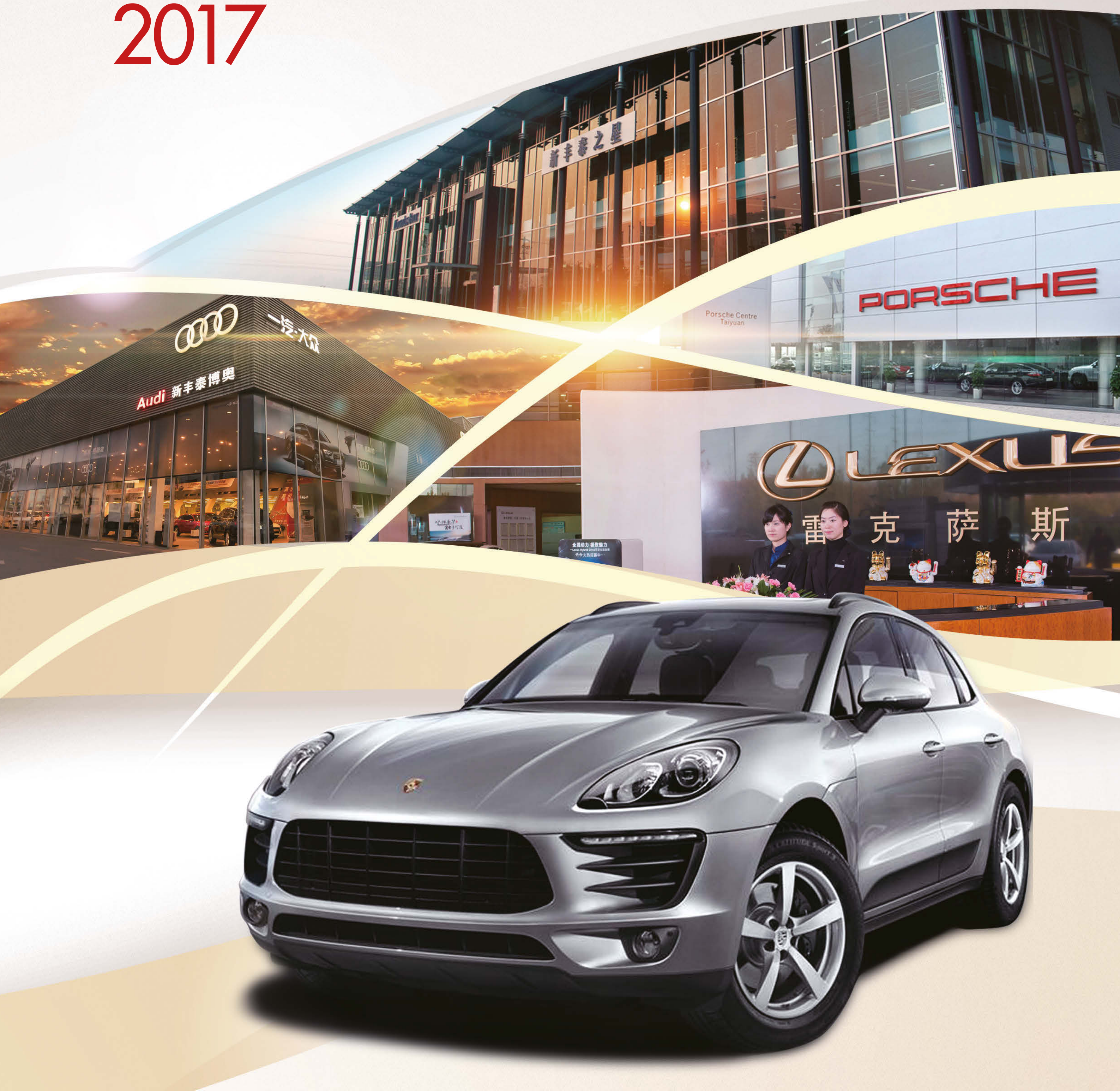
Sunfonda Group Holdings Limited
新豐泰集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01771

ANNUAL REPORT
2017



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CORPORATE INFORMATION

CHINESE NAME OF THE COMPANY

新豐泰集團控股有限公司

ENGLISH NAME OF THE COMPANY

Sunfonda Group Holdings Limited

INVESTOR INQUIRIES

Investor hotline: (852) 3183 0230
Fax: (852) 2583 9138
Website: www.sunfonda.com.cn
E-mail: sunfonda@prasia.net

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Tak Lam *(Chairman)*
Ms. Chiu Man *(Chief Executive Officer)*
Mr. Jia Ruobing
Mr. Gou Xinfeng

Independent Non-executive Directors

Mr. Liu Jie
Mr. Song Tao
Dr. Liu Xiaofeng

AUDIT COMMITTEE

Mr. Liu Jie *(Chairman)*
Mr. Song Tao
Dr. Liu Xiaofeng

NOMINATION COMMITTEE

Mr. Wu Tak Lam *(Chairman)*
Mr. Liu Jie
Mr. Song Tao
Dr. Liu Xiaofeng

REMUNERATION COMMITTEE

Mr. Song Tao *(Chairman)*
Mr. Liu Jie
Dr. Liu Xiaofeng

FINANCE AND INVESTMENT COMMITTEE

Mr. Wu Tak Lam *(Chairman)*
Ms. Chiu Man
Mr. Liu Jie

AUTHORISED REPRESENTATIVES

Mr. Wu Tak Lam
Ms. So Yee Kwan

COMPANY SECRETARY

Ms. So Yee Kwan

HEADQUARTERS

Sunfonda Automobile Center
Beichen Avenue
Chanba Ecological District
Xi'an City, Shaanxi Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3, 22/F, Sino Plaza
255-257 Gloucester Road
Causeway Bay, Hong Kong

REGISTERED OFFICE

Grand Pavilion, Hibiscus Way
802 West Bay Road
P.O. Box 31119
KY1-1205, Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

LEGAL ADVISERS

PRC Law

King & Wood Mallesons
20th Floor, East Tower
World Financial Center
1 Dongsanhuan Zhonglu
Chaoyang District, Beijing
PRC

Hong Kong Law

Clifford Chance
27th Floor, Jardine House
One Connaught Place
Central, Hong Kong

AUDITORS

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

PRINCIPAL BANKERS

China CITIC Bank Corporation Limited, Xi'an Branch
No. 1, Zhuque Avenue
Xi'an City, Shaanxi Province
PRC

Nanyang Commercial Bank
472 Hennessy Road
Causeway Bay
Hong Kong

STOCK CODE

01771

WEBSITE

www.sunfonda.com.cn

FINANCIAL HIGHLIGHTS

Revenue for the year ended 31 December 2017 levelled with that of last year and slightly increased to RMB7,687.0 million as compared with the corresponding period in 2016.

Gross profit for the year ended 31 December 2017 increased by 26.5% to RMB595.4 million as compared with the corresponding period in 2016.

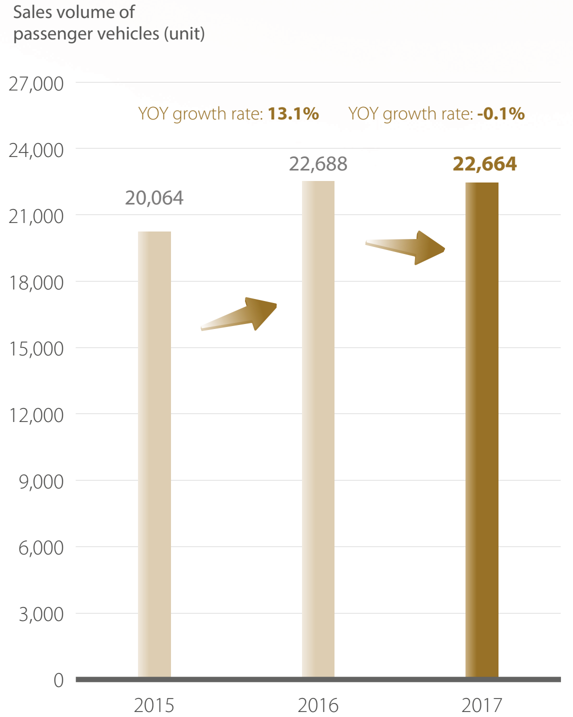
Revenue from after-sales services for the year ended 31 December 2017 increased by 7.3% to RMB887.4 million as compared with the corresponding period in 2016.

Gross profit margin for after-sales services decreased to 44.1% for the year ended 31 December 2017 from 44.6% for the year ended 31 December 2016.

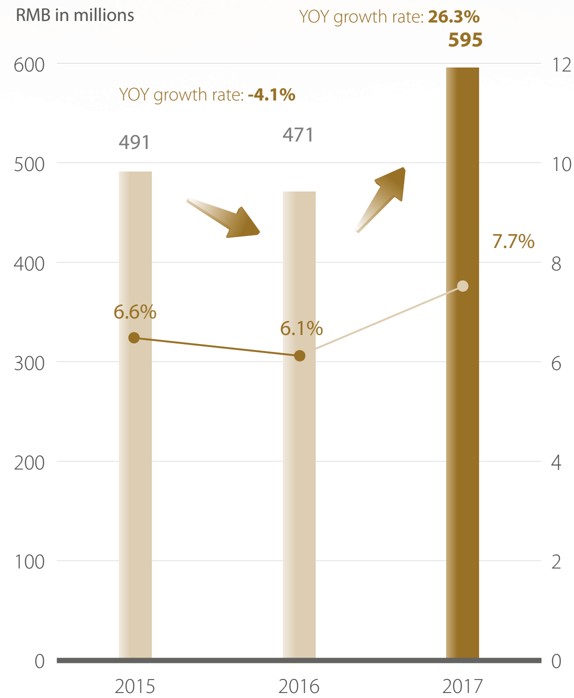
Profit attributable to owners of the parent for the year ended 31 December 2017 increased by 214.1% to RMB147.3 million as compared with the corresponding period in 2016.

Basic and diluted earnings per share attributable to ordinary equity holders of the parent for the year ended 31 December 2017 was RMB0.25. The board of directors of the Company recommends a final dividend of HK$0.09 (equivalent to RMB0.08) per ordinary share for the year ended 31 December 2017.

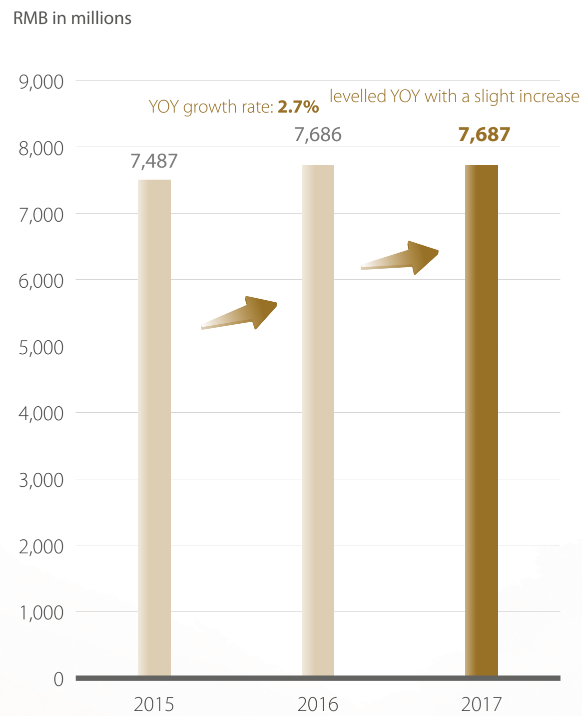
Sales volume of passenger vehicles



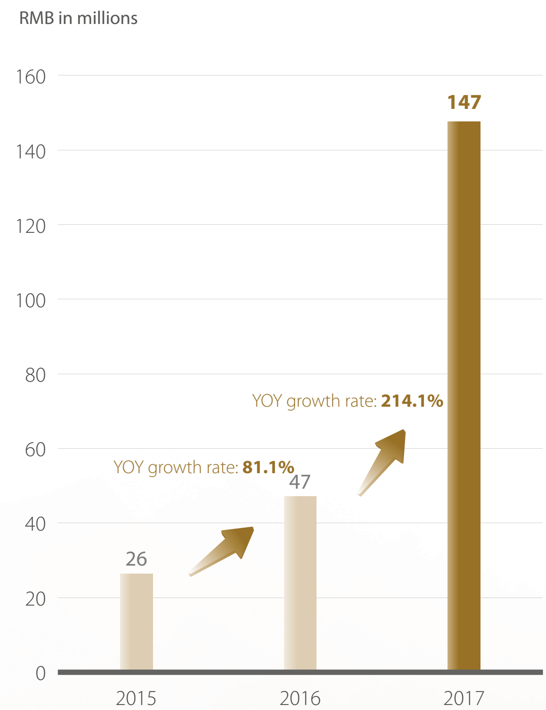
Gross profit and gross profit margin



Revenue



Profit attributable to owners of the Company



Note: "YOY" refers to year-on-year.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Sunfonda Group Holdings Limited (the "**Company**"), I am pleased to present the annual results report of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017.

Building on the growth momentum in 2016, China's automobile sales in 2017 continued to increase. According to the statistics of the China Association of Automobile Manufacturers, the total sales volume of passenger vehicles in the Mainland China reached 24,718,300 units, 1.4% up year on year. While the growth of passenger vehicle market showed a stable trend, the market of high-end luxury sedans delivered strong growth momentum. Among which, the year-on-year sales growth of top 10 luxury vehicle brands was generally higher than 20%. Benefitting from its sound brand portfolio, the Group managed to record significant growth in earnings.

As the market continued to prosper, the Group further leveraged its branding advantages as a leading dealer in China. Meanwhile, the Group actively expanded its dealership network and brand diversity. By capitalizing on our advantages in terms of multi-level brand mix as well as the reputation of "Sunfonda" and maintaining diversified development strategies, we have effectively enhanced customer experience and satisfaction. Besides, the Group has consistently adhered to its internal management system which is scientific and highly effective. Through reasonably controlling the inventory level and fascinating car model mix, the Group significantly reduced customer churn rate and delivered impressive performance.

In 2017, the Group delivered a solid performance. For the year ended 31 December 2017, revenue arising from the sale of new automobiles was RMB6,799.6 million with a sales volume of 22,664 units, both basically remaining at the same level as those for the previous year; revenue arising from after-sales services was RMB887.4 million, up by 7.3% year-on-year; gross profit amounted to RMB595.4 million, up by 26.5% year-on-year; and profit attributable to owners of the parent amounted to RMB147.3 million, representing a year-on-year increase of 214.1%.

In 2017, the Group adopted active and effective brand network expansion strategies. We opened and put new dealership stores into operation in cities such as Xi'an City and Yan'an City, Shaanxi Province as well as Yinchuan City, Ningxia Hui Autonomous Region, thereby further consolidating our leading position in Northwestern China. We also progressively expanded our operation network in Jiangsu region. The newly opened Lexus store in Yangzhou is also the first licensed store of Lexus in Yangzhou. Furthermore, the Group successfully completed its first business acquisition in the second half of 2017, a project in connection with the BMW 4S dealership store located in Weinan City, Shaanxi Province. This step further consolidated and enriched the Group's luxury brand profile. In the same year, the Group also obtained the licenses from brands including BMW and Geely (New Energy). Among which, certain stores commenced operations by the end of 2017.

Relying on the Group's 21 years of focused efforts and accumulated experience, the Group was awarded the "2017 Award for Outstanding Contribution to China's Automobile Dealership Industry" and "Regional Outstanding Dealership Group Award" from the China Automobile Dealers Association and yiche.com, respectively. It was also awarded the "Annual Chinese Company Great Value Award 2017" by CNFOL.com and Metro Finance. The abovementioned awards fully demonstrated the Group's leading position in the China automobile dealership industry.

The Group has always paid attention to employee loyalty and customer experience and satisfaction. Through launching targeted and professional employee trainings; conducting planned and systematic trainings and performance review in accordance with the work competence and experience of employees, we assisted employees in building their career path and fully ensured their loyalty. Meanwhile, we also devoted more manpower and resources to enhance customers' experience. As such, we have planned and designed more valuable and innovative value-added services, further consolidating the Group's brand reputation and significantly raising customer loyalty.

On the other hand, in view of enormous potential of the used car market in China, the Group has also been devoted in developing a used car trading platform and planning to complete the used car professional market project. The Group independently developed and started using the used car trading system and platform, providing customers with quality service experience. Currently, the Group has set up a used car exhibition and trading area in Chanba Automobile Industrial Park, Xi'an. We also possess the qualifications for rendering services regarding inspection, registration, trading and licensing of new and used automobiles, striving for providing consumers with more enriched, quality and comprehensive automobile solutions in their daily life.

China's gross domestic product ("**GDP**") grew by 6.9% in 2017 and it is estimated that the growth rate will reach approximately 6.5% in 2018. While China's economy will steadily improve and rapidly achieve consumption upgrade, the automobile market will improve in terms of quantity and quality. As the demand of luxury automobile in China market will continue to be strong, the technology, and production and sales volume of automobile of independent brands in China will also experience significant growth. In view of this, the Group maintains a positive and optimistic approach towards our network expansion strategy, which will further enrich the automobile brand mix of the Group and enable "Sunfonda" to quickly become an operator offering a full range and comprehensive automobile lifestyle experience.

The Group's achievements in 2017 were contributed by the dedicated efforts of all staff, and the faith and support from the shareholders, business partners and customers of the Group. In this regard, I, on behalf of the Board, would like to extend our heartfelt gratitude to all friends. The Group will stay united, make concerted efforts, keep up the hard work, and continue to remain strong and determined in order to achieve our vision in 2018.

Wu Tak Lam
Chairman

28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

I. MARKET REVIEW

According to the data published by the National Bureau of Statistics of the PRC, GDP of 2017 amounted to RMB82.7 trillion, up by 6.9% year-on-year. In 2017, China's economy operated within a reasonable range and the four major macro indicators steadily improved and was better than expected. Economic vitality, momentum and potential continued to unleash with significant improvement in stability, balance and sustainability, achieving a stable and healthy development. It is commonly believed by the professionals that in 2018, China's economy is expected to continue the momentum of steady progress. With continued effect of benefits of reforms and policy support, China's economic growth will show more resilience.

Continuously Notable Effect of Policy Support

While China's economy entered a phase battling between upward momentum and downward pressure, it was hard-earned to achieve the economic growth of 6.9% in 2017. In view of external demand, the global economy is in the process of mild recovery, particularly a likely consistent recovery in import and export. Meanwhile, final consumption remained stable and its proportion of GDP increased steadily. The year-on-year growth in tertiary industry was also significantly higher than the overall GDP growth, avoiding any strong downward pressure on China's economic growth. In response to the sophisticated and ever-changing externalities and downward pressure on the economy, the Chinese government has been successively and will continue to launch a series of reform measures such as promotion of the "decentralizing powers, enhancing supervision and optimizing public services", vigorous tax and fee reductions, implementation of ten key consumption campaigns, supporting the development of real economy and pilot free trade zones. The effect of these reform measures will also continue to show more rapidly, giving solid support to maintaining the sustainable and healthy development of China's economy.

Continued Innovative Transformation and Enhancement of Offline Retail Industry

In 2017, offline retail industry in China was in a recovery trend which is expected to continue to consolidate. According to the statistics from the Ministry of Commerce of the PRC ("**MOFCOM**"), in 2017, sales of 2,700 typical retailers closely monitored by MOFCOM recorded a year-on-year increase of 4.6%, representing 3 percentage points more than those of the corresponding period of 2016. The profit from operations and total profit of typical enterprises increased by approximately 8% respectively, representing increases of 6.5 and 11 percentage points over the corresponding period of 2016 respectively. Some industry peers indicated that the key drivers of the significant recovery of sales in China's offline retail industry include the active innovative transformation of offline retailers, the rapid development of new operational modes and business models, and constant adjustment of commodity mix and industrial structure of traditional commercial arcades or arenas.

In 2018, with the continued positive momentum of China's macroeconomy, the recovery trend of offline retail will continue to consolidate. The operation model of automobile dealers' 4S stores, which is also categorized as mature offline retail operational mode, will continue the recovery trend of 2017 as well.

Development of Urban and Rural Markets Became More Balanced and Regional Disparity Continued to Narrow Down

Ning Jizhe, director of National Bureau of Statistics of the PRC, stated that in 2017, in terms of domicile, the per capita disposable income of urban residents in China was RMB36,396, representing a real increase of 6.5% after deducting price factors; while the per capita disposable income of rural residents in China was RMB13,432, representing a real increase of 7.3% over 2016 after deducting price factors. The ratio of per capita income of urban and rural residents was reduced by 0.01 from 2016 to 2.71. As the development of urban and rural markets became more balanced, the regional disparity continued to narrow down.

Performance of Passenger Vehicle Market in 2017

In 2017, the automobile market in China maintained a positive momentum and sped up shifting from fast growth to development toward high quality. The development of China's automobile market became more balanced. Along with the further adjustment and optimization of the automobile consumption structure, sales of new energy automobiles grew by 53.3% while the market share of passenger vehicles of independent domestic brands grew by 0.7 percentage point. Based on the rapid growth of 2016, the used car business in China in 2017 would exceed 12 million units, up by approximately 20% year-on-year. The effect of the "Activating Used Cars" policy support is increasingly apparent.

In 2017, the sales volume of passenger vehicles in China increased by 1.4% year-on-year to 24.7183 million units, among which the sales volume of sedans decreased by 3.4% year-on-year to 11.66 million units; the sales volume of SUV increased by 15.3% year-on-year to 10.08 million units; the sales volume of MPV decreased by 17.4% year-on-year to 2.02 million units. SUV models continued to grow.

The sales volume of new energy automobiles totaled 545,900 units, up by 110% year-on-year.

In 2017, the sales volume of Porsche brand in China amounted to 71,508 units, up by 10% year-on-year. 587,868 units of new vehicles of Mercedes Benz brand were delivered in China, up by more than 25.9% year-on-year. The sales volume of Cadillac brand in China reached 175,489 units, up by 51% year-on-year. The sales volume of Lexus brand in China amounted to 132,864 units, up by 22% year-on-year, among which the sales volume of hybrid-electric vehicles reached 34,968 units. The accumulated sales volume of Audi brand in China amounted to 595,000 units, up by 1%, which was within the range of positive growth.

In 2017, the consumption size of automobiles in China continued to expand. During the first 11 months of 2017, retail sales of automobiles of units above designated size was close to RMB3.8 trillion, up by 6% year-on-year, representing 26% of the retail sales of consumer goods of units above designated size for the same period. Automobiles played a key role in the steady economic growth and expansion of consumption in China.

Continued Robust Demand in Luxury Automobile Market

Following the successive introduction of new models of luxury automobile brands, the pricing of which was closer to the market consumption demand, and the successive launch of vehicle licence or plate number restriction policies in various cities, the demand for consumption upgrade became increasingly strong.

Further Improvement in the Company's Brand Mix

In 2017, the Group introduced certain new brands which became popular in China, including FAW-Volkswagen, SAIC Roewe and SAIC Skoda. The sales volume of these brands all ranked among top positions in the 2017 brand sales volume. This has further improved the Group's coverage ratio in terms of customers' needs, allowing Sunfonda to substantially achieve the goal of being a professional brand operator which provides "All-brand experience and purchase" for consumers.

II. BUSINESS REVIEW

In 2017, the macroeconomy of Mainland China continued its development trend of steady growth as in the past two years. The sales volume of passenger vehicles increased by 1.4% year-on-year. Second-tier luxury brands and new energy automobiles achieved relatively faster growth, while middle-end brands grew at a more sluggish pace. The competition in the market of passenger vehicles further aggravated. In response, the Group, on one hand, strengthened the management system to improve overall management and decision-making efficiency; on the other hand, it advocated and encouraged our team to improve and innovate the business model, fostering steady and healthy development of the Group despite the sophisticated and ever changing competitive environment in 2017.

Based on the continuously innovated business model and intensive refined management, major brands operated by the Group posted improved but varied performances in 2017. For the year ended 31 December 2017, the Group's revenue arising from the sale of new automobiles was RMB6,799.6 million with a sales volume of 22,664 units, both substantially levelling with the corresponding period last year; revenue arising from after-sales services was RMB887.4 million, up by 7.3% year-on-year; gross profit amounted to RMB595.4 million, up by 26.5% year-on-year; profit after tax increased by 217.2% to RMB147.2 million, as compared with RMB46.4 million for the corresponding period in 2016; profit attributable to owners of the parent amounted to RMB147.3 million, up by 214.1% year-on-year.

New Auto Sales Business

In 2017, various brands and models under the Group showed relatively more differentiated performances. Sales volume was substantially in line with that of the previous year. However, benefited from the overall planning of operation strategies, gross profit and gross profit margin of new automobiles increased significantly. Under the sophisticated and competitive environment, we made middle and long term sales planning on sales by maintaining good communication with manufacturers, enhanced the model structure of purchased cars and acquired more marketable and high yield models. Meanwhile, we effectively strengthened our internal sales management, further consolidated the standard practices of sales process and adopted innovative sales assessment model to motivate our sales personnel. We conducted scientific research and predicted market changes to formulate corresponding sales strategies catering for the features of different brands. As a result, we achieved positive results in various aspects including new auto sales and related derivative businesses and the gross profit margin of sales of whole-vehicle increased steadily in 2017.

Automobile Financing and Insurance Businesses

In respect of automobile financing, we actively engaged in the cooperation with manufactures in terms of financing while exploring other financial institution channels including banks. Given the manufacturers' supportive policies towards financial products, the Group actively guided customers' demand for automobile purchases financing. We enhanced staff training to improve customer experience and enhance service quality so as to meet the ever changing and diverse demands of customers. In 2017, the penetration rate of the Group's financing business grew by 5 percentage points as compared to that of 2016, realizing a significant improvement in year-on-year financial performance in 2017.

In respect of automobile insurance, in 2017, the Group entered into strategic cooperation agreements with several insurance institutions. Through the management of new automobile sales and after-sales services, we further specified customer demands in the businesses including new insurance and warranty renewal insurance. We continued to increase the penetration rate of new automobile insurance; meanwhile, we actively explored the after-sales warranty renewal. By subdividing the categories of customers for warranty renewal, we formulated a series of customer-oriented solicitation measures to boost the customer confidence towards warranty renewal and develop their related consumption awareness and habit so as to expand the client base in respect of warranty renewal and lay a solid foundation for after-sales services.

Decoration Business

In respect of decoration business, in 2017, the Group actively introduced a positive competition mechanism to foster tighter supplier collaboration and management. Accordingly, apart from reducing the product costs, product quality and user experience were significantly improved. The Group also put greater efforts in introduction of new products to better satisfy practical needs of each brand store and various clients, and achieved positive results, realizing a growth in revenue arising from and gross profit of decoration business.

Used Car Business

For used car business, the Group continued its positive attitude towards the prospect of business. Based on the strategic position of the Group, each store commenced used car business comprehensively, established its own used car department and appointed professional used car appraisers and actively explored the demands for used car replacement in each aspect of sales and after-sales services. Further, by effectively integrating the manufacturers' certification of used cars from the original manufacturers, the Group pushed forward the development of the used car business to a higher level. Meanwhile, we further improved the training and appraisal system for the personnel of used cars, placed emphasis on business planning and management so as to develop a well-equipped and professional team of used car. The above measures led to significant progress of used automobile business.

After-sales Services Business

In 2017, to ensure the stable development of after-sales services, the Group actively responded and adopted the following measures:

- We reinforced the differentiated service models for loyal customers and lost customers. Oriented with the client base expansion, the Group developed new customer service solutions to generally increase active invitation. The Group launched various solicitation projects including "targeted solicitation to 'lost clients' programs" to effectively boost the number of visiting customers in stores, and achieved positive results, further laying a solid foundation for the steady development of the after-sales services business of the Group in the future;

- The Group focused on strengthening the cooperation and communication with insurance companies and formulated accommodative management systems to improve accident repair rate and accident outreach capability and motivate the awareness of its after-sales services team so as to effectively enhance the overall income generating capacity of after-sales services;

- In response to the downward trend of customer unit price for individual vehicle, the Group actively introduced the new concept of "key components marketing for lost clients" to enhance the marketing capability of each store, which played an active role in curbing the decline of customer unit price.

Through the measures above, the overall income from after-sales services of the Group continued its positive momentum and trend in 2017. In 2017, income from after-sales services amounted to RMB887.4 million, increased by 7.3% over 2016; client turnover improved significantly, the total clients base maintained stable and increased moderately and the number of clients increased by 15% year-on-year, laying a foundation and guidance for the steady improvement of the after-sales services business in 2018.

Brand Development and Network Development

In 2017, additional brand-new dealership stores were opened and put into operation in places such as Xi'an and Yan'an in Shaanxi Province and Yinchuan in Ningxia Hui Autonomous Region. The Group newly established one store for each of SAIC Roewe (in Xi'an), SAIC Skoda (in Xi'an), SAIC Volkswagen (in Xi'an) as well as Lexus (in Yan'an) and Land Rover (in Yinchuan). These have further consolidated the accumulated market share in Northwestern China. We were also gradually expanding the sales network in Jiangsu Region. Based on the existing dealership stores of Audi and imported Volkswagen in Yangzhou, Wuxi and Suzhou, we established new Lexus store in Yangzhou. In addition, in the second half of 2017, the Group successfully completed the acquisition of a 4S dealership store of BMW and also obtained the brand licenses for opening new stores for brands such as BMW and Geely (New Energy). On 31 August 2017, Shaanxi Sunfonda Automobile Technology Development Co., Ltd. (陝西新豐泰汽車技術開發有限責任公司), an indirectly wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Chongqing Zongshen Automobile Sales Service Co., Ltd. (重慶宗申汽車銷售服務有限公司) to acquire the entire equity interests in Weinan Zongshen Baotai Automobile Sales Service Co., Ltd. (渭南市宗申寶泰汽車銷售服務有限公司) ("the Target Company") and the equity transfer had been completed. The Target Company is principally engaged in the sale of BMW Brilliance and imported BMW automobiles, the sale of automobile components, articles of daily use and small appliances, consulting services in relation to automobile technology, insurance and license, used automobile consulting service, the investment and management of automobile sales service project with its self-owned funds, automobile loan agency service, repair service for Class-I automobiles and automobile decoration service. After the completion of the acquisition, the Group's influence in the local market has been further enhanced, its high-end brand mix will be expanded and optimized and the synergy effects of brand management will be improved, which in turn will be beneficial for the steady growth of the Group's overall results and its sustainable development, and will accordingly enhance shareholder value. For details of the acquisition, please refer to the announcement of the Company dated 31 August 2017.

As at 31 December 2017, the Group had 34 sale points in operation.

III. FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2017 was RMB7,687.0 million, levelling with that of last year and representing a slight year-on-year increase of RMB1.0 million as compared with the corresponding period in 2016. Of which, revenue arising from the sale of new automobiles was RMB6,799.6 million, representing a decrease of RMB59.6 million or 0.9% as compared to that for the corresponding period in 2016, which basically levelled with that for the same period last year. In addition, revenue arising from after-sales services was RMB887.4 million, representing an increase of RMB60.6 million or 7.3% as compared to that for the corresponding period in 2016. The increase in revenue arising from after-sales services was attributable to the effective reduction of customer churn rate and our efforts to draw customers that we have lost to revisit for automobile maintenance and repair, leading to the increase in income from repair service; the increase was also attributable to the increase in business volume of automobile renovation.

A substantial portion of revenue of the Group was generated from sales of new automobiles, accounting for 88.5% of our revenue for the year ended 31 December 2017 (2016: 89.2%). During the year, the remaining part of revenue of the Group was generated from after-sale services, accounting for 11.5% of our revenue for the year ended 31 December 2017 (2016: 10.8%). Revenue of the Group was mainly derived from our operations in the PRC.

The following table sets forth a breakdown of the revenue and relevant information for the reporting period:

	For the year ended 31 December					
	2017			2016		
	Amount (RMB'000)	**Sales volume (Unit)**	**Average selling price (RMB'000)**	Amount (RMB'000)	Sales volume (Unit)	Average selling price (RMB'000)
Sales of passenger automobiles						
Luxury and ultra-luxury brands	**5,977,477**	**16,705**	**357.8**	6,072,377	16,951	358.2
Mid-end market brands	**822,148**	**5,959**	**138.0**	786,791	5,737	137.1
Sub-total	**6,799,625**	**22,664**	**300.0**	6,859,168	22,688	302.3
After-sales services	**887,380**			826,826		
Total	**7,687,005**			7,685,994		

Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2017 was RMB7,091.6 million, representing a decrease of RMB123.8 million or 1.7% as compared to that for the corresponding period in 2016. Cost of sales of new automobiles for the year ended 31 December 2017 was RMB6,595.2 million, representing a decrease of RMB162.3 million or 2.4% as compared to that for the corresponding period in 2016. The decrease in cost of sales of new automobiles was attributable to the increase in rebate from sales of new automobiles of certain brands. Cost of after-sales services for the year ended 31 December 2017 was RMB496.4 million, representing an increase of RMB38.5 million or 8.4% as compared to that for the corresponding period in 2016. The increase in cost of after-sales services was attributable to the increase in business volume of after-sales services.

Gross Profit

Gross profit for the year ended 31 December 2017 was RMB595.4 million, representing an increase of RMB124.8 million or 26.5% as compared to that for the corresponding period in 2016. Of which, gross profit of sales of new automobiles was RMB204.4 million, representing an increase of RMB102.7 million or 101.0% as compared to that for the corresponding period in 2016; gross profit of after-sales services was RMB391.0 million, representing an increase of RMB22.1 million or 6.0% as compared to that for the corresponding period in 2016. For the year ended 31 December 2017, gross profit of after-sales services accounted for 65.7% of our total gross profit (2016: 78.4%).

Gross profit margin for the year ended 31 December 2017 was 7.7% (2016: 6.1%). Of which, gross profit margin for sales of new automobiles was 3.0% (2016: 1.5%) and gross profit margin for after-sales services was 44.1% (2016: 44.6%).

Other Net Income and Gains

For the year ended 31 December 2017, other net income and gains amounted to RMB206.5 million, representing an increase of 37.2% as compared with the RMB150.5 million for the year ended 31 December 2016, which was attributable to the fact that the storage area was expanded after the warehouse of FAW-Volkswagen spare parts moved to a new site, contributing to the significant increase in storage income; the net gain on disposal of fixed assets increased significantly and the increase was also attributable to the fact that commission income from automobile value-added services sustained growth.

Other net income and gains mainly consist of commission income from automobile insurance agency services and automobile financing agency business, logistics and storage income and interest income.

Selling and Distribution Expenses

Selling and distribution expenses for the year ended 31 December 2017 amounted to RMB293.4 million, representing an increase of 13.3% as compared with the RMB258.9 million for the year ended 31 December 2016, mainly due to the increase in salary payments of sales staff and the increase in advertisement and promotion expenses. As a percentage of revenue, the selling and distribution expenses increased from 3.4% for the year ended 31 December 2016 to 3.8% for the year ended 31 December 2017.

Administrative Expenses

Administrative expenses for the year ended 31 December 2017 amounted to RMB207.3 million, representing an increase of 13.5% as compared with the RMB182.7 million for the year ended 31 December 2016. The increase in administrative expenses was mainly attributable to the rise in salary payments of non-sales staff. As a percentage of revenue, the administrative expenses accounted for 2.7% for the year ended 31 December 2017, representing an increase of 0.3% as compared with the 2.4% for the year ended 31 December 2016.

Finance Costs

Finance costs for the year ended 31 December 2017 amounted to RMB73.5 million, representing a decrease of 16.0% as compared with the RMB87.5 million for the year ended 31 December 2016. Despite the scale of financing increased from RMB1,287.5 million as at 31 December 2016 to RMB1,491.2 million as at 31 December 2017, among which the balance of bank borrowings increased by RMB194.8 million, and the balance of other financing (including financing from automobile manufacturers and bank commercial bills) increased by RMB8.9 million, the Group put more efforts on reasonable planning of loan demands which enhanced the loan efficiency and reduced loan interests.

Profit Before Tax

As a result of the foregoing, profit before tax for the year ended 31 December 2017 amounted to RMB227.7 million, representing an increase of 147.5% as compared with the RMB92.0 million for the year ended 31 December 2016.

Income Tax Expense

Income tax expense for the year ended 31 December 2017 amounted to RMB80.6 million, representing an increase of 76.8% as compared with the RMB45.6 million for the year ended 31 December 2016. The effective income tax rate of the Group for the year ended 31 December 2017 was approximately 35.4% (2016: 49.6%), which was mainly due to the impact of tax losses not recognised as deferred tax assets for some loss-making subsidiaries.

Profit for the Year

As a result of the foregoing, profit for the year ended 31 December 2017 was RMB147.2 million, representing an increase of 217.2% as compared with the RMB46.4 million for the year ended 31 December 2016.

Profit for the Year Attributable to Owners of the Parent

For the year ended 31 December 2017, profit for the year attributable to owners of the parent was RMB147.3 million, representing an increase of 214.1% as compared with the RMB46.9 million for the year ended 31 December 2016.

IV. LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

For the year ended 31 December 2017, our net cash flow generated from operating activities was RMB13.2 million, as compared with the RMB424.0 million of net cash flow generated from operating activities for the year ended 31 December 2016. The decrease in net cash inflow of operating activities was mainly attributable to the increase in cash payments for purchasing inventories and the increase in prepayments, deposits and other receivables related to purchase of inventories.

For the year ended 31 December 2017, our net cash outflow for investing activities was RMB343.9 million, as compared with the RMB98.5 million of net cash outflow for investing activities for the year ended 31 December 2016. The increase in net cash outflow of investing activities was mainly due to the expenditure on acquisition and construction of fixed assets of new stores, the cash payment for acquisition of subsidiary and the increase of time deposits with maturity over 3 months for the year while there was cash inflow generated from disposal of available-for-sale investments last year.

For the year ended 31 December 2017, our net cash inflow for financing activities was RMB113.4 million, as compared with RMB425.7 million of net cash outflow for financing activities for the year ended 31 December 2016. The increase in the net cash inflow of financing activities was mainly attributable to the increase in net cash inflow of bank loans and other borrowings for acquisition of fixed assets of new stores.

Net Current Assets

As at 31 December 2017, our net current assets amounted to RMB484.7 million, as compared with RMB388.3 million of net current assets as at 31 December 2016. The increase in net current assets was mainly attributable to the increase in prepayments to manufacturers for the purchase of automobiles and the increase in inventories of new and emerging stores.

Inventories

Our inventories primarily consist of new automobiles, spare parts and decoration accessories. As at 31 December 2017, our inventories amounted to RMB781.0 million, representing an increase of 14.5% as compared with the RMB681.8 million as at 31 December 2016, mainly due to the increase in inventories for newly opened stores and the gradual increase of inventories in emerging stores.

In 2017, our average inventory turnover days (the average inventory turnover days = the average of opening and closing inventory balances divided by the cost of sales and services for that year and multiplied by 360 days) were 37.1 days, which were slightly longer than the 34.3 days in 2016, mainly due to the year-on-year increase in the number of newly opened stores.

Bank Loans and Other Borrowings

As at 31 December 2017, our bank loans and other borrowings were RMB1,491.2 million, representing an increase of 15.8% as compared with RMB1,287.5 million as at 31 December 2016, which was mainly attributable to the increase in financings of new and emerging stores for purchase of automobiles as well as the increase in long-term borrowings with lower capital costs in order to further improve the debt structure.

The following table sets forth the bank loans and other borrowings as at the dates indicated:

	As at 31 December			
	2017		2016	
	Effective interest rate (%)	**Amount RMB'000**	Effective interest rate (%)	Amount RMB'000
CURRENT				
Bank loans	**3.3-7.0**	**1,140,520**	1.4-7.0	1,099,160
Other borrowings	**5.6-7.8**	**137,769**	5.6-7.9	128,831
Sub-total		**1,278,289**		1,227,991
NON-CURRENT				
Bank loans	**3.3-5.5**	**212,941**	5.0-7.4	59,500
Total		**1,491,230**		1,287,491
Among which:				
Secured loans		**1,212,583**		1,197,491
Unsecured loans		**278,647**		90,000
Total		**1,491,230**		1,287,491

As at 31 December 2017, our gearing ratio, which is total debt divided by the equity attributable to owners of the parent, was 83.1% (2016: 77.6%). Total debt includes bank loans and other borrowings.

Pledge of Assets

As at 31 December 2017, certain of our bank loans were secured by charges or pledges over our assets. Our assets subject to these charges or pledges as at 31 December 2017 consisted of: (i) inventories amounting to RMB493.5 million; (ii) property, plant and equipment amounting to RMB285.1 million; (iii) land use rights amounting to RMB178.0 million; and (iv) pledged bank deposits of HK$17.1 million (equivalent to RMB14.3 million) and US$8.6 million (equivalent to RMB56.4 million).

As at 31 December 2017, certain of our inventories amounting to RMB108.4 million and pledged bank deposits amounting to RMB203.7 million were pledged as securities for bills payable.

Capital Expenditures and Investment

Our capital expenditures comprise primarily expenditures on property, plant and equipment, land use rights and intangible assets. For the year ended 31 December 2017, our total capital expenditures were RMB335.0 million, representing an increase of approximately RMB104.7 million as compared with the RMB230.3 million for the year ended 31 December 2016.

Contingent Liabilities

As at 31 December 2017, the Group did not have any material contingent liabilities or guarantees.

Staff Cost and Employee Remuneration Policy

As at 31 December 2017, the Group had 2,838 employees. Staff cost of the Group increased by 17.0% from RMB193.5 million for the year ended 31 December 2016 to RMB226.4 million for the year ended 31 December 2017. The increase was mainly attributable to the increase in sales gross margin and corresponding increase in performance bonus for staff; and the increase in headcount as a result of opening new stores and corresponding increase in total wages. The Group offers attractive remuneration packages, including competitive fixed salaries and performance-based bonuses. The Group provides its automobile sales and after-sales staff with performance-based bonuses based on their contribution to revenue, technical skills, customer satisfaction and other results of their performance assessment according to their job nature. The performance bonuses are calculated on a monthly basis. Our employees are subject to regular job reviews which determine their promotion prospects and remuneration packages. In order to keep up with the rapid development of the Group's network, the Group also continued to build up its quality talent pool and prudently manage its human resources and made corresponding adjustments to the arrangement of positions based on the changes in overall business volume. Meanwhile, the Group attaches great importance to the reserve of talent and teambuilding. Regular trainings in respect of business skills, expertise and professional qualifications have been provided to key personnel. The Group also pays close attention to the career development of its employees, so as to provide primary drivers for the future development of the Group.

Principal Risks

Business Risk

The Group's rights on operating points of sales, the supply of automobiles and spare parts as well as other important aspects in the Group's businesses and operations are all subject to our dealership authorization agreements with automobile suppliers. The Group's dealership authorization agreements are non-exclusive, and generally have terms of one to three years with the option of renewal. The automobile suppliers may terminate the agreements by written notice for various reasons. The automobile suppliers may also terminate the agreements through the issue of prior written notice without any reason. The notice period for terminating the agreements without reason by automobile suppliers ranges from three to twelve months. The automobile suppliers may decide to prohibit, limit or reduce the number of new points of sales to be opened up in cooperation with us in the future, based on the reasons irrelevant to the Group, such as their changes in business strategy and otherwise. In case of the occurrence of any of the forgoing, the Group's business, results of operation and growth prospects may be affected. The Group periodically communicated with automobile suppliers, and maintained good working relationships with them.

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligation with a floating interest rate. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

Exchange Rate Risks

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in US$ and HK$ and certain loan denominated in HK$.

The Group's assets and liabilities denominated in US$ and HK$ were mainly held by certain subsidiaries incorporated outside Mainland China which had HK$ as their functional currency, and the Group did not have material foreign currency transactions in Mainland China during the year. Therefore, the Group had immaterial foreign currency risk.

V. FUTURE STRATEGY AND PROSPECTS

Customer Experience Enhancement Project

With the new business model of online sales deeply rooted in people's mind, customer experience becomes increasingly essential. In particular for the business model of traditional 4S stores, customer experience remains the key factor for the Group to beat competitors that adopt online sales model. Through the cooperation between the Group's Customer Relationship Management (CRM) Department and all brand stores, the attention paid to and investment made on the Customer Experience Enhancement Project increased significantly year-on-year. In addition, the activities are diversified, including but not limited to the traditional forms such as coupons, season's greetings, self-driving tours and caterings. They also comprise customers' preferred activities and reward schemes catering for their specific needs and profiles based on the results of the precise analysis of the Group's customer management system. Meanwhile, the project is not confined to the experience of existing owners, but also aims to enhance the experience of potential customers.

2018 is designated as the "Year of Customer Experience" of the Group. Through further reform and innovation on our systems and business models, the Group aims to gain overwhelming praise from customers, including upgrade on the consulting service operation for online platform customers, wake-up calls for rejecters as well as concierge service for online platform customers. Meanwhile, the Group will study and discuss with the operation departments to launch the project of active invitation for first maintenance and continue to further push forward the development of the customer information integrity project.

Precise Investment on Marketing Expenses

The management on the marketing expenses of the Group will be more precise. The point-to-point precise investment on radio advertisements is necessarily made in alignment with the daily routine of target customers identified in the customer profiles. Promotion videos for cinema use are necessarily to be broadcasted three minutes before the movie begins to play. Embedded marketing in online platforms will have to be made based on the analysis over the historical sampling results of acquisition of customers. Furthermore, the Group will reinforce the budget management and negotiations on centralized procurement with suppliers so as to strive for efficient, precise and scientific marketing effectiveness.

Continuous and Steady Enhancement of Derivative Businesses

The Group will further enhance the guidance and management on insurance coverage ratio of new automobile and warranty renewal. In particular for the warranty renewal business, we will further make a detailed analysis on customer sources and put more efforts in strengthening the customer base. By identifying the different sources of the warranty renewal customers, we can rapidly increase the penetration rate of warranty renewal and provide strong support for improving the performance of after-sales services.

Enormous Opportunities in Xi'an, China

Driven by rigid demand, the automobile market in Northwestern China has vast potential to be explored. With current implementation of "the Belt and Road" initiative in China, preferential policies for Western China have been increasing. Given the relevant policy support, the Group will secure greater opportunities for development in the region. In 2017, GDP of Xi'an City was preliminarily verified as RMB746.985 billion, representing a nominal growth rate of 19.38%. Xi'an ranked top in terms of growth rate and 21st among the Mainland China's cities in terms of GDP, going up 5 places year-on-year. Xi'an, where most of the Group's dealerships are located, will speed up its pace of development comprehensively. Following the successful progress of "Big Xi'an" (大西安), a strategic plan launched by the government, GDP of Xi'an is expected to exceed RMB one trillion by 2020, likely with a total population of 10.70 million, of which, the urban population will exceed 8.5 million, and the main urban area of "Big Xi'an" will cover 2,600 square kilometres, which is larger than Beijing and Shanghai. In the coming three years, Xi'an will strengthen the construction of urban public transport and road network, including 7 metro lines, 2 civil airports and 2 high-speed rail hub stations, among which, the Xi'an North Station will become the largest train station in Asia.

As for the development model, Xi'an is committed to promote the mode of developing characteristic towns. Given the development plan of local government as well as strengths of the Group, enormous opportunities for the development of the Group will emerge in the future. Currently, the Group has three automobile industrial parks in Xi'an, covering key areas in urban Xi'an, which are ready to provide convenient services to consumers. Looking forward, the Group will also continue to push forward the construction of characteristic towns.

"Sunfonda" has been recognized as a Shaanxi famous trademark. The Group's brand influence substantially improved its strengths in terms of acquiring resources from brand-crossover cooperation, streamlining marketing expenses and enhancing management transparency. In 2017, the "Sunfonda" brand as well as the principle and vision of "People – Automobile – Health" will further support the promotion of the Group's business and reputation.

Directors

Executive Directors

Mr. Wu Tak Lam (胡德林), aged 56, was appointed as the Chairman and an executive director of the Company on 13 January 2011. He is also the Chairman of both the Nomination Committee and the Finance and Investment Committee of the Company. Mr. Wu founded the Group with Ms. Chiu Man in November 2000 and has been primarily responsible for the strategic management, planning and business development of the Group as well as development and maintenance of relationship with automobile suppliers of the Group. Mr. Wu serves as the chairman of the board and a director of each of the subsidiaries of the Company, and he has also been a director of Sunfonda (Hong Kong) Limited since April 1997. Prior to the establishment of the Group, Mr. Wu worked at China National Automotive Industry Sales Corp. (中國汽車工業銷售總公司) from July 1986 to December 1992. From August 1993 to March 1997, Mr. Wu was the managing director of Sunfonda Limited (新豐泰有限公司), which conducted import and export trade business and was dissolved in September 2002. He graduated from Wuhan Institute of Technology (武漢工學院, currently known as Wuhan University of Technology (武漢理工大學)) in Wuhan, China, majoring in automobile and tractor studies and obtained a bachelor's degree in engineering in July 1986. He is also the sole shareholder and director of Golden Speed Enterprises Limited ("**Golden Speed**", a controlling shareholder of the Company), a director of Top Wheel Limited ("**Top Wheel**", a controlled corporation of Golden Speed and a controlling shareholder of the Company), and the husband of Ms. Chiu Man (the chief executive officer of the Group, an executive director and a controlling shareholder of the Company).

Ms. Chiu Man (趙敏), aged 54, was appointed as the chief executive officer of the Group and an executive director of the Company on 13 January 2011. She is also a member of the Finance and Investment Committee of the Company. Ms. Chiu founded the Group with Mr. Wu Tak Lam in November 2000 and has been primarily responsible for the overall management and financial control of the Group. Ms. Chiu serves as a director in each of the subsidiaries of the Company and has also been a director of Sunfonda (Hong Kong) Limited since April 1997. Ms. Chiu graduated from Wuhan Institute of Technology (武漢工學院, currently known as Wuhan University of Technology (武漢理工大學)) in Wuhan, China, majoring in automobile and tractor studies and obtained a bachelor's degree in engineering in July 1986. She is also the sole shareholder and director of Win Force Enterprises Limited ("**Win Force**", a controlling shareholder of the Company), a director of Top Wheel (a controlled corporation of Win Force and a controlling shareholder of the Company), and the wife of Mr. Wu Tak Lam (the Chairman, an executive director and a controlling shareholder of the Company).

Mr. Jia Ruobing（賈若冰）, aged 44, was appointed as an executive director of the Company on 11 June 2012. Mr. Jia joined the Group in October 2011 and served as the chief operating officer of the Group from October 2011 to June 2015, primarily responsible for the overall operation of the Group. He has been the vice president of the Group since July 2015, primarily responsible for the strategic development, e-commerce, marketing and public relations of the Group. Mr. Jia also serves as a director of Grand Forever Enterprises Limited, a subsidiary of the Company. For the period from 6 June 2012 to 15 January 2018, Mr. Jia also served as a director of Sunfonda (Hong Kong) Limited, a subsidiary of the Company. Prior to joining the Group, he served as the luxury brand general manager of China ZhengTong Auto Services Holdings Limited (中國正通汽車服務控股有限公司), a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 01728), from September 2010 to September 2011, and as the Beijing regional sales director of Beijing Yan De Bao Automobile Sales Co., Ltd. (北京燕德寶汽車銷售有限公司) from June 2005 to August 2010, during which he was awarded the title of General Manager of Outstanding Mini Team 2009 and granted a Top Sales Performance Award from BMW China on 20 January 2010. Mr. Jia graduated from South China University of Technology (華南理工大學) in Guangzhou, China, majoring in international trade in July 1996. He obtained an executive diploma in management from the School of Business and Management of the Hong Kong University of Science and Technology (香港科技大學) in February 2008.

Mr. Gou Xinfeng（苟新峰）, aged 44, was appointed as an executive director of the Company on 9 November 2016. Mr. Gou has over 17 years of experience in the operation and management of automobile brands. Mr. Gou joined the Group in July 2002, and successively served the following positions in the subsidiaries of the Company: the sales deputy manager of Shaanxi Sunfonda Automobile Co., Ltd. (陝西新豐泰汽車有限責任公司) from July 2002 to February 2006 and the Sales Director of Xi'an Xinmingyang Toyota Automobile Sales Services Co., Ltd. (西安新銘洋豐田汽車銷售服務有限公司) from March 2006 to March 2009. Mr. Gou was the general manager of Shaanxi Sunfonda Automobile Technology Development Co., Ltd. (陝西新豐泰汽車技術開發有限責任公司) from April 2009 to September 2014, during which the store and the team were awarded a number of honors from Volkswagen Group under his leadership, including World Diamond Dealers 2014 (2014年度全球鑽石經銷商), Five-starred Management Team Award 2014 (2014年度五星級管理團隊獎) and Sales Excellence Award 2014 (2014年度卓越銷售獎). From October 2014 to the present, he has been the general manager of Shaanxi Sunfonda Boao Automobile Co., Ltd. (陝西新豐泰博奧汽車有限責任公司) and is responsible for the sales operation and daily management of various brands under the Group. Mr. Gou specializes in sales operation and overall store management. Mr. Gou graduated from Wuhan Automotive Industry University (武漢汽車工業大學) (now known as Wuhan University of Technology (武漢理工大學)) and obtained a bachelor's degree in Automotive Applied Engineering in July 1998.

Independent non-executive Directors

Mr. Liu Jie (劉傑), aged 55, was appointed as an independent non-executive director of the Company on 19 June 2012. He is also the Chairman of the Audit Committee, a member of the Nomination Committee, the Remuneration Committee and the Finance and Investment Committee of the Company. Mr. Liu has been a director of Shanghai Dian Software Tech Co., Ltd. (上海締安科技股份有限公司), a company whose shares are quoted on the National Equities Exchange and Quotations (stock code: 834047), since May 2015, and has since April 2016 been an independent director of the following two companies listed on the Shenzhen Stock Exchange, namely Tatwah Smartech Co., Ltd. (中山達華智能科技股份有限公司) (stock code: 002512) and Jiangsu Changbao Steeltube Co., Ltd. (江蘇常寶鋼管股份有限公司) (stock code: 002478). Since May 2017 and June 2017, Mr. Liu has also been an independent director of Goldcard Smart Group Co., Ltd. (金卡智能集團股份有限公司) (a company listed on the Shenzhen Stock Exchange; stock code: 300349) and Zhongchang Big Data Corp. Ltd. (中昌大數據股份有限公司) (a company listed on the Shanghai Stock Exchange; stock code: 600242), respectively. Mr. Liu has been a professor and supervisor of Ph.D candidates at the School of Economics and Management of Tongji University (同濟大學) since July 2000, a professor and supervisor of Ph.D candidates at the School of Management of Fudan University (復旦大學) since April 2004, a part-time professor and supervisor of Ph.D candidates at the School of Economics and Management of Tongji University (同濟大學) since September 2005, and a honorary professor in the Faculty of Business and Economics of the University of Hong Kong (香港大學) since September 2011. Mr. Liu has been a director and the general manager of Shanghai Fuli Management Consulting Co., Ltd. (上海復理管理諮詢有限公司) since January 2015 and an independent director of Milkyway Chemical Supply Chain Service Co., Ltd. (密爾克衛化工供應鏈服務股份有限公司) since September 2015. From October 1995 to January 1998, Mr. Liu was the deputy general manager of Shanghai Tongji Science & Technology Industrial Co., Ltd. (上海同濟科技實業股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600846). Mr. Liu has also served as the chairman of the board and general manager of Shanghai Tongji Travel Agency Co., Ltd. (上海同濟旅行社有限公司) since February 1997 and as the chairman of the board and general manager of Shanghai Tongji Biological Products Co., Ltd. (上海同濟生物製品有限公司) since April 1997. He was a director of Shanghai Tongji Science & Technology Industrial Co., Ltd. from May 1997 to June 2005, an independent director of Shanghai Material Trading Co., Ltd. (上海物資貿易股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600822) from October 2001 to June 2007, and an independent non-executive director of China Cyber Port (International) Company Limited (神州奧美網絡(國際)有限公司), a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 08206) from February 2007 to October 2008. Mr. Liu graduated from Tongji University (同濟大學) in Shanghai, China, majoring in industrial automation, and obtained a bachelor's degree and a master's degree in engineering in July 1987 and December 1990, respectively. He graduated from the same university majoring in management science and engineering and obtained a doctoral degree in engineering in July 1995.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND SECRETARY

Mr. Song Tao (宋濤), aged 40, was appointed as an independent non-executive director of the Company on 26 May 2017. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Song has 16 years of experience in the automobile sales and its relevant industry, and is currently Deputy Secretary of China Automobile Dealers Association (中國汽車流通協會) and director of the Membership Affairs Department. Mr. Song served as deputy general manager for components and parts in FAWMC from September 2001 to March 2004. From March 2004 to October 2006, he served as the Operation Director of Automotive Channel of CCTV International Network (央視國際網絡汽車頻道). He acted as the Deputy Director of the Import and Export Working Committee of Automobile and Parts of China Automobile Dealers Association (中國汽車流通協會汽車及零部件進出口工作委員會) since October 2006, the Executive Deputy Director of the Working Committee of Imported Automobile of China Automobile Dealers Association (中國汽車流通協會進口汽車工作委員會) and the Deputy Director of the Expert Committee of China Automobile Dealers Association (中國汽車流通協會專家委員會) since 2008. Mr. Song established Top 100 Office of China's Automobile Dealership Groups (中國汽車經銷商集團百強工作辦公室) in 2009; and he has successively established Dealers Association for various brands such as Benz, Faw-Volkswagen, Porsche, BMW, Audi, Jaguar and Land Rover and acted as secretary-general since 2010. In 2014, Mr. Song established Branch Auto Finance of China Automobile Dealers Association (中國汽車流通協會汽車金融分會) and served as secretary-general. Mr. Song is also a member of Chinese Advisory Committee of American Society of Association Executives (ASAE). Mr. Song graduated from Beihua University with accounting computerization as his major.

Dr. Liu Xiaofeng (劉曉峰), aged 56, was appointed as an independent non-executive director of the Company on 26 May 2017. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Dr. Liu has over 24 years of experience in corporate finance and has worked with various international financial institutions since 1993, including NM Rothschild & Sons, NM Rothschild & Sons (Hong Kong) Limited, JP Morgan Chase, DBS Asia Capital Limited and China Resources Capital Holdings Company Limited. Dr. Liu was an independent non-executive director of Haier Electronics Group Co., Ltd. (stock code: 1169) from June 2007 to June 2014, and is currently an independent non-executive director of Kunlun Energy Company Limited (stock code: 135) since April 2004, an independent non-executive director of Honghua Group Limited (stock code: 196) since January 2008, an independent non-executive director of Cinda International Holdings Limited (stock code: 111) since July 2016 and an independent non-executive director of Hisense Kelon Electrical Holdings Company Limited (stock code: 921) since September 2017 . The issued shares of the above five companies are listed on the Hong Kong Stock Exchange. Dr. Liu is also currently an independent director of UBS Securities Co., Ltd.. Dr. Liu obtained a Master's degree and a Ph.D. from the Faculty of Economics, University of Cambridge in England in 1988 and 1994 respectively, a Master's degree in Development Studies from the University of Bath, England, in 1987, and a Bachelor of Economics degree from Southwest University of Finance and Economics, China (previously known as Sichuan Institute of Finance and Economics, China) in 1983.

SENIOR MANAGEMENT

Mr. Liu Zhanli (劉戰利), aged 45, was appointed as the general manager of the Audi brand segment of the Group on 1 January 2012, responsible for Audi brand management and network development. Mr. Liu joined the Group in October 2003 and has been the department manager and the general manager of Shaanxi Sunfonda Automobile Co., Ltd. (陝西新豐泰汽車有限責任公司) since then. Prior to joining the Group, he worked as a salesman in Xi'an Jiuyuan High Voltage Capacitor Factory (西安九元高壓電容器廠) from December 1995 to October 2003. Mr. Liu graduated from Xi'an Statistical Institute (西安統計學院, currently known as Xi'an University of Finance and Economics (西安財經學院)) in Xi'an, China with a college diploma in economics in July 1995.

Mr. Ma Xiao Dong (馬曉東), aged 51, was appointed as the vice president of the Group on 13 August 2014, responsible for daily operational management of the Group. Prior to joining the Group, Mr. Ma worked in the Port of Dalian Authority as a staff from July 1990 to December 1997, and worked as the general manager of Nianshi Investment Club (USA) (美國年氏投資公司會所) from January 1998 to February 2000. He served as sales director of business division in Fuzhou Shenlong Group (福州神龍集團) from March 2000 to February 2004 and as the general manager of the 4S stores of Changchun NISSAN Kaishen (長春日產凱紳) from April 2004 to October 2005. From December 2005 to June 2014, Mr. Ma worked in Zhongsheng Group Holdings Limited (中升集團控股有限公司) and served as the general manager of Nissan brand, Audi brand, Toyota brand, the general manager of Southwestern region for Toyota brand and the general manager of Yunnan region, respectively. Mr. Ma graduated from Dalian Maritime Transportation Institute ((大連海運學院), currently known as Dalian Maritime University (大連海事大學)) in Dalian, PRC in July 1990 and obtained a bachelor's degree in ship electrical management engineering.

COMPANY SECRETARY

Ms. So Yee Kwan (蘇漪筠), aged 36, was appointed as the company secretary of the Company on 18 January 2014. Ms. So is a manager of the corporate services division of Tricor Services Limited, which is a global professional services provider specializing in integrated business, corporate and investor services. She has extensive experience in a diversified range of corporate services and has been providing professional secretarial services to many companies listed on the Hong Kong Stock Exchange for the past thirteen years. Ms. So is a Chartered Secretary and an Associate of both the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. So received a bachelor's degree in international business management from Oxford Brookes University (牛津布魯克斯大學) in the United Kingdom and a Master of Arts in Professional Accounting and Information Systems from City University of Hong Kong (香港城市大學).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This report reviews the performance of Sunfonda Group Holdings Limited (the "Group" or "Company") in respect of environmental, social and governance issues, including performance data and the effectiveness of existing measures.

During the year, the Group focused its efforts on enhancing environmental and social performance, also strengthening and actively responding to environmental and social issues. As an example, we actively communicate relevant information on the environment and society via e-mails, notices and training to enhance our employees' awareness on the environment and about social responsibility, to ensure their full participation. The Group's general administration department conducts periodic assessments and monitors the effectiveness of implementation; further details will be provided in this report.

Reporting Scope: This report is the second Environmental, Social and Governance Report prepared by Sunfonda Group Holdings Limited. The contents of the report cover the environmental, social and governance performance of the Group's automobile dealership operations, with its Head Office in Xi'an as the data main collection point for the report's information. The report has been prepared in accordance with Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Rules Governing the Listing of Securities ("Listing Rules") issued by The Stock Exchange of Hong Kong Limited ("HKEX" or the "Stock Exchange").

Reporting Period: This report is the Annual Report for the period from January 1st, 2017 to December 31st, 2017.

REPORTING PRINCIPLES:

This report is compiled and prepared in accordance with the requirements of the Environmental, Social and Governance Reporting Guide ("ESG Guide") issued by the HKEX.

1. Materiality: This report relates to environmental, social and governance matters that have a significant impact on investors and other stakeholders.
2. Quantitative: If there are key performance indicators, the indicators should be quantitative and be compared effectively where appropriate. The indicators must also state their purpose and impact.
3. Balance: This report impartially presents the Company's environmental, social and governance performance and avoids the inappropriate misleading of readers and omission of important data.
4. Consistency: This report uses a consistent method of disclosing statistical methods so that meaningful comparisons of data may be made in the future. Any future changes in methodology will be indicated in the report.

STAKEHOLDERS COMMUNICATION

The Group values its relationship with stakeholders and maintains good communications with them. Regular Annual General Meetings and Extraordinary General Meetings are held by the Group in accordance with the relevant requirements of the HKEX to provide opportunities for shareholders to communicate with each other. In relation to regular communications with suppliers, we conduct frequent telephone and e-mail communications concerning projects in operation, in order to maintain smooth co-operation. In terms of customers, we regularly hold customer care activities and conduct satisfaction surveys to maintain customer communication and interaction. At the same time, we are happy to communicate with investors and will organise timely meetings with investors and media before and after the Group's results announcements, in order to present the business development direction and highlights of the Group.

1. ENVIRONMENT

1.1 Green Operation – Reducing Emissions

The Group provides Battery Electric Vehicle (BEV) products with after-sales servicing, closely following the direction of the National Environmental Protection Strategy of Mainland. We have promoted a number of environmental protection initiatives in our operations to reduce greenhouse gas emissions, including the: Energy Conservation Policy, Business Travel Conservation Policy, Support for Local Suppliers' Procurement Policy, Indoor Air Quality Policy, Water Conservation Policy, Daily Operation Water Conservation Policy, Waste Reduction Policies, Reducing Plastic Waste Policy, Reducing Office Waste Policy and Solid Waste Recycling Policy. Specific activities promoted by the Group can be broadly divided into those in the workplace and day-to-day operations, including:

Workplace:

1) Ban on smoking to reduce air pollution and improve indoor air quality;
2) Promotion of "Green Travel" to encourage the use of staff transport to replace the individual use of private cars;
3) Avoiding long distance face-to-face meetings and replacing such with telephone or video conferencing to reduce carbon emissions stemming from transport usage;
4) Favouring recyclable resources and reducing the use of one-time items. For example, the employees' canteen suggested the use of re-usable tableware to reduce waste;
5) Planting green plants and transforming offices to be "green". Since the construction of the Head Office in Xi'an, a total of more than 900 extra trees have been planted;
6) The lighting system: in the case of replacements being needed, priority will be given to LED equipment to increase environmental protection performance;
7) Affixing a reminder on air conditioners that the temperature should be adjusted to 25 degrees;

8) Making it a priority to use energy efficient products for office equipment;
9) Reducing office waste during daily work, avoiding paper waste, re-using ink cartridges and collecting discarded or remaining metal parts and accessories for other production uses.

Day-to-day Operations:

1) Utilise energy efficient products;
2) Preferential use of local suppliers is a priority in our operations to reduce carbon emissions created from long-distance transport usage;
3) The car repair business operations will consider prioritising the use of environmentally friendly paint and related environmentally friendly materials;
4) We utilise water-efficient equipment and remind all employees and visitors to conserve water;
5) Addition of air filtration equipment to the exhaust parts of the spray booths with the aim of reducing the impact on air quality;
6) For construction activities, reducing the use of plastic products;
7) Requiring suppliers that we co-operate with to adhere to relevant environmental protection standards and regulations, some of them were already obtained an environmental protection certification;
8) Co-operating with environmental departments to educate staff on the implementation of environmental protection in their daily life and at work.

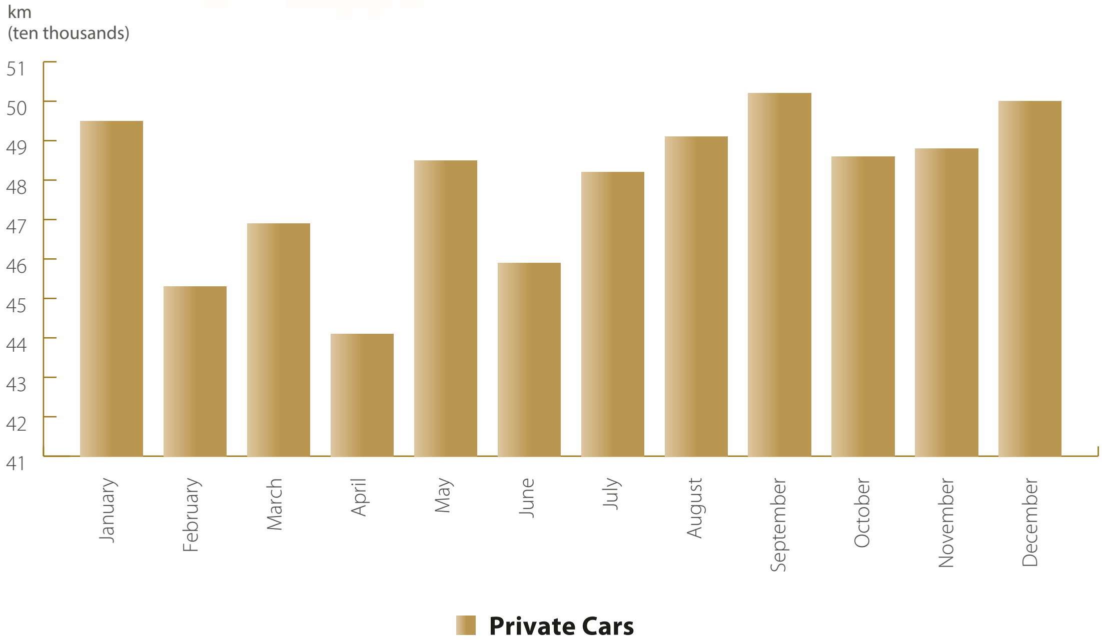
In addition, due to the increasing global demand for environmentally friendly vehicles, the Group has increased the sales of Battery Electric Vehicles (BEV) during the year.

The Group strictly complies with the Mainland's environmental regulations and conducts annual Environmental Impact Assessment reports to ensure that conditions have been met and that there are no relevant cases of breaches that may have a significant impact on the Group in the 2017 financial year.

Since it was the first year we started to collect and report the environmental data of Head Office. We hope that the relevant performance can be compared in the coming year.

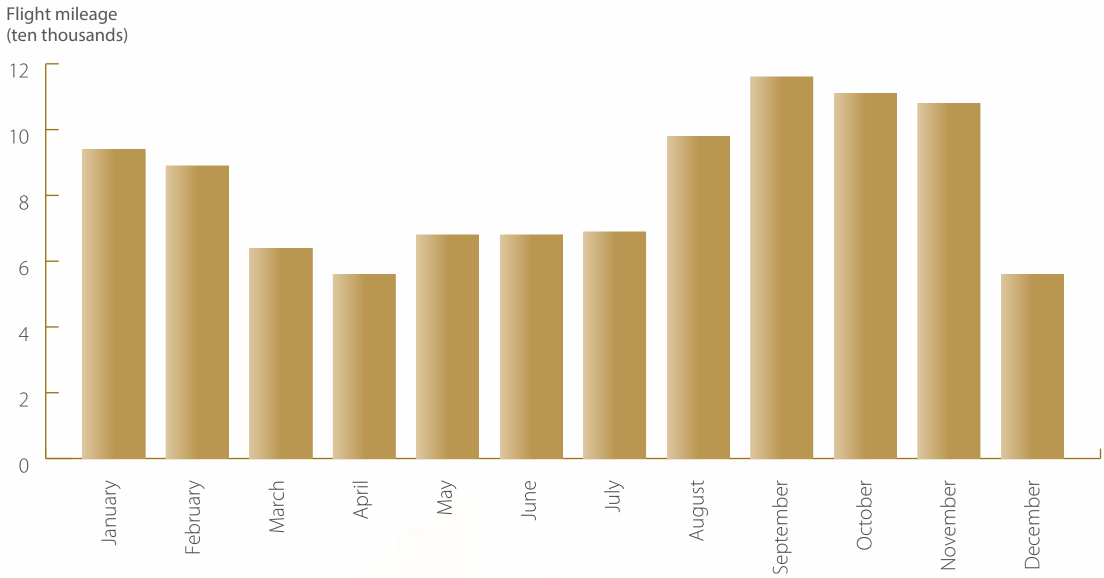
The data on business travel during the year from Head Office is as follows:

Kilometres Travelled by Company Vehicles



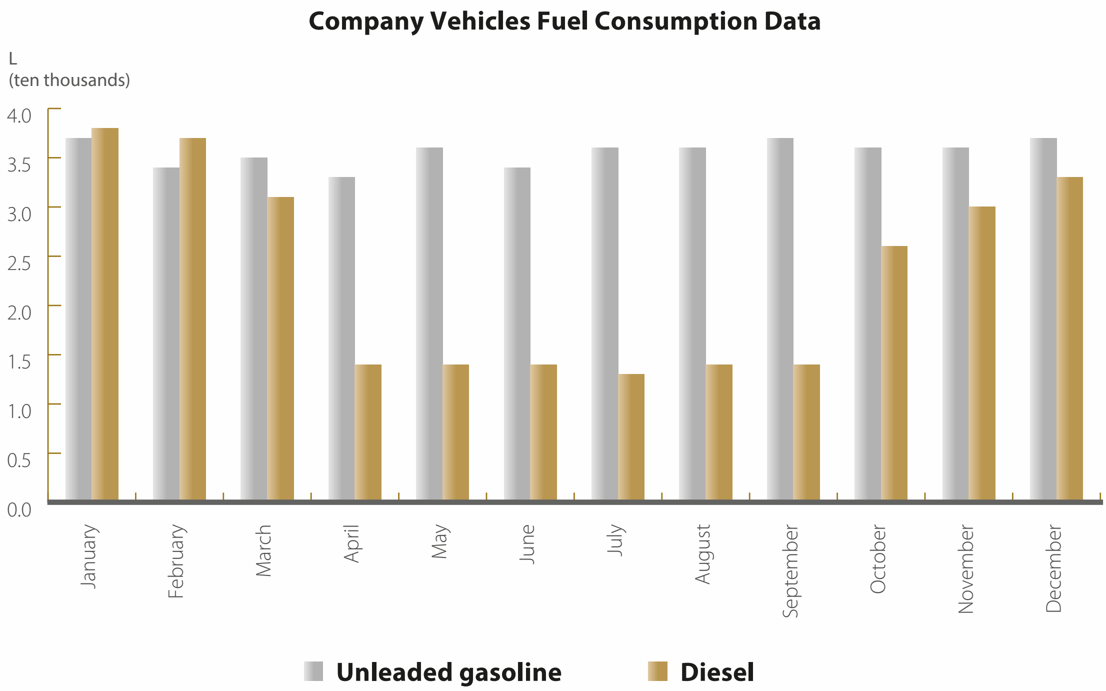
During the reporting period, the Company's total number of kilometres travelled was 5,749,629 km, of which September was the peak period of usage.

Employee Flight Mileage



During the reporting period, the employees' flight mileage totalled 995,760 kilometres and, similarly, September was the peak period of usage.

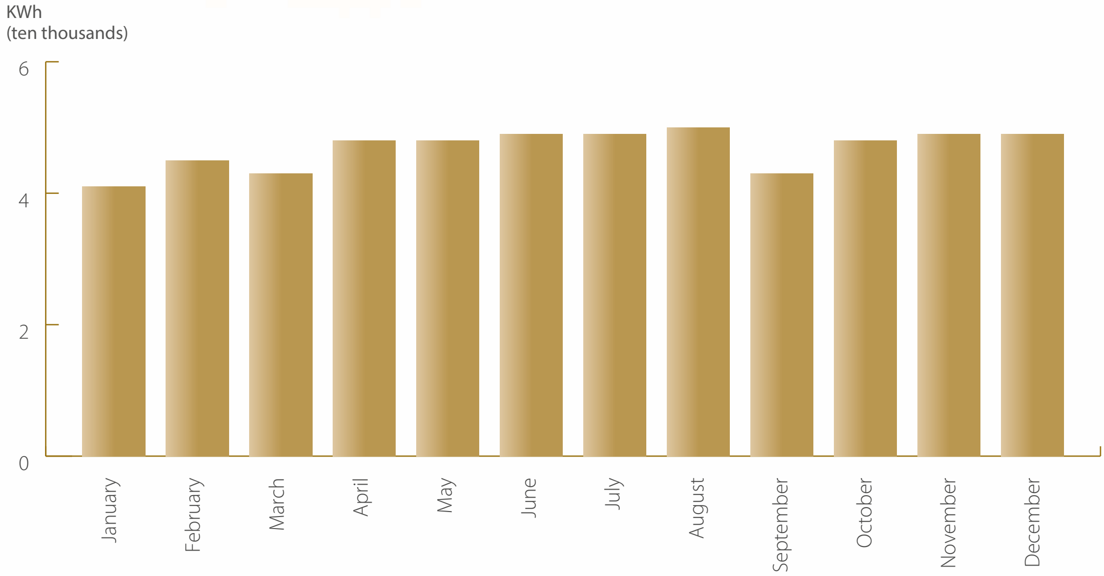
In terms of emissions, the fuel consumed by corporate vehicles (unleaded gasoline and diesel) at the Head Office is calculated as:



As can be seen from the graph above, the usage of diesel at the beginning of the year was higher than that of unleaded gasoline, although there was a trend of improvement later in the year. During the reporting period, the Company's total unleaded gasoline usage was 425,473 litres and its total diesel usage was 277,133 litres.

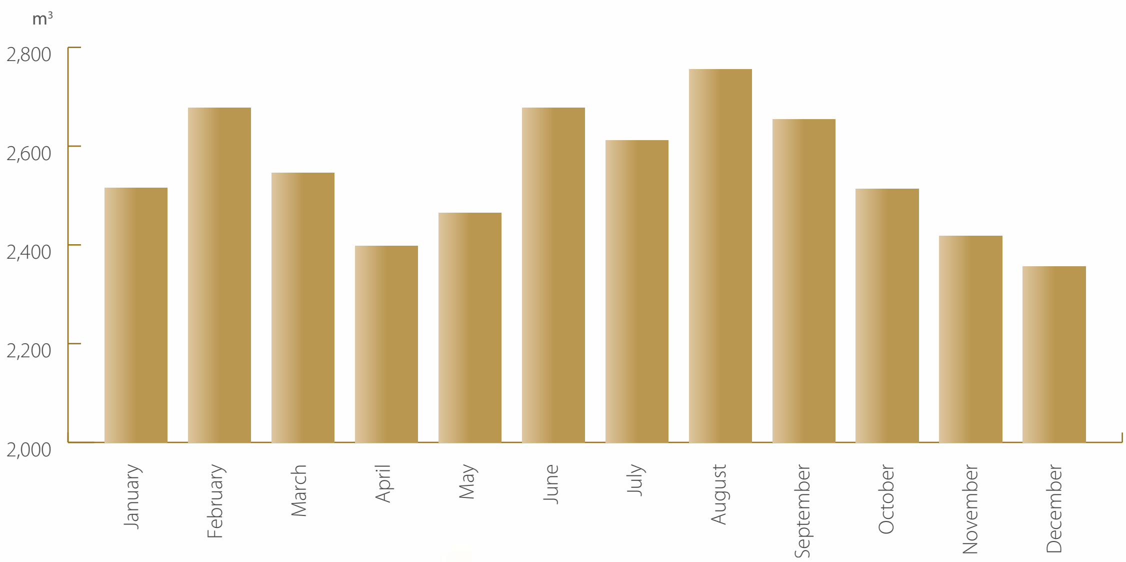
Data on energy consumption at Head Office:

Company Power Consumption 2017



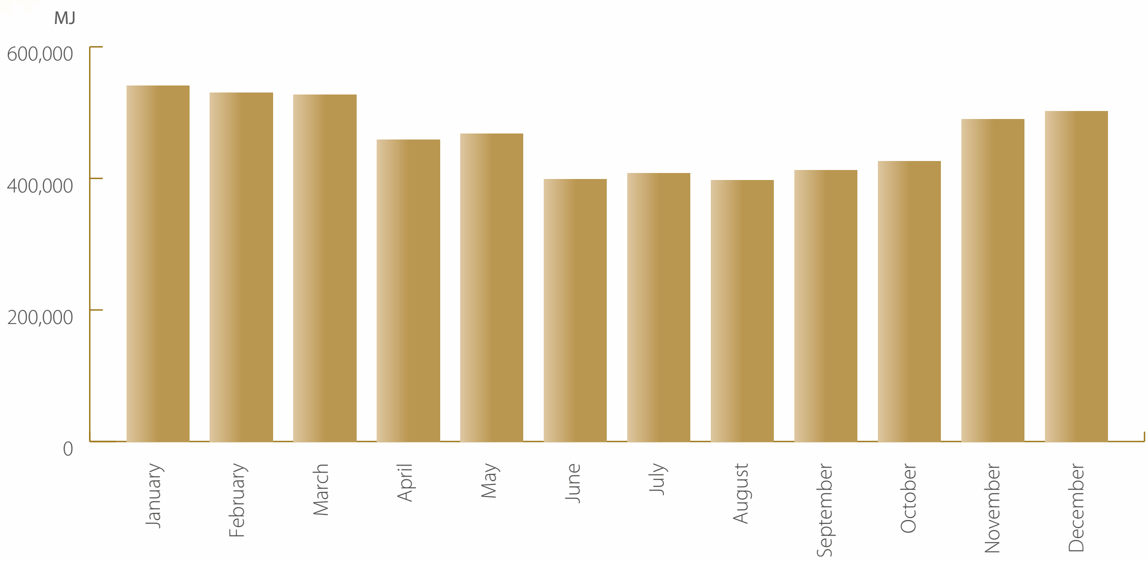
Power consumption has been steadily maintained at 40,000 to 50,000 kilowatts per hour.

Company Water Consumption 2017



For water consumption, peak usage was in August.

Company Gas Consumption 2017



In terms of gas consumption, there was a significant downward trend during the summer.

The following is the Greenhouse Gases (GHGs) emissions and intensity at Head Office during the reporting period:

Total GHG emissions	2,365.04 t CO2-e
GHG emissions intensity	0.857 t CO2-e (Calculated as per employee basis)
Direct GHG emissions	1,663.21 t CO2-e
Indirect GHG emissions (energy consumption)	523.58 t CO2-e
Other indirect GHG emissions	178.25 t CO2-e

1.2 Use of Resources

In order to effectively utilise resources, reduce waste and protect the ecological environment, the Group has implemented resources conservation and green documentation management. We have promoted the concept of "think before you use" at our offices to encourage our employees to save water, electricity and paper, and to establish a computerised "save system" to replace saving the original print copy. Our vehicle repair business also uses eco-friendly paint and eco-friendly materials. When repairing a car, employees will adopt the principle of "saving electricity and water" to reduce environmental pollution and the use of resources.

1.3 Waste Treatment

There were two types of wastes we classified, hazardous and non-hazardous waste, both are collected at a designated place at Head Office. Among the collected waste, hazardous waste will be dealt with by qualified suppliers that have long-term co-operation with the Group. During the reporting period, a total of 70 tonnes of hazardous waste was collected and 12.1 tonnes of non-hazardous waste was collected. The intensity is as follows:

Hazardous waste intensity produced (based on the number of employees)	Non-hazardous waste intensity produced (based on the number of employees)
0.02 tonnes	0.0043 tonnes

2. PEOPLE ORIENTED – CHERISHING TALENT

2.1 Employment

Employees are the Group's capital and, moreover, the principal factor in maintaining the Group's operations. The Group actively protects employees' basic rights and interests, understand employees' needs and enhances their physical and mental health so as to create a professional and efficient team for the Group.

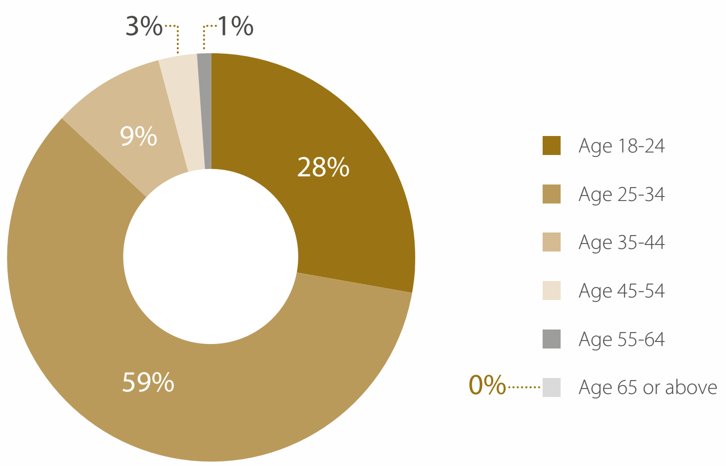
In order to ensure that employees have legitimate and reasonable rights and interests, the Group has set up an employment management system which covers "recruitment and hiring management", "employee change management regulations", "remuneration and benefits management system", "employee attendance, leave and overtime management regulations", "employee accidental injury insurance management system", "compensation and benefits management system", "employee resignation management regulations" and "labour contracts". These systems regulate and supervise the employment and promotion of employees, labour relations, employee diversity, treatment and equal opportunities, welfare and anti-discrimination and strive to safeguard the legitimate rights and interests of employees.

The Group has established equal opportunities, work-life balance, anti-discrimination and a diverse employee culture to create a "Zero Discrimination and Happy Workplace" for its employees. It also aims to be a good corporate citizen and will not tolerate any violations of employment regulations. During the reporting period, there were no instances of violation.

In terms of employees, during the reporting period, the Group had a total of 2,838 employees of which 1,902 were male and 936 were female. The Group intends that employees at all levels can enjoy the maximum benefits provided to them. Thus, more than 90% (2,704) of employees are full-time, 2 are temporary workers and 132 are apprentices or interns. Among them, 2,834 of the employees are from Mainland China, whilst 4 employees are from Hong Kong.

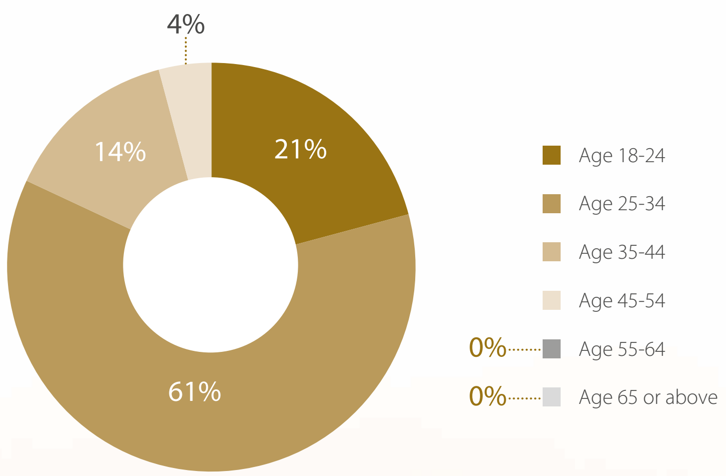
During the reporting period, the employee turnover rate was 0.35%. As more men were employed, they accounted for 0.21% of the turnover and women accounted for 0.14%. All of the employees that departed were from Mainland China.

Employee Turnover Age Distribution

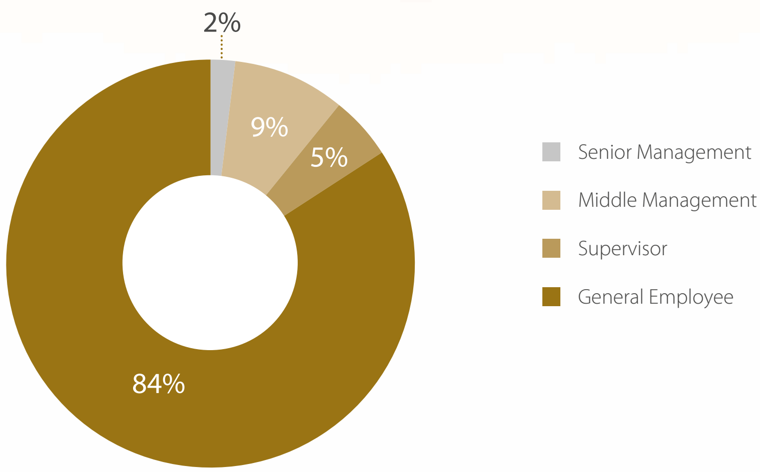


The following is other employee data:

Employee Age Distribution



Employee Rank Distribution



2.2 Health and Safety

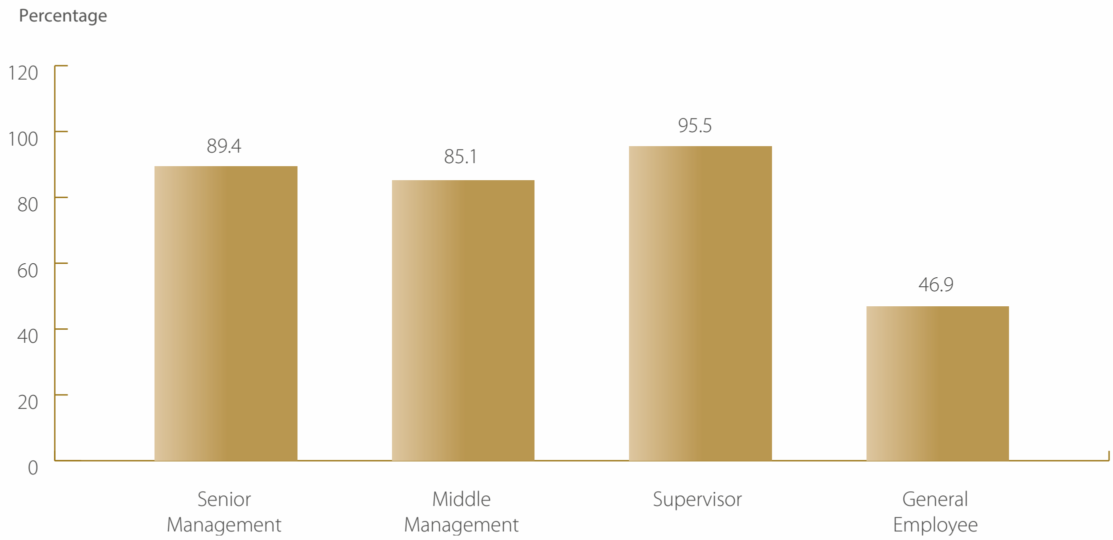
The health and safety of employees is a major focus for the Group's development management. The Group provides a safe working environment for its employees to ensure their safety and avoid occupational hazards. We set the foundation for safe operations by complying with the corporate responsibility obligations that are required by the Occupational Health and Safety Laws and Regulations of Hong Kong and the People's Republic of China (PRC). The Group has formulated a number of policies covering areas such as occupational health and safety, the provision of safety and protective tools, employee job safety monitoring and training, and job safety monitoring of contractors. We arrange physical examinations for our employees and instil them with safety knowledge. We are concerned about the safety of our employees and, therefore, strictly require factory workers to give priority to "safety first" and regularly remind them to wear protective equipment. Our supervisors will monitor the performance of safety at work so that safety measures can be effectively implemented and can be continuously improved. Thus, in 2017, we did not have any instances of health and safety violations and no accident occurred.

2.3 Development and Training

The Group emphasises career development and, therefore, formulates career development policies and staff development policies to enhance employees' knowledge and skills in performing their job duties and to provide more learning opportunities. In terms of career development, we engage experienced employees to lead new employees in their development to enhance mutual communication among employees and to enable them to improve their working abilities and skills through practice and exchange of ideas. We give priority to internal promotions in order for employees to have a better career path. The Group provides trainers to carry out induction training and on-the-job training to help new employees adapt and develop.

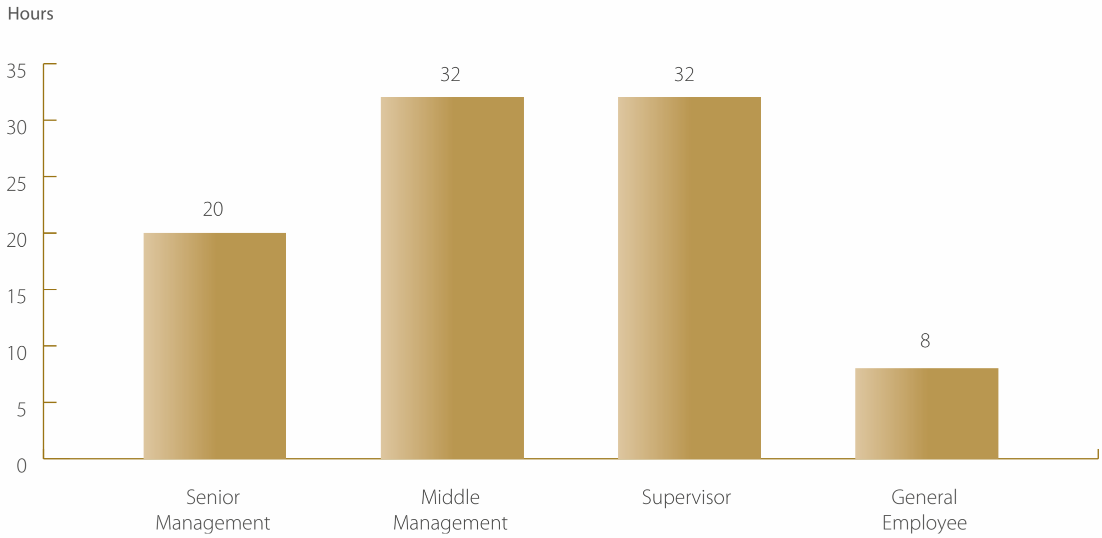
During the reporting period, the percentage of employees trained at Head Office was 53%, of which 60% were male and nearly 40% were female. The total number of hours of training received by men was 17 hours and 10 hours for women.

Proportion of Employee Training by Rank



As can be seen from the above graph, the proportion of employees who rank from supervisor and above and receive training is 85.1%-95.5%. Additionally, the training hours are as follows:

Training Hours by Employee Rank



2.4 Labour Standards

We strictly abide by the Employment Ordinance in Hong Kong and the Labour Contract Laws of the PRC, together with relevant labour standards, and we do not employ child labour or forced labour under any circumstances. Regarding the prevention of child labour, the Group requires all employees to have at least graduated from high school to put an end to child labour recruitment. In respect of forced labour, we adopt an open workplace to ensure forced labour has no chance of occurring. With the support of these measures, we had zero instances of violating labour standards in 2017.

3. SUPPLIER MANAGEMENT

In the process of procuring suppliers, the Group's general administration department promotes Green Procurement and efficiently manages suppliers to maintain the enterprise's smooth operation and to ensure the quality and safety of various products and services. In response to the relevant national and local regulations, the Group has formulated corresponding management procedures for suppliers of various products and services, including a supplier code, supplier bidding and evaluation mechanisms and the consideration of social responsibility as some of the criteria for selecting suppliers. These procedures are in place to ensure the legal compliance of the procurement process and to guarantee that selected suppliers are highly efficient in their management of quality, environmental protection, social responsibility and safety. The Group requires that the products provided by the suppliers possess legal intellectual property rights and all relevant confidentiality clauses are incorporated in the supplier's agreements.

After confirming the bidding with a supplier, we will formally send a "Notice of Successful Bidding" and then issue a "Supplier Qualification Certificate" to formally commence co-operation. To further ensure the quality of suppliers, a new supplier performance review was added this year and scheduled to be held at the end of the year to assess the actual situation of the cooperation with suppliers to decide whether to continue the co-operation. During the reporting year, the suppliers of Head Office were all from Mainland China.

4. PRODUCT RESPONSIBILITY

The Group attaches great importance to product liability and formulates relevant management policies and measures that exceed the requirements of laws and regulations to ensure product quality and safety, the accuracy of product descriptions in promotional messages and the quality of after-sales services.

Product quality control: Conduct sales and service business operations in strict accordance with the corresponding manufacturer's warranty policy of various brands. In addition, the manufacturers of various car brands must conduct testing and holding quality certificates.

Product Safety: Prior to the sale of products, we will carry out safety inspections and will only sell products that have passed testing. The Group resolutely refuses to produce or supply hazardous substances.

Fair Information Practices: All sales staff are required to provide accurate and truthful information to customers at the time of sale.

After-sales Service Policy: Provide after-sales service so that customers can have an interactive and open platform to enquire about product details and give feedback. As we are not a manufacturer, return procedures will be in line with the return policies of the car brand manufacturers.

The implementation of product liability management policies was a key element in avoiding any violations of service liability regulations in 2017.

5. CLEAN OPERATIONS

The Group attaches great importance to corporate governance and an honest organisational framework and formulates anti-corruption policies, conflict of interest reporting policies, anti-fraud policies, open bidding policies, confidential policies and independent auditing policies. The Legal Department and Audit Department has been assigned to supervise and resolutely put an end to any form of corruption, including extortion and money laundering. In the 2017 financial year, we did not discover any cases of corruption or any other cases related to breaches of clean operations.

6. COMMUNITY CARE

The Group actively integrates with the community and has good communication and interaction therewith. Furthermore, the Group has appointed the general administration department to be responsible for community involvement and actively respond to and participate in the activities organised by the district, such as public welfare sponsorship and environmental protection activities so that employees can enhance their enterprise and personal social responsibility and cultivate community contribution and environmental literacy.

In the current year, the Group took an active part in activities caring for the community. We associated with Party branch arranged donations for low income households, dispatched 10 volunteers and donated goods valued at 10,000 RMB. In addition, we donated 50,000 RMB to the Xi'an Children's Welfare Institution on December 29th, 2017.

In addition to caring for the community, we are also very concerned for underprivileged employees within the Group and have raised charitable donations amounting to a total of approximately 130,000 RMB.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PROSPECT

In 2017, the Group endeavoured to open more dealerships in different areas across the country to increase its coverage. We opened four new dealerships with a Skoda and FAW-Volkswagen 4S dealership in Xi'an, a Jaguar Land Rover 4S dealership in Yinchuan, and a Lexus 4S dealerships in Yan'an and Yangzhou. Apart from actively expanding our business, the Group will continue to strive for the strict implementation of the existing management systems and conduct effective supervision and inspections. With regard to environmental protection, we aim to increase attention to energy-saving emissions reduction and reduce the use of natural resources as far as possible. At the same time, we will continue to focus on the health and safety management of employees and conduct professionalism and business skills training on a regular basis. The Group will also strengthen the long-term development of employees and provide employees with career paths that can be sustainably developed. In terms of operations and management, we have further enhance the management and monitoring of suppliers, reasonably controlled operating costs and improved operational efficiency. In respect of customer care, the Group will continue to focus on customer satisfaction and organise targeted customer care activities tailored to their preferences. In addition, the Group will continue to further improve its communication and interaction with stakeholders and investors and continue to participate in community and public welfare activities to enhance corporate social responsibility. The Group is confident that the above measures will improve our ESG performances in 2018.

CORPORATE GOVERNANCE PRACTICE OF THE COMPANY

The Board believes that effective and reasonable corporate governance practices are essential to the development of the Group and can safeguard and enhance the interests of the shareholders. The Company has adopted the principles as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Company regularly reviews its corporate governance practice to ensure the compliance with the CG Code.

The Board is of the view that the Company has complied with the code provisions set out in the CG Code during the year ended 31 December 2017 (the "**Reporting Period**"). The major corporate governance principles and practices of the Company are summarised as below.

BOARD

The Board of the Company is responsible to all shareholders for leading and overseeing the operations of the Group so as to ensure the achievement of the objective of value adding to shareholders. The Board is responsible for the overall development of the Group, approving and monitoring the overall development strategies of the Group, assessing, monitoring and controlling the operation and financial performance, ensuring the directors of the Company perform their duties properly and act in the best interests of the Group and hold discussions on various important and proper businesses of the Company in a timely manner. All directors are entitled to include any matter that needs to be submitted to the Board for discussion in the agenda of the Board meeting. The management shall provide members of the Board and specialised committees under the Board with appropriate and sufficient information in a timely manner so as to update them with the latest developments of the Company to facilitate discharge of their duties and make informed assessment and decision.

The executive directors and the senior management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group. The delegated functions and work tasks are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers. The Board fully supports the senior management to discharge their responsibilities.

The Board as a whole is responsible for performing the corporate governance functions set out in the Code Provision D.3.1 of the CG Code. The Board has reviewed and monitored the Company's corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Employees Written Guidelines, and the Company's compliance with the CG Code and disclosures in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The current board composition of the Company are as follows:

Executive Directors:

Mr. Wu Tak Lam *(Chairman of the Board, Chairman of the Nomination Committee and Chairman of the Finance and Investment Committee)*

Ms. Chiu Man *(Chief Executive Officer and member of the Finance and Investment Committee)*

Mr. Jia Ruobing

Mr. Gou Xinfeng

Independent Non-executive Directors:

Mr. Liu Jie (Chairman of the Audit Committee, member of each of the Nomination Committee, the Remuneration Committee and the Finance and Investment Committee)

Mr. Song Tao *(Chairman of the Remuneration Committee, member of each of the Audit Committee and the Nomination Committee)*

Dr. Liu Xiaofeng *(Member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee)*

The biographical details of the current directors and the relationship among them, if any, are set out on pages 25 to 29 of this annual report.

The appointment of independent non-executive directors strictly adheres to the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Company has received an annual confirmation letter of independence from each of the independent non-executive directors and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgment. The Board considers that each of the independent non-executive directors brings his own relevant expertise to the Board and brings a wide range of business and financial expertise, experiences and independent judgement to the Board, and are also invited to join the Board committees of the Company. Through active participation in Board meetings and taking the lead in managing issues involving potential conflict of interests, all independent non-executive directors have made various contributions to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the shareholders.

BOARD MEETING

During the Reporting Period, the Board has convened six meetings to discuss and approve the overall strategies and policies of the Company, review and approve the audited annual results of the Group for the year ended 31 December 2016, review and approve the unaudited interim results of the Group for the six months ended 30 June 2017, discuss/approve on the reporting and proposals of all Board committees, consider whether the continuing connected transactions for the year 2017 exceeded the annual cap set, consider and approve the Company's new continuing connected transactions, review the risk management and internal control systems of the Group, review and approve the publication of the Company's Environmental, Social and Governance Report for the year ended 31 December 2016, consider and approve the adjustments to the remuneration of the Company's executive directors, and consider and approve the appointment of Mr. Song Tao and Dr. Liu Xiaofeng as the Company's independent non-executive directors and members of the Board committees, etc.

The attendance records of each director at the Board meetings during the Reporting Period are set out below:

Name of Directors	Attendance/ No. of meetings held	Attendance rate (%)
Executive Directors:		
Mr. Wu Tak Lam	6/6	100
Ms. Chiu Man	6/6	100
Mr. Jia Ruobing	6/6	100
Mr. Gou Xinfeng	6/6	100
Non-executive Director:		
Mr. Zhu Wei (note 1)	2/2	100
Independent Non-executive Directors:		
Mr. Liu Jie	6/6	100
Mr. Song Tao (note 2)	4/4	100
Dr. Liu Xiaofeng (note 2)	4/4	100
Mr. Yu Yuanbo (note 1)	2/2	100
Mr. Fu Johnson Chi-King (note 1)	2/2	100

Notes:

1. Mr. Zhu Wei retired as a non-executive director and Mr. Yu Yuanbo and Mr. Fu Johnson Chi-King retired as independent non-executive directors, all with effect from 26 May 2017. Prior to their retirements, 2 Board meetings were held during the Reporting Period.

2. Mr. Song Tao and Dr. Liu Xiaofeng were appointed as independent non-executive directors with effect from 26 May 2017. After their appointments, 4 Board meetings were held during the Reporting Period.

The Company has adopted the code provisions of the CG Code to issue meeting notice of at least 14 days before convening a regular Board meeting and a reasonable notice for other Board meetings so that all directors can have sufficient time and plan to attend the meeting. All meeting papers will be sent to all directors no less than three days before a meeting is convened. Matters discussed and resolved at Board meetings will be recorded in detail and a summary of minutes will be made, and resolutions will also be filed.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company's Articles of Association contain provisions on the procedures and process of appointment and removal of directors.

According to the Company's Articles of Association, one-third of the directors for the time being (if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting provided that every director shall be subject to retirement at an annual general meeting at least once every three years. In addition, any new director appointed by the Board to fill a casual vacancy in the Board shall hold office only until the first general meeting after appointment, and any new director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting of the Company. The retiring directors are eligible for re-election by the shareholders at the respective general meetings.

Each director of the Company, including each of the independent non-executive directors, is engaged for a term of three years, subject to renewal upon expiry of the term. They are also subject to re-election in accordance with the Company's Articles of Association provisions as mentioned above.

Pursuant to the provisions of the Articles of Association as mentioned above, Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Jia Ruobing, Mr. Song Tao and Dr. Liu Xiaofeng shall retire at the 2018 annual general meeting of the Company (the "**2018 AGM**"). All of the above five directors are eligible for re-election at the 2018 AGM. Mr. Jia Ruobing has indicated to the Board that since he wants to be more focused on his current duties as the Group's vice president, he will not offer himself for re-election and will therefore retire as director at the 2018 AGM. The other four retiring directors, i.e. Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Song Tao and Dr. Liu Xiaofeng, have indicated that they will offer themselves for re-election at the 2018 AGM. The Board and the Nomination Committee recommended the re-appointment of the said four retiring directors standing for re-election at the 2018 AGM. The Company's circular, sent together with this annual report, contains detailed information of these four directors pursuant to the requirements of the Listing Rules.

TRAINING FOR DIRECTORS

Each newly appointed director shall receive induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group, and that he/she is adequately aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The existing directors are continually updated with legal and regulatory developments, and the business and market changes to refresh their knowledge and to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors are arranged by the Company whenever necessary. To ensure all directors' continuous contributions to the Board are made with comprehensive and relevant information as well as the development and the update of knowledge and skills of all directors, the Company would arrange trainings and provide relevant fees. Training records for the directors of the Company during the Reporting Period are as follows:

- All directors (being Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Jia Ruobing, Mr. Gou Xinfeng, Mr. Liu Jie, Mr. Song Tao, Dr. Liu Xiaofeng, Mr. Zhu Wei, Mr. Yu Yuanbo and Mr. Fu Johnson Chi-King) received regular briefings and updates from the senior management on the Group's business, operating position and corporate governance matters.

- All directors (being Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Jia Ruobing, Mr. Gou Xinfeng, Mr. Liu Jie, Mr. Song Tao, Dr. Liu Xiaofeng, Mr. Zhu Wei, Mr. Yu Yuanbo and Mr. Fu Johnson Chi-King) read technical bulletins, periodicals and other publications in relation to the Group and those in relation to directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2017. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required by the Listing Rules and other regulatory requirements. The senior management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company in order to put forward such information to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

DIRECTORS' LIABILITY INSURANCE

The Company has purchased director liability insurance for all directors.

POLICY ON DIVERSIFICATION OF THE BOARD

The Company believes that the diversification of the Board is beneficial for enhancing the performance of the Company. The Company established the "Board Diversity Policy" to ensure, in setting the composition of the Board, the Company will consider the diversification of members of the Board from various aspects, including but not limited to age, cultural and educational background, professional experience, skills and knowledge. All appointments to the Board shall follow the principle of meritocracy, taking into account objectively the benefits of diversification of members of the Board when considering the candidates.

The Nomination Committee will review the policy when appropriate to ensure the effectiveness of the policy. The Nomination Committee will discuss any necessary amendment that may need to make and make recommendations to the Board for approval.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

Mr. Wu Tak Lam is the Chairman of the Board, who provides leadership for the Board and is responsible for chairing the meetings, managing the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. He is also responsible for setting the strategic vision, direction and goals of the Group and participates in the Group's strategic and key operational decision-making processes. He is the primary responsible person for ensuring that sound corporate governance practices and procedures are established, and that appropriate steps are taken to provide effective communication with shareholders so that their views are communicated to the Board as a whole. During the Reporting Period, Mr. Wu held one meeting with the non-executive directors (including independent non-executive directors) without the presence of executive directors.

Ms. Chiu Man is the Chief Executive Officer, who performs the functions of the Chief Executive Officer and is responsible for overseeing our operations and investment, managing our relationship with automobile manufacturers and exploring new business opportunities for the Group.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors (representing at least one-third of the Board), with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise. Currently, the Company has appointed three independent non-executive directors, namely Mr. Liu Jie, Mr. Song Tao and Dr. Liu Xiaofeng.

BOARD COMMITTEES

The Board has established four committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Finance and Investment Committee, for overseeing particular aspects of the Company's affairs. All of these four committees are established with defined written terms of reference which are available at the websites of the Stock Exchange and the Company. All Board committees must report to the Board on their decisions or proposals.

AUDIT COMMITTEE

We have established the Audit Committee with written terms of reference in accordance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee currently consists of the three independent non-executive directors, namely Mr. Liu Jie (Chairman of the Committee), Mr. Song Tao and Dr. Liu Xiaofeng. The primary duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal control systems of the Group.

The attendance records of each member of the Audit Committee at the Audit Committee meetings held during the Reporting Period are set out below:

Members of the Audit Committee	Attendance/ No. of meetings held	Attendance rate (%)
Mr. Liu Jie	2/2	100
Mr. Song Tao (note 1)	1/1	100
Dr. Liu Xiaofeng (note 1)	1/1	100
Mr. Yu Yuanbo (note 2)	1/1	100
Mr. Fu Johnson Chi-King (note 2)	1/1	100

Notes:

1. Mr. Song Tao and Dr. Liu Xiaofeng were appointed as members of the Audit Committee with effect from 26 May 2017. After their appointments, 1 Audit Committee meeting was held during the Reporting Period.

2. Mr. Yu Yuanbo and Mr. Fu Johnson Chi-King retired as members of the Audit Committee with effect from 26 May 2017. Prior to their retirements, 1 Audit Committee meeting was held during the Reporting Period.

The external auditor has attended all the above-mentioned meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters. There is no disagreement between the Board and the Audit Committee regarding the engagement of external auditor.

During the Reporting Period, the Audit Committee had performed the following major duties:

- Reviewed and discussed the annual financial statements, results announcement and report for the year ended 31 December 2016, relevant accounting principles and practices adopted by the Group and internal controls related matters, and the proposed re-appointment of the external auditors;

- Reviewed and discussed the interim financial statements, results announcement and interim report for the six months ended 30 June 2017, and relevant accounting principles and practices adopted by the Group;

- Reviewed the Group's continuing connected transactions;

- Reviewed and inspected the performance and effectiveness of risk management and internal control systems;

- Listened to and discussed the internal audit situation and proposed remedial measures of the Company reported by the internal audit department; and

- Reviewed the annual audit plan, which included the nature and scope of audit, fees payable to the auditors, their reporting obligations and working plans.

REMUNERATION COMMITTEE

We have established the Remuneration Committee with written terms of reference in accordance with Rule 3.25 of the Listing Rules and the CG Code set forth in Appendix 14 to the Listing Rules. The Remuneration Committee currently consists of the three independent non-executive directors, namely Mr. Song Tao (Chairman of the Committee), Mr. Liu Jie and Dr. Liu Xiaofeng. Major duties of the Remuneration Committee are to evaluate the remuneration policies for the directors and senior management of the Group as well as to make recommendations to the Board.

The attendance records of each member of the Remuneration Committee at the Remuneration Committee meetings held during the Reporting Period are set out below:

Members of the Remuneration Committee	Attendance/ No. of meetings held	Attendance rate (%)
Mr. Liu Jie	2/2	100
Mr. Song Tao (note 1)	1/1	100
Dr. Liu Xiaofeng (note 1)	1/1	100
Mr. Yu Yuanbo (note 2)	1/1	100
Mr. Fu Johnson Chi-King (note 2)	1/1	100

Notes:

1. Mr. Song Tao was appointed as the Chairman of the Remuneration Committee and Dr. Liu Xiaofeng was appointed as a member of the Remuneration Committee with effect from 26 May 2017. After their appointments, 1 Remuneration Committee meeting was held during the Reporting Period.

2. Mr. Yu Yuanbo retired as the Chairman of the Remuneration Committee and Mr. Fu Johnson Chi-King retired as a member of the Remuneration Committee with effect from 26 May 2017. Prior to their retirements, 1 Remuneration Committee meeting was held during the Reporting Period.

During the Reporting Period, the Remuneration Committee had performed the following major duties:

- Generally reviewed and discussed the remuneration packages and benefits policies for the directors and senior management of the Group;

- Discussed and proposed the remuneration of Mr. Song Tao and Dr. Liu Xiaofeng after their appointments as the Company's independent non-executive directors; and

- Discussed and proposed the adjustments to the remuneration of the Company's executive directors.

Pursuant to Code Provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2017 is set out below:

Remuneration bands (RMB)	Number of individuals
500,001-750,000	1
750,001-1,000,000	1

Details of the remuneration of all directors of the Company for the year ended 31 December 2017 are set out in Note 8 to the consolidated financial statements in this annual report.

NOMINATION COMMITTEE

We have established the Nomination Committee with written terms of reference in accordance with the CG Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee currently consists of the Chairman of the Board (who is an executive director) and the three independent non-executive directors, namely Mr. Wu Tak Lam (Chairman of the Committee), Mr. Liu Jie, Mr. Song Tao and Dr. Liu Xiaofeng. The primary duties of the Nomination Committee are to identify, screen and recommend to the Board appropriate candidates to serve as directors of the Company, to oversee the process for evaluating the performance of the Board, to develop recommendations to the Board, and to monitor director nomination guidelines for the Company.

In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, the integrity, experience, professional knowledge of the candidate and the amount of time and efforts that the candidate will devote to discharging his/her duties and responsibilities. External professionals might be engaged to carry out selection process when necessary.

The attendance records of each member of the Nomination Committee at the Nomination Committee meeting held during the Reporting Period are set out below:

Members of the Nomination Committee	Attendance/ No. of meeting held	Attendance rate (%)
Mr. Wu Tak Lam	1/1	100
Mr. Liu Jie	1/1	100
Mr. Song Tao (note 1)	–	–
Dr. Liu Xiaofeng (note 1)	–	–
Mr. Yu Yuanbo (note 2)	1/1	100
Mr. Fu Johnson Chi-King (note 2)	1/1	100

Notes:

1. Mr. Song Tao and Dr. Liu Xiaofeng were appointed as members of the Nomination Committee with effect from 26 May 2017. After their appointments, no Nomination Committee meeting was held during the Reporting Period.

2. Mr. Yu Yuanbo and Mr. Fu Johnson Chi-King retired as members of the Nomination Committee with effect from 26 May 2017. Prior to their retirements, 1 Nomination Committee meeting was held during the Reporting Period.

During the Reporting Period, the Nomination Committee had performed the following major duties:

- Reviewed the structure, size, composition and diversity of the Board;
- Considered and made recommendation to the Board on the re-election of the retiring directors at the 2017 annual general meeting;
- Assessed the independence of the independent non-executive directors; and
- Considered and proposed the appointments of Mr. Song Tao and Dr. Liu Xiaofeng as independent non-executive directors and members of Board Committees.

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 the directors' dealings in the Company's securities. Specific enquiry has been made to all the directors of the Company and each director has confirmed that they have complied with the Model Code throughout the year ended 31 December 2017.

The Company has established written guidelines for the relevant employees of the Company (the "**Relevant Employees**") in respect of their dealings in the securities of the Company (the "**Written Guidelines**") on terms no less exacting than the required standard set out in the Model Code. For this purpose, "Relevant Employee" includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to possess inside information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company for the Reporting Period.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and Relevant Employees in advance.

TRAINING FOR COMPANY SECRETARY

The company secretary of the Company is Ms. So Yee Kwan from Tricor Services Limited, who has met the qualifications as required by the Listing Rules. The biography of Ms. So is set out in the section headed "Biographies of Directors, Senior Management and Secretary" of this annual report. The main contact person of Ms. So Yee Kwan in the Company is Ms. Chiu Man (the Company's executive director).

During the year ended 31 December 2017, Ms. So Yee Kwan has received relevant professional trainings of no less than 15 hours.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on pages 79 to 83. The external auditors of the Company will be invited to attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, and auditors' independence.

The fees paid/payable to Ernst & Young, the Company's auditors, in respect of audit services and non-audit services provided for the year ended 31 December 2017 are analysed below:

Types of service provided by the external auditors	Fees paid/payable RMB
Audit services – audit fee for the year ended 31 December 2017	2,180,000
Non-audit services	–
Total:	2,180,000

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility towards risk management and internal control systems and that it is responsible for reviewing their effectiveness, to safeguard shareholders' investments and the Company's assets. The 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 reviews the effectiveness of the risk management and internal control systems as well as internal audit department on an annual basis through the Audit Committee of the Company. The internal audit department of the Group is under the leadership of the Board with independent monitoring authority. During the Reporting Period, the internal audit department has maintained internal control systems in compliance with the principles of comprehensiveness, importance and applicability as well as cost-effective. Thereby, it is able to carry out effective risk management and internal control through internal control measures including routine supervision, special supervision, prior approval, in-process control and post verification. Generally, the measures are as follows:

1. Introducing the Measures for Bidding and Tendering of the Group and companies (《集團公司招投標辦法》) to process tender management on the projects with qualified capital;

2. Developing appraisal rules of suppliers and carrying out management and control to admittance qualification of suppliers to maintain a strict standard of quality and price;

3. Optimizing assets management practices by thoroughly monitoring assets safety from approval of their purchases until their disposals;

4. Enhancing the management and auditing of operation system. During the year, the Group redeveloped and improved report extraction of the OA and EAS operation systems operated by the Group's subsidiaries to ensure the accuracy, completeness and timeliness of corporate operation data; and

5. Controlling risks within a tolerable level by adopting a series of risk management measures, including property protection control, authorization and approval control, operation analysis control, performance appraisal control and budget control.

During the Reporting Period, the Board had reviewed the effectiveness of the risk management and internal control systems of the Company. The review covered the financial, operational, compliance and risk management aspects of the Group.

According to the findings of the internal audit department, the conclusions made by the Board and the Audit Committee on risk management and internal control of the Group for the year ended 31 December 2017 are as follows: (i) the Group's risk management and internal control systems have been highly efficient and adequate; (ii) the Group has necessary control system in place for monitoring and rectifying any non-compliance incidents; and (iii) the Group has complied with the requirements as set out in the CG Code in respect of risk management and internal control.

The Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the Guidelines on Disclosure of Inside Information published by the Securities and Future Commission in June 2012, and established specialised agency and appointed personnel being responsible for registration and management of insiders. It also sets up internal management files for insiders management which is subject to regular updating. Meanwhile, regular trainings have been conducted and engaged by the insiders and management staff to enhance awareness of consciously observing relevant laws of insiders.

The Group has established the "System for Information Insiders Management" in respect of the Group's senior management and employee who are more likely to be familiar with inside information or other information unpublished by the Group in accordance with the "Guidelines on Disclosure of Inside Information", which stipulates that confidential and inside information shall not be used without authorization, and only executive directors and the Board secretary are authorized to communicate with external persons for inquiry and responding procedure of the Group's affairs.

There were no major breaches in the risk management and internal control systems that may have had an impact to the shareholders' interests, and the risk management and internal control systems were deemed to be effective and adequate.

The Company has adopted the disclosure policy intended to provide a general guidance for the Company's directors, officers, senior management and relevant employees with the aim to deal with the matters such as handling confidential information or monitoring information disclosure in accordance with applicable laws and rules.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company attaches great importance to the communication with shareholders and promotes understanding and communication with shareholders through various channels, such as general meetings, results announcement conferences, road show activities, receiving guests and telephone counseling.

The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions. The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as the Chairmen of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company, or in their absence, other members of the respective committees will attend the annual general meeting and, where applicable, the Chairman of the Independent Board Committee will attend the general meetings to answer questions.

To promote effective communication, the Company maintains a website at www.sunfonda.com.cn, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

During routine operations, the Company also strives to receive visits from shareholders and investors, and arrange onsite visits for them. The management of the Company will also communicate in person with investors and analysts. Shareholders are welcome to make enquiries in writing directly to the Company at its principal place of business in Hong Kong. The Company will respond to all enquiries on a timely and proper basis.

During the year ended 31 December 2017, the Company held one shareholders' meeting, being the 2017 annual general meeting held on 26 May 2017. Details of individual attendance of each director at the aforesaid shareholders' meeting are set out below:

Name of Directors	Attendance/ No. of annual general meeting held	Attendance rate (%)
Executive Directors:		
Mr. Wu Tak Lam	1/1	100
Ms. Chiu Man	1/1	100
Mr. Jia Ruobing	1/1	100
Mr. Gou Xinfeng	1/1	100
Non-executive Director:		
Mr. Zhu Wei (note 1)	1/1	100
Independent Non-executive Directors:		
Mr. Liu Jie	1/1	100
Mr. Song Tao (note 2)	–	–
Dr. Liu Xiaofeng (note 2)	–	–
Mr. Yu Yuanbo (note 1)	1/1	100
Mr. Fu Johnson Chi-King (note 1)	1/1	100

Notes:

1. Mr. Zhu Wei, Mr. Yu Yuanbo and Mr. Fu Johnson Chi-King have retired as directors at the conclusion of the 2017 annual general meeting.

2. After the 2017 annual general meeting, Mr. Song Tao and Dr. Liu Xiaofeng were appointed as independent non-executive directors with effect from 26 May 2017.

Any shareholders' enquiries regarding their shareholding, including transfer of shares, change of address, report of lost share certificates and dividend warrants, can be directed to Computershare Hong Kong Investor Services Limited, the Company's Hong Kong share registrar:

Address:	Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Contact:	(852) 2862-8628
Fax:	(852) 2865-0990, (852) 2529-6087
Website:	www.computershare.com.hk

RIGHTS OF SHAREHOLDERS

The Board is committed to maintaining an on-going dialogue with shareholders and providing timely disclosure of information concerning the Company's material developments to shareholders and investors. The annual general meetings of the Company provide a good opportunity for communication between shareholders and the Board.

To safeguard shareholders' interests and rights, separate resolutions on each substantial issue, including the election of individual directors, are proposed at general meetings for shareholders' consideration and voting. Shareholders of the Company could convene extraordinary general meetings or propose resolutions at general meetings as follows:

1. Pursuant to Article 12.3 of the Articles of Association of the Company, shareholders holding no less than one-tenth of the paid up capital of the Company as at the date of lodgement of the requisition may lodge a written requisition to the Board or Company Secretary at the head office/principal place of business in Hong Kong of the Company to request the Board to convene an extraordinary general meeting. The written requisition must state the purposes of the meeting.

2. If a shareholder wishes to propose a person other than a retiring director for election as a director at the general meeting, pursuant to Article 16.4 of the Articles of Association of the Company, the shareholder (other than the person to be proposed) eligible for attending and voting at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's principal place of business in Hong Kong to the Company Secretary. The period for lodgement of such proposal notices shall be 7 days from the day after the despatch of the notice of such general meeting (or such other period being a period commencing on the day after the despatch of the notice of such general meeting as determined by the Board from time to time) and end no later than 7 days prior to the date of such general meeting.

For the avoidance of doubt, the shareholder must provide his/her full name, contact details and identification in the duly signed written requisition, notice or statement (as the case may be), in order to give effect thereto. Information of the shareholder may be disclosed as required by law.

During the Reporting Period, there has been no material change in the constitutional documents of the Company. Please refer to the websites of the Company and the Stock Exchange for the latest version of the Company's Articles of Association. For more details of rights of shareholders, shareholders may refer to the Articles of Association of the Company.

All resolutions put forward at shareholders' meetings shall be voted by poll pursuant to the Listing Rules. The poll voting results will be posted on the websites of the Stock Exchange and the Company after each general meeting.

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 2017 (the "**Financial Statements**").

PRINCIPAL ACTIVITIES

The Group is the second largest luxury and ultra-luxury automobile dealership group in Northwestern China. The comprehensive automobile sales and services offered by the Group include:

(i) sale of automobiles, both imported and domestically manufactured;

(ii) after-sales services, including:

   a. maintenance and repair services;

   b. sales of spare parts; and

   c. automobile detailing services; and

(iii) other value-added services, including:

   a. automobile insurance agency services;

   b. automobile financing services;

   c. automobile licensing services; and

   d. automobile survey services.

There was no significant change in the nature of the principal businesses of the Group during the year.

ANALYSIS ON RESULTS AND FINANCIAL KEY PERFORMANCE INDICATORS

The Group's profits for the year ended 31 December 2017 and the financial position of the Company and the Group as at that date are set out in Financial Statements on page 84 and pages 86 to 87 of this annual report.

A review of the Group's business during the year, which includes a discussion on the principal risks and uncertainties faced by the Group, an analysis on the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, can be found in this Report of the Directors and the Management Discussion and Analysis as set out on pages 8 to 24 of this annual report. The business review forms part of this Report of the Directors.

ENVIRONMENTAL POLICIES AND PERFORMANCE

During the year, the Group continued to focus on improving its performance in environmental protection, enhancing the awareness of environmental protection and proactively addressing the environmental issues. The Group endeavoured to adopt various energy saving and emission reduction measures in its business operation, so as to reduce the consumption of natural resources by using environmentally-friendly products and verified materials. Meanwhile, the Group engaged qualified and professional hazardous waste treatment organizations by way of public tender to carry out centralized collection and treatment of hazardous waste, with an aim to minimizing the environmental pollution. The department of general affairs of the Group regularly inspects and monitors the treatment results.

Please refer to the Environmental, Social and Governance Report as set out on pages 30 to 44 of this annual report for the details of environmental policies and performance of the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

The Board has attached great importance to the Group's compliance with national and international laws, regulations and regulatory requirements. The industry that the Group engages in is highly regulated. The Group is required to hold all specific approvals, licenses and permits necessary for automobile dealers and the operation of automobile maintenance and repair business, and carry out a number of filing procedures for its business, including but not limited to the followings:

- Approval and license for highway transportation;
- License for automobile insurance agency; and
- Filing procedures for distributing brand automobiles.

Any loss of or failure to obtain or renew of the approvals, licenses or permits could lead to interruption of its operation, and any fine or punishment imposed by the PRC Government could materially and adversely affect the Group's results of operations, financial position and reputation.

For the year ended 31 December 2017, as far as the Board is aware, there was no material breach of the laws or regulations that have a significant impact on the Company's business and operation by the Company.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Company's 2018 AGM will be held on Monday, 21 May 2018. In order to determine shareholders' entitlement to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Wednesday, 16 May 2018 to Monday, 21 May 2018 (both days inclusive). In order to be entitled to attend and vote at the 2018 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Tuesday, 15 May 2018.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to propose the distribution of a final dividend of HK$0.09 per share for the year ended 31 December 2017 in an aggregate amount of RMB45.1 million. The proposed distribution of final dividend is subject to the consideration and approval of shareholders at the 2018 AGM of the Company.

Where the proposed distribution of final dividend is approved at the 2018 AGM, the dividend will be paid on Friday, 15 June 2018 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 31 May 2018. Therefore, the register of members of the Company will be closed from Tuesday, 29 May 2018 to Thursday, 31 May 2018 (both days inclusive). In order to be entitled to the final dividend, unregistered holders of shares of the Company should ensure that the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Monday, 28 May 2018.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

As of the date of this report, the authorised share capital of the Company was US$100,000.00, divided into 1,000,000,000 shares of a par value of US$0.0001 each. There were no movements in the issued shares of the Company during the year. Details of the Company's share capital are set out in Note 29 to the Financial Statements.

RESERVES

Details of changes in the reserves of the Company and the Group during the year are set out in Notes 42 and 31 to the Financial Statements and in the consolidated statement of changes in equity, respectively. Of which, details of reserves available for distribution to shareholders are set out in Notes 42 and 31 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the distributable reserves of the Company available for distribution, calculated based on the Companies Law of the Cayman Islands, amounted to approximately RMB335.4 million in aggregate, of which RMB45.1 million has been proposed as final dividend for the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

USE OF PROCEEDS

For the year ended 31 December 2017, the Group utilized the proceeds raised cautiously based on the development of the market and the Group's businesses. For the year ended 31 December 2017, the proceeds of the Group from the share offer was fully utilized. Among which, approximately 85% were used for expanding our outlet network organically and through selective acquisition; approximately 5% were used for upgrading, maintenance and refurbishment of our existing outlets; and approximately 10% were used for working capital and other general corporate purposes. The uses and proportions mentioned above have been in line with relevant information in the prospectus of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

Transaction amounts with five largest customers of the Company for 2017 accounted for less than 30% of the operating income of the Company for 2017. None of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year. The Group's business is of retail nature with customers being relatively dispersed.

The purchase attributable to the Group's five largest suppliers and the largest supplier accounted for approximately 76.6% and 28.3% respectively of the Group's total purchase for the year ended 31 December 2017. The Group has established long-term cooperation relationships with automobile suppliers. The Group believes that its strong performance demonstrates its excellent capability and in-depth market knowledge of the automobile distribution business in Northwestern China. The Group is confident that its operating capability and professional knowledge is conducive for the automobile suppliers to gain market shares in China and win customer loyalty. Therefore, the automobile suppliers have maintained close communication with the Group and sought out recommendations in respect of their development strategies in Northwestern China.

During the year under review, so far as the directors are aware, none of the directors, their close associates or the shareholders of the Company (which to the knowledge of the directors owned more than 5% of total number of issued shares of the Company) had any interest in the five largest suppliers or customers of the Company during the year.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and its subsidiaries as at 31 December 2017 are set out in Note 24 to the Financial Statements.

CHARITABLE DONATIONS

For the year ended 31 December 2017, the Group made charitable donations of approximately RMB50,000 in aggregate.

DIRECTORS

The directors of the Company during the year and as at the date of this report were:

Executive Directors

Mr. Wu Tak Lam
Ms. Chiu Man
Mr. Jia Ruobing
Mr. Gou Xinfeng

Non-executive Director

Mr. Zhu Wei (retired on 26 May 2017)

Independent Non-executive Directors

Mr. Liu Jie
Mr. Song Tao (appointed on 26 May 2017)
Dr. Liu Xiaofeng (appointed on 26 May 2017)
Mr. Yu Yuanbo (retired on 26 May 2017)
Mr. Fu Johnson Chi-King (retired on 26 May 2017)

Pursuant to Article 16.2 of the Articles of Association of the Company, Mr. Song Tao and Dr. Liu Xiaofeng, who were appointed as directors of the Company on 26 May 2017, shall retire at the 2018 AGM. In addition, pursuant to Article 16.18 of the Articles of Association of the Company, Mr. Wu Tak Lam, Ms. Chiu Man and Mr. Jia Ruobing shall retire as directors of the Company by rotation at the 2018 AGM. All the five retiring directors mentioned above are eligible for re-election at the 2018 AGM. It is noted that Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Song Tao and Dr. Liu Xiaofeng will offer themselves for re-election at the 2018 AGM; whereas Mr. Jia Ruobing will not offer himself for re-election and he will therefore retire at the 2018 AGM.

BIOGRAPHIES OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the directors and the senior management are set out on pages 25 to 29 of this annual report.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into a service contract with each of the directors, the major particulars of which are as follows: (1) the service contract entered into between Mr. Gou Xinfeng and the Company is for a term of three years starting from 9 November 2016; (2) the service contracts entered into between Mr. Song Tao, Dr. Liu Xiaofeng and the Company are for a term of three years starting from 26 May 2017; (3) the renewal service contracts entered into between other directors and the Company are for a term of three years starting from 15 May 2017; and (4) being terminable in accordance with the respective terms of the contracts.

None of the directors who are proposed for re-election at the 2018 AGM has entered into a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF THE DIRECTORS

Details of remuneration of the directors the Company are set out in Note 8 to the Financial Statements.

REMUNERATION OF THE FIVE HIGHEST PAID INDIVIDUALS

Details of remuneration of the five highest paid individuals of the Company are set out in Note 9 to the Financial Statements.

PERMITTED INDEMNITY PROVISION

The Company's Articles of Association provides that every director, auditor or other officer of the Company is entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a director, auditor or other officer of the Company in defending any proceedings, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for directors and officers of the Company.

PENSION SCHEME

Details of pension scheme of the Company are set out in Note 27 to the Financial Statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries or parent companies, or any subsidiaries of the parent companies of the Company was a party and in which any director of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2017.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2017, none of the directors nor their associates has competing interests in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Company.

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

As at 31 December 2017, the interests of the Company's directors in the shares of the Company or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "**SFO**")) which were required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or as were required to be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:

(A) Long position in ordinary shares of the Company

Name of Director	Capacity/nature of interest	Notes	Number of shares	Approximate percentage* of shareholding in the Company
Mr. Wu Tak Lam	Interest held by controlled corporations	1	358,554,500	59.76%
Ms. Chiu Man	Interest held by controlled corporations	1	358,554,500	59.76%
Mr. Jia Ruobing	Beneficiary of a trust	2	216,000	0.04%
	Beneficial owner		154,000	0.03%
			370,000	0.07%
Mr. Gou Xinfeng	Beneficiary of a trust	3	120,000	0.02%
	Beneficial owner		30,000	0.01%
			150,000	0.03%

Notes:

(1) These shares are held as to 351,000,000 shares by Top Wheel and 7,554,500 shares by Westernrobust Company Limited ("**Westernrobust**").

The issued share capital of Top Wheel is owned as to 70% by Golden Speed, a corporation wholly-owned and controlled by Mr. Wu Tak Lam, and 30% by Win Force, a corporation wholly-owned and controlled by Ms. Chiu Man. As Top Wheel is a controlled corporation of Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed and Win Force, they are deemed to be interested in the 351,000,000 shares held by Top Wheel pursuant to Part XV of the SFO.

The entire issued share capital of Westernrobust is owned by a revocable discretionary trust (the "**Management Trust**") established for the purposes of recognizing and rewarding the contribution and performance of certain directors and senior management of the Group pursuant to the Pre-IPO Share Award Scheme adopted by the Company on 8 January 2014 (the "**Pre-IPO Share Award Scheme**"). Top Wheel is the settlor of the Management Trust and possesses all voting rights attached to the unawarded shares and awarded shares which have not been vested under the Management Trust. Thus, the Management Trust and Top Wheel are deemed to be interested in the 7,554,500 shares held by Westernrobust. As Top Wheel is a controlled corporation of Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed and Win Force, they are also deemed to be interested in the 7,554,500 shares of the Company held by Westernrobust pursuant to Part XV of the SFO.

(2) Mr. Jia Ruobing is deemed to be interested in these 216,000 awarded shares, which have been granted to him (but not yet vested) pursuant to the Pre-IPO Share Award Scheme.

(3) Mr. Gou Xinfeng is deemed to be interested in these 120,000 awarded shares, which have been granted to him (but not yet vested) pursuant to the Pre-IPO Share Award Scheme.

* The percentage represents the number of ordinary shares involved divided by the number of the Company's issued shares as at 31 December 2017.

(B) Long position in the shares of associated corporations of the Company

Name of associated corporation	Name of Director	Capacity/ Nature of interest	Number of shares	Approximate percentage* of shareholding in the associated corporation
Golden Speed Enterprises Limited	Mr. Wu Tak Lam	Beneficial owner	1	100%
	Ms. Chiu Man	Interest of spouse	1	100%
Top Wheel Limited	Mr. Wu Tak Lam	Interest held by a controlled corporation	14,000	70%
		Interest of spouse	6,000	30%
			20,000	100%
	Ms. Chiu Man	Interest held by a controlled corporation	6,000	30%
		Interest of spouse	14,000	70%
			20,000	100%

Note: Mr. Wu Tak Lam holds the entire issued share capital of Golden Speed which holds 70% of the issued share capital of Top Wheel. The remaining 30% of the issued share capital of Top Wheel is indirectly held by his wife, Ms. Chiu Man (an executive director of the Company), through her wholly-owned investment company, Win Force. As Top Wheel holds more than 50% of the issued share capital of the Company and Golden Speed holds more than 50% of the issued share capital of Top Wheel, Top Wheel and Golden Speed are the associated corporations of the Company within the meaning of Part XV of the SFO.

* The percentage represents the number of ordinary shares interested divided by the number of issued shares of the associated corporation as at 31 December 2017.

Save as disclosed above, as at 31 December 2017, none of the directors or chief executive of the Company had an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the below sections headed "Share Option Scheme" and "Pre-IPO Share Award Scheme", neither at the end of nor at any time during the year there subsisted any arrangement to which the Company or any of its subsidiaries or its parent companies or its fellow subsidiaries was a party and the objectives of or one of the objectives of such arrangement are/is to enable the Company's directors, their respective spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the following corporations had interests of 5% or more of the issued share capital of the Company which were required to be recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

Long position in ordinary shares of the Company

Name of shareholder	Capacity/Nature of Interest	Notes	Number of shares	Approximate percentage* of shareholding in the Company
Top Wheel Limited	Beneficial owner	1	351,000,000	58.50%
	Founder of a discretionary trust	1	7,554,500	1.26%
			358,554,500	59.76%
Win Force Enterprises Limited	Interest held by a controlled corporation	1	358,554,500	59.76%
Golden Speed Enterprises Limited	Interest held by a controlled corporation	1	358,554,500	59.76%
Standard Chartered PLC	Interest held by a controlled corporation	2	90,000,000	15.00%

Notes:

(1) The above interests of Top Wheel, Win Force and Golden Speed were also disclosed as the interests of each of Mr. Wu Tak Lam and Ms. Chiu Man in the above section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures".

(2) Standard Chartered PLC, a bank listed on the stock exchanges of London, Hong Kong and India, indirectly wholly owns Standard Chartered Private Equity (Mauritius) III Limited through a series of wholly-owned subsidiaries, including Standard Chartered Holdings Limited, Standard Chartered Bank, SCMB Overseas Limited, Standard Chartered Holdings (International) B.V., Standard Chartered M.B. Holdings B.V., Standard Chartered Asia Limited and Standard Chartered Private Equity Limited, and is therefore deemed to be interested in the shares of the Company held by Standard Chartered Private Equity (Mauritius) III Limited.

* The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2017.

Save as disclosed above, as at 31 December 2017, no person, other than the directors whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had a registered interest or short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

MANAGEMENT CONTRACTS

During the year ended 31 December 2017, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed.

SHARE OPTION SCHEME

The Share Option Scheme (as defined in the Company's prospectus) was conditionally adopted pursuant to a resolution of the shareholders of the Company on 18 January 2014 (the "**Adoption Date**") and became effective from 15 May 2014 when dealings in the shares of the Company on the Stock Exchange commenced and, unless otherwise cancelled or amended, will remain in force for 10 years from the Adoption Date.

The purpose of the Share Option Scheme is to recognize and acknowledge the contributions made by the qualified participants, to attract skilled and experienced personnel, to incentivize them to remain with the Company and to motivate them to strive for the future development and expansion of the Company and its subsidiaries, by providing them with the opportunity to acquire equity interest in the Company.

Qualified participants of the Share Option Scheme include the Company's directors (including non-executive directors and independent non-executive directors), employees (whether full-time or part-time) of the Group or any entity in which the Company or its subsidiary holds any equity interest (the "**Invested Entity**"), any such other persons (including but not limited to suppliers, customers, consultants, contractors, advisers, business partners or service providers of the Group or the Invested Entity) who in the absolute discretion of the Board has contributed or will contribute to the Group.

The maximum number of shares issuable under share options granted to each qualified participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval at a general meeting.

A grant of share options under the Share Option Scheme to a connected person, a director, chief executive or substantial shareholder of the Company, or to any of their associates, is 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, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted, to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options under the Share Option Scheme may be accepted within five business days from the date of offer upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options subject to the provisions for early termination as set out in the Share Option Scheme. Unless otherwise determined by the directors at their sole discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised.

The exercise price of the share options shall be the highest of: (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of offer of the share options; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer of the share options.

Details of the Share Option Scheme were disclosed in the Company's prospectus and Note 30(b) to the Financial Statements. The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 60,000,000, representing 10% of the shares of the Company in issue as at the date of approval of this report. No options have been granted under the Share Option Scheme since its adoption.

PRE-IPO SHARE AWARD SCHEME

The Pre-IPO Share Award Scheme was adopted by the Company on 8 January 2014. For the implementation of the Pre-IPO Share Award Scheme, the Management Trust was established on the same date for the benefit of certain employees with Cantrust (Far East) Limited acting as the trustee. 9,000,000 shares of the Company were transferred to the Management Trust for nil consideration on the same date pursuant to the Pre-IPO Share Award Scheme. As of 31 December 2017, the Company has granted an aggregate of 4,990,000 shares to grantees in accordance with the Pre-IPO Share Award Scheme. Details of the Pre-IPO Share Award Scheme were disclosed in the Company's prospectus and Note 30(a) to the Financial Statements.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the above sections headed "Share Option Scheme" and "Pre-IPO Share Award Scheme", no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

CONTRACT OF SIGNIFICANCE

No contract of significance has been entered into between the Company, or any of its subsidiaries and the controlling shareholder or any of its subsidiaries during the year ended 31 December 2017.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in Note 27 to the Financial Statements.

CORPORATE GOVERNANCE

Please refer to the Corporate Governance Report on pages 45 to 60 of this annual report for details.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the directors, not less than 25% of the Company's total issued shares were in the hands of the public as at the date of this report, which complied with the public float requirements under the Listing Rules.

MATERIAL LITIGATION

During the year ended 31 December 2017, the Group was neither involved in any material litigation or arbitration, nor may be brought up or accused of any pending material litigation or claims.

AUDIT COMMITTEE

The Audit Committee (consisting of the three independent non-executive directors of the Company) has reviewed the consolidated financial statements for the year ended 31 December 2017, and is of the view that the Group's consolidated financial statements for the year ended 31 December 2017 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2017 and up to the date of this annual report, the controlling shareholders of the Company, namely Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed Enterprises Limited, Win Force Enterprises Limited and Top Wheel Limited (collectively referred to as the "**Controlling Shareholders**"), have no interests in any business which competes with or is likely to compete with the businesses of the Group.

The Company has obtained the annual written confirmations from the Controlling Shareholders in respect of their compliance with the Deed of Non-competition (the "**Deed of Non-Competition**") entered into between the Controlling Shareholders and the Company.

Based on the information and confirmations provided by or obtained from the Controlling Shareholders, the independent non-executive directors of the Company reviewed the compliance conditions in respect of the Deed of Non-Competition for the year ended 31 December 2017 and up to the date of this annual report, and believed that the Controlling Shareholders had fully complied with the Deed of Non-Competition.

CONNECTED TRANSACTIONS

Among the related party transactions disclosed in Note 39 to the Financial Statements, the following transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules and are required to be disclosed in this annual report in accordance with the requirements set out in Chapter 14A of the Listing Rules. Please see the below information disclosed in compliance with Chapter 14A of the Listing Rules.

On 1 December 2016, the Company entered into a new automobile sales and purchase agreement ("**Automobile Sales and Purchase Agreement**") with Yangzhou Sunfonda Automobile Co., Ltd. ("**Yangzhou Sunfonda**"), pursuant to which Yangzhou Sunfonda agreed to continue to purchase Volkswagen Imported automobiles from the Group. Pursuant to the Automobile Sales and Purchase Agreement, the Group sells Volkswagen Imported automobiles to Yangzhou Sunfonda on a wholesale basis at a unit price equivalent to the Group's purchase price obtained from Volkswagen Group Import (China) Co., Ltd. (大眾汽車(中國)銷售有限公司). Such purchase prices are in line with the pricing policy of the wholesale business conducted by the Company with other independent automobile dealers. By entering into the Automobile Sales and Purchase Agreement, the Group would be able to broaden its automobile sales channel, raise the sales volume and alleviate the inventory pressure. The renewed term of the Automobile Sales and Purchase Agreement is three years commencing on 1 January 2017 and expiring on 31 December 2019. For details, please refer to the Company's announcement dated 1 December 2016.

On 30 June 2017, the Company entered into a merchandise sale and purchase framework agreement (the "**MSP Framework Agreement**") with Yangzhou Sunfonda, pursuant to which the Group may purchase merchandise, primarily including Volkswagen Imported automobiles and related spare parts from Yangzhou Sunfonda from time to time. Pursuant to the MSP Framework Agreement, the prices at which the Group purchases imported Volkswagen Imported automobiles and related spare parts from Yangzhou Sunfonda on a wholesale basis are not higher than those offered to the Group by Volkswagen Group Import (China) Co., Ltd.. Such purchase prices are in line with the pricing policy of the purchase business conducted by the Company with other independent automobile dealers. With the MSP Framework Agreement, the Group may purchase models of imported Volkswagen automobiles not in its inventory from the nearby Yangzhou Sunfonda to meet the immediate needs of its customers in a timely manner, thus capturing more business opportunities and may also purchase spare parts, which are required to meet urgent repair and maintenance needs or temporarily unavailable from Volkswagen Group Import (China) Co., Ltd., from Yangzhou Sunfonda to improve its spares fill rate, satisfy the supply requirements of spare parts and do repair and maintenance business quickly. The term of the MSP Framework Agreement is three years, commencing on 1 January 2017 and expiring on 31 December 2019. For details, please refer to the Company's announcement dated 30 June 2017.

Yangzhou Sunfonda is wholly-owned by Mr. Zhao Yijian, who is the brother-in-law and the brother of Mr. Wu Tak Lam and Ms. Chiu Man respectively (directors of the Company), hence Mr. Zhao and Yangzhou Sunfonda are connected persons of the Company. As a result, both the Automobile Sales and Purchase Agreement and the MSP Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions in accordance with Chapter 14A of the Listing Rules.

For the year ended 31 December 2017, the annual cap of sales amount and sales volume under the Automobile Sales and Purchase Agreement was RMB26.4 million and 80 units; the annual cap of sales volume and sales amount under the MSP Framework Agreement were 20 units and RMB9 million of Volkswagen Imported automobiles, and RMB800,000 of automobile spare parts. For the year ended 31 December 2017, the number of vehicle the Group supplied to Yangzhou Sunfonda was 1 unit and the sales amount was RMB270,769.23; the number of vehicles Yangzhou Sunfonda sold to the Group was 4 units and the sales amount was RMB1,230,512.82; the sales amount of spare parts was RMB79,951.89, totaling RMB1,310,464.71. For more information, please also see Note 39 to the Financial Statements.

Independent non-executive directors of the Company have confirmed that the above continuing connected transactions were entered into: (i) in the ordinary course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with relevant governance agreements (including the pricing principle and guidelines set out therein) and on terms that were fair and reasonable and in the interest of the Company and the shareholders as a whole.

Ernst & Young, the Company's independent auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements 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 the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued a letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with relevant clauses of Rule 14A.56 of the Listing Rules. A copy of the auditors' letter will be provided by the Company to the Stock Exchange.

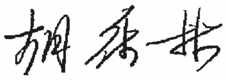
AUDITORS

The consolidated financial statements have been audited by Ernst & Young who will retire and, being eligible, offer themselves for re-appointment at the 2018 AGM. A resolution for the re-appointment of Ernst & Young as the auditors of the Company is to be proposed at the 2018 AGM.

SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR END DATE

There were no significant subsequent events that had occurred from 1 January 2018 to the date of this annual report.

By order of the Board
Sunfonda Group Holdings Limited



Mr. Wu Tak Lam
Chairman

Hong Kong, 28 March 2018

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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel電話: +852 2846 9888
Fax傳真: +852 2868 4432
ey.com

To the shareholders of Sunfonda Group Holdings Limited

(Incorporated in the Cayman Islands as an exempted company with limited liability)

OPINION

We have audited the consolidated financial statements of Sunfonda Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 84 to 161, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Vendor rebate receivables	
The Group recognises volume-related vendor rebates on an accrual basis according to the terms of the supplier contracts. As at 31 December 2017, the rebate receivables recognised were RMB159,274,000. The balance of rebate receivables is significant and the process of accruing the rebates is complex. Information of the rebate receivables is disclosed in note 20 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 receivables based on the rebate policies. We have also checked subsequent receipts of the rebates.
Deferred tax assets	
As at 31 December 2017, deferred tax assets recognised were RMB7,455,000. The deferred tax assets were recognised based on management's estimation of future taxable profits that would be available for utilising the deferred tax assets. As at 31 December 2017, deferred tax assets had not been recognised on accumulated tax losses of RMB233,832,000. The process of estimating the amount of the future taxable profits is complex, and involves estimates and judgements that would be affected by future actual operations, tax regulations, market or economic conditions. Information of the deferred tax assets and the unrecognised tax losses is disclosed in note 28 to the financial statements.	Our procedures included, among others, evaluating the assumptions and methodologies used by the Group in estimating future taxable profits. We evaluated and tested management assessment on available taxable profits by comparing to the Group's business plans approved by those charged with governance, expected future profit forecasts, associated growth rates, historical financial and tax information. We checked the adequacy of the relevant disclosures of deferred tax assets and unrecognised temporary differences.

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 the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5(a)	**7,687,005**	7,685,994
Cost of sales and services	6(b)	**(7,091,568)**	(7,215,366)
Gross profit		**595,437**	470,628
Other income and gains, net	5(b)	**206,459**	150,455
Selling and distribution expenses		**(293,357)**	(258,890)
Administrative expenses		**(207,281)**	(182,678)
Profit from operations		**301,258**	179,515
Finance costs	7	**(73,517)**	(87,482)
Profit before tax	6	**227,741**	92,033
Income tax expense	10	**(80,565)**	(45,624)
Profit for the year		**147,176**	46,409
Attributable to:			
Owners of the parent		**147,315**	46,863
Non-controlling interests		**(139)**	(454)
		147,176	46,409
Earnings per share attributable to ordinary equity holders of the parent	12		
Basic and diluted (RMB)		**0.25**	0.08

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2017

	2017 RMB'000	2016 RMB'000
Profit for the year	**147,176**	46,409
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(2,326)**	15,656
Other comprehensive income for the year, net of tax	**(2,326)**	15,656
Total comprehensive income for the year	**144,850**	62,065
Attributable to:		
Owners of the parent	**144,989**	62,519
Non-controlling interests	**(139)**	(454)
	144,850	62,065

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,067,985**	921,450
Land use rights	14	**316,187**	290,683
Intangible assets	15	**13,128**	3,151
Prepayments	16	**112,404**	97,643
Goodwill	17	**10,794**	510
Deferred tax assets	28	**7,455**	20,774
Total non-current assets		**1,527,953**	1,334,211
CURRENT ASSETS			
Inventories	18	**781,025**	681,809
Trade receivables	19	**52,974**	63,375
Prepayments, deposits and other receivables	20	**691,998**	539,231
Amount due from a related party	39(b)	**12,020**	21,662
Pledged bank deposits	21	**274,365**	190,260
Cash in transit	22	**19,517**	21,526
Short-term deposits	23	**55,209**	91,226
Cash and cash in banks	23	**615,571**	754,980
Total current assets		**2,502,679**	2,364,069
CURRENT LIABILITIES			
Bank loans and other borrowings	24	**1,278,289**	1,227,991
Trade and bills payables	25	**389,758**	426,393
Other payables and accruals	26	**325,891**	297,825
Income tax payable		**24,074**	23,534
Total current liabilities		**2,018,012**	1,975,743
NET CURRENT ASSETS		**484,667**	388,326
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,012,620**	1,722,537

	Notes	**2017 RMB'000**	2016 RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	24	**212,941**	59,500
Deferred tax liabilities	28	**2,658**	–
Total non-current liabilities		**215,599**	59,500
NET ASSETS		**1,797,021**	1,663,037
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	**377**	377
Reserves	31	**1,793,496**	1,658,566
		1,793,873	1,658,943
Non-controlling interests		**3,148**	4,094
Total equity		**1,797,021**	1,663,037

Director
Wu Tak Lam

Director
Chiu Man

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

	Attributable to owners of the parent										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	377	347,058	125,420	65,212	157,947	5,490	39,841	917,598	1,658,943	4,094	1,663,037
Profit for the year	-	-	-	-	-	-	-	147,315	147,315	(139)	147,176
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(2,326)	-	(2,326)	-	(2,326)
Total comprehensive income for the year	-	-	-	-	-	-	(2,326)	147,315	144,989	(139)	144,850
Acquisition of non-controlling interests	-	-	(1,193)	-	-	-	-	-	(1,193)	(807)	(2,000)
Transfer from retained profits	-	-	-	12,614	-	-	-	(12,614)	-	-	-
Final 2016 dividend declared	-	(11,616)	-	-	-	-	-	-	(11,616)	-	(11,616)
Equity-settled share award expense (note 30)	-	-	-	-	-	2,750	-	-	2,750	-	2,750
At 31 December 2017	377	335,442*	124,227*	77,826*	157,947*	8,240*	37,515*	1,052,299*	1,793,873	3,148	1,797,021

* These reserve accounts comprise the consolidated reserves of RMB1,793,496,000 (2016: RMB1,658,566,000) in the consolidated statement of financial position.

	Attributable to owners of the parent										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	377	347,058	125,420	60,333	157,947	3,248	24,185	875,614	1,594,182	4,548	1,598,730
Profit for the year	–	–	–	–	–	–	–	46,863	46,863	(454)	46,409
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	15,656	–	15,656	–	15,656
Total comprehensive income for the year	–	–	–	–	–	–	15,656	46,863	62,519	(454)	62,065
Transfer from retained profits	–	–	–	4,879	–	–	–	(4,879)	–	–	–
Equity-settled share award expense (note 30)	–	–	–	–	–	2,242	–	–	2,242	–	2,242
At 31 December 2016	377	347,058*	125,420*	65,212*	157,947*	5,490*	39,841*	917,598*	1,658,943	4,094	1,663,037

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
Operating activities			
Profit before tax		**227,741**	92,033
Adjustments for:			
Depreciation of items of property, plant and equipment	13	**101,373**	97,335
Amortisation of land use rights	14	**7,561**	7,342
Amortisation of intangible assets	15	**753**	642
Interest income	5(b)	**(6,518)**	(6,899)
Net (gain)/loss on disposal of items of property, plant and equipment	5(b)	**(7,127)**	11,263
Equity-settled share award expense	6(a)	**2,750**	2,242
Finance costs	7	**73,517**	87,482
		400,050	291,440
(Increase)/Decrease in pledged bank deposits		**(84,105)**	79,140
Decrease in cash in transit		**2,009**	7,762
Decrease/(Increase) in trade receivables		**11,081**	(12,311)
(Increase)/Decrease in prepayments, deposits and other receivables		**(133,647)**	101,364
Decrease in an amount due from a related party		**9,642**	7,010
(Increase)/Decrease in inventories		**(80,774)**	10,800
Decrease in trade and bills payables		**(37,234)**	(40,296)
(Decrease)/Increase in other payables and accruals		**(7,102)**	18,298
Cash generated from operations		**79,920**	463,207
Tax paid		**(66,706)**	(39,191)
Net cash generated from operating activities		**13,214**	424,016

	Notes	2017 RMB'000	2016 RMB'000
Investing activities			
Purchase of items of property, plant and equipment		**(308,359)**	(189,507)
Proceeds from disposal of items of property, plant and equipment		**86,018**	91,377
Purchase of land use rights		**(24,504)**	(40,494)
Purchase of intangible assets		**(2,087)**	(268)
Proceeds from disposal of available-for-sale investments		**–**	33,512
Increase of time deposits of maturity over three months		**(55,209)**	–
Interest received		**6,518**	6,899
Acquisition of a subsidiary	32	**(44,324)**	–
Acquisition of non-controlling interests		**(2,000)**	–
Net cash used in investing activities		**(343,947)**	(98,481)
Financing activities			
Proceeds from bank loans and other borrowings		**5,473,542**	5,477,693
Repayment of bank loans and other borrowings		**(5,275,034)**	(5,815,877)
Interest paid		**(73,517)**	(87,482)
Dividends paid	11	**(11,616)**	–
Net cash generated from/(used in) financing activities		**113,375**	(425,666)
Net decrease in cash and cash equivalents		**(217,358)**	(100,131)
Cash and cash equivalents at the beginning of year		**846,206**	933,157
Effect of foreign exchange rate changes, net		**(13,277)**	13,180
Cash and cash equivalents at the end of year	23	**615,571**	846,206
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**615,571**	754,980
Short-term deposits with maturity less than 3 months		**–**	91,226
		615,571	846,206

1. CORPORATE AND GROUP INFORMATION

Sunfonda Group Holdings Limited (the "Company") was incorporated in the Cayman Islands on 13 January 2011 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, KY1-1205, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 May 2014.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the sale and service of motor vehicles in Mainland China.

In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is Golden Speed Enterprises Limited, which is incorporated in the British Virgin Islands ("BVI").

Information about subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2017 are as follows:

Company name	Place and date of registration/ incorporation and place of business	Registered/paid-in/ issued capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
新豐泰(香港)有限公司 (Sunfonda (Hong Kong) Limited)	Hong Kong, the PRC 1997	Issued capital of HK$1,501,000	–	100%	Investment holding
Grand Forever Enterprises Limited	Tortola, the BVI 2011	Registered capital of US$50,000 and paid-in capital of US$2,001	100%	–	Investment holding
陝西新豐泰汽車有限責任公司* (Shaanxi Sunfonda Automobile Co., Ltd.)	Xi'an, the PRC 2000	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
陝西新豐泰汽車技術開發有限責任公司* (Shaanxi Sunfonda Automobile Technology Development Co., Ltd.)	Xi'an, the PRC 2001	Registered and paid-in capital of RMB531,284,500	–	100%	Sale and service of motor vehicles
西安新銘洋豐田汽車銷售服務有限公司* (Xi'an Xinmingyang Toyota Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2003	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
陝西凱盛汽車銷售服務有限公司* (Shaanxi Kaisheng Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2017 are as follows *(continued)*:

Company name	Place and date of registration/ incorporation and place of business	Registered/paid-in/ issued capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
陝西信捷汽車有限責任公司* (Shaanxi Xinjie Automobile Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of RMB13,000,000	–	100%	Sale and service of motor vehicles
西安鈞盛雷克薩斯汽車銷售服務有限公司* (Xi'an Junsheng Lexus Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
山西盈捷汽車銷售服務有限公司* (Shanxi Yingjie Automobile Sales Services Co., Ltd.)	Taiyuan, the PRC 2009	Registered and paid-in capital of RMB13,204,500	–	100%	Sale and service of motor vehicles
鄂爾多斯市新豐泰信捷汽車有限責任公司* (Ordos Sunfonda Xinjie Automobile Co., Ltd.)	Ordos, the PRC 2010	Registered and paid-in capital of RMB26,846,750	–	100%	Sale and service of motor vehicles
陝西新豐泰博奧汽車有限責任公司* (Shaanxi Sunfonda Boao Automobile Co., Ltd.)	Xi'an, the PRC 2010	Registered and paid-in capital of RMB55,199,805	–	100%	Sale and service of motor vehicles
鄂爾多斯市新豐泰凱盛汽車有限責任公司* (Ordos Sunfonda Kaisheng Automobile Co., Ltd.)	Ordos, the PRC 2010	Registered and paid-in capital of RMB29,733,148	–	100%	Sale and service of motor vehicles
西安新豐泰之星汽車銷售服務有限公司*** (Xi'an Sunfonda Zhixing Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2009	Registered and paid-in capital of HK$84,000,000	–	100%	Sale and service of motor vehicles
蘇州新豐泰汽車銷售服務有限公司** (Suzhou Sunfonda Automobile Sales Services Co., Ltd.)	Suzhou, the PRC 2011	Registered capital of HK$52,000,000 and paid-in capital of HK$45,000,000	–	100%	Sale and service of motor vehicles
蘭州新豐泰汽車銷售有限責任公司* (Lanzhou Sunfonda Automobile Sales Co., Ltd.)	Lanzhou, the PRC 2011	Registered and paid-in capital of RMB38,104,012	–	100%	Sale and service of motor vehicles
陝西新豐泰迎賓汽車銷售服務有限公司* (Shaanxi Sunfonda Yingbin Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2011	Registered and paid-in capital of RMB27,187,450	–	100%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2017 are as follows *(continued)*:

Company name	Place and date of registration/ incorporation and place of business	Registered/paid-in/ issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
延安新豐泰博奧汽車有限責任公司* (Yan'an Sunfonda Boao Automobile Co., Ltd.)	Yan'an, the PRC 2011	Registered and paid-in capital of RMB36,408,200	–	100%	Sale and service of motor vehicles
陝西新豐泰駿美汽車銷售服務有限公司* (Shaanxi Sunfonda Junmei Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2012	Registered capital of RMB50,000,000 and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
無錫新豐泰汽車有限責任公司* (Wuxi Sunfonda Automobile Co., Ltd.)	Wuxi, the PRC 2013	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
山西新豐泰駿美汽車銷售服務有限公司* (Shanxi Sunfonda Junmei Automobile Sales Services Co., Ltd.)	Taiyuan, the PRC 2012	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
揚州新豐泰博奧汽車銷售服務有限公司* (Yangzhou Sunfonda Boao Automobile Sales Services Co., Ltd.)	Yangzhou, the PRC 2013	Registered and paid-in capital of RMB30,000,000	–	90%	Sale and service of motor vehicles
西安新豐泰紅旗汽車銷售服務有限公司* (Xi'an Sunfonda Hongqi Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2013	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
寧夏新豐泰信捷汽車銷售服務有限公司** (Ningxia Sunfonda Xinjie Automobile Sales Services Co., Ltd.)	Yinchuan, the PRC 2013	Registered and paid-in capital of HK$49,000,000	–	100%	Sale and service of motor vehicles
寧夏新豐泰駿美汽車銷售服務有限公司* (Ningxia Sunfonda Junmei Automobile Sales Services Co., Ltd.)	Yinchuan, the PRC 2013	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
陝西新豐泰尚眾汽車銷售服務有限公司* (Shaanxi Sunfonda Shangzhong Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2013	Registered and paid-in capital of RMB26,000,000	–	100%	Sale and service of motor vehicles
北京新豐泰博奧汽車銷售服務有限公司* (Beijing Sunfonda Boao Automobile Sales Services Co., Ltd.)	Beijing, the PRC 2014	Registered and paid-in capital of RMB70,000,000	–	100%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2017 are as follows *(continued)*:

Company name	Place and date of registration/ incorporation and place of business	Registered/paid-in/ issued capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
渭南新豐泰博奧汽車銷售服務有限公司* (Weinan Sunfonda Boao Automobile Sales Services Co., Ltd.)	Weinan, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%****	Sale and service of motor vehicles
陝西新豐泰福生汽車銷售服務有限公司* (Shaanxi Sunfonda Fusheng Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
咸陽新豐泰瑞嘉汽車銷售服務有限公司* (Xianyang Sunfonda Ruijia Automobile Sales Services Co., Ltd.)	Xianyang, the PRC 2014	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
新豐泰(中國)投資有限公司** (Sunfonda (China) Investment Co., Ltd)	Shanghai, the PRC 2015	Registered and paid-in capital of US$89,232,599	–	100%	Investment holding
陝西新豐泰銘威汽車銷售服務有限公司* (Shaanxi Sunfonda Mingwei Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
銀川順馳路捷汽車銷售服務有限公司* (Yinchuan Shunchi Lujie Automobile Sales Service Co., Ltd.)	Yinchuan, the PRC 2014	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
延安新豐泰鈞盛雷克薩斯汽車銷售服務有限公司* (Yan'an Sunfonda Junsheng Lexus Automobile Sales Service Co., Ltd.)	Yan'an, the PRC 2015	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles
揚州新豐泰鈞盛雷克薩斯汽車銷售服務有限公司* (Yangzhou Sunfonda Junsheng Lexus Automobile Sales Service Co., Ltd.)	Yangzhou, the PRC 2016	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
西安新豐泰涇河物流開發有限公司* (Xi'an Sunfonda Jinghe Logistics Development Co. Ltd.)	Xi'an, the PRC 2013	Registered and paid-in capital of RMB19,171,896	–	100%	Logistic service

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2017 are as follows *(continued)*:

Company name	Place and date of registration/ incorporation and place of business	Registered/paid-in/ issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
陝西新豐泰金達實業開發有限公司* (Shaanxi Sunfonda Jinda Industrial Development Co. Ltd.)	Xi'an, the PRC 2014	Registered capital of RMB5,000,000 and paid-in capital of nil	–	100%	Storage service
西安新豐泰智威汽車銷售服務有限責任公司* (Xi'an Sunfonda Zhiwei Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2017	Registered and paid-in capital of RMB1,000,000	–	100%	Sale and service of motor vehicles
渭南市宗申寶泰汽車銷售服務有限公司* (Weinan Zongshen Baotai Automobile Sales & Service Co., Ltd.)	Weinan, the PRC 2012	Registered and paid-in capital of RMB63,000,000	–	100%	Sale and service of motor vehicles

* These companies are registered as limited liability companies under PRC law.

** These companies are registered as wholly-foreign-owned enterprises under PRC law.

*** This company is registered as a sino-foreign equity joint venture under PRC law.

**** On 31 October 2017, the Group acquired 20% of the equity interest of Weinan Sunfonda Boao Automobile Sales Services Co., Ltd. ("Weinan Bo'ao") from the non-controlling shareholder at a total consideration of RMB2,000,000. After the acquisition, Weinan Bo'ao has become a wholly owned subsidiary of the Group.

None of these above companies are audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

During the year, the Group acquired Weinan Zongshen Baotai Automobile Sales & Service Co., Ltd. from a third party. Further details of this acquisition are included in note 32 to the financial statements.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. 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.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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 in the accounting policy for subsidiaries below. 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 revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

The adoption of these revised HKFRSs has had no significant financial effect on these financial statements. Disclosure has been made in note 33 to the financial statements upon the adoption of amendments to HKAS 7, which 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.

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*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[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*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Annual Improvements 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

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

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 an 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. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will 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 will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

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

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and other receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. So far the Group has concluded that there would be no material impact upon the initial adoption of the standard.

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

HKFRS 15, issued in July 2014, 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. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. 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 will adopt HKFRS 15 from 1 January 2018 and plans to adopt the full retrospective approach. The Group's principal activities consist of the sale and service of motor vehicles in Mainland China. The Group has assessed that the application of HKFRS 15 will not have a significant impact on the Group's consolidated financial statements. However, the expected changes in accounting policies will have an impact on the presentation and disclosure of the Group's financial statements from 2018 onward. The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

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

HKFRS 16, issued in May 2016, 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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 37(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB55,446,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

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

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

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

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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.

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 the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

The Group measures its 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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/a disposal group 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 principal estimated useful lives and residual values used for this purpose are as follows:

Category	Estimated useful life	Estimated residual value
Buildings	20 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Construction in progress represents buildings and plant and machinery under construction or pending installation, which are stated at cost less any impairment losses, and are 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.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be finite. 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 are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

Software	5 years
Dealership agreements	40 years

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. 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 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Land use rights

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the right to use certain land and the consideration paid for such a right is recorded as land use rights, which are amortised over the lease terms of 24 to 63 years using the straight-line method.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. 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.

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.

The Group's financial assets mainly include cash and cash equivalents, cash in transit, pledged bank deposits, an amount due from a related party and trade and other receivables.

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. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement *(continued)*

Financial assets at fair value through profit or loss (continued)

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

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value 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)*

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

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 mainly include trade and bills payables, other payables and bank loans and other borrowings.

Subsequent measurement

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

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Inventories

Inventories are stated 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 based on estimated selling prices 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, and assets similar in nature to cash, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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, 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:

- 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, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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, when the services are fully rendered and accepted by customers;

(c) 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; and

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

Vendor rebates

Volume-related vendor rebates are recognised as a deduction from cost of sales on an accrual basis based on 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

The Company operates a share award scheme and 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 for grants is measured by reference to the fair value at the date at which they are granted. Further details of the fair value are given in note 30 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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.

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.

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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in Note 11 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated 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 translation 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 currency of the Company and certain overseas subsidiaries is HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are 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.

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 overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Deferred tax assets

Deferred tax assets are recognised for 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 was RMB7,455,000 as at 31 December 2017 (2016: RMB20,774,000). The amount of unrecognised tax losses at 31 December 2017 was RMB233,832,000 (2016: RMB142,681,000). Further details are contained in note 28 to the financial statements.

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 estimate 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 of goodwill at 31 December 2017 was RMB10,794,000 (2016: RMB510,000). Further details are given in note 17.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets other than indefinite life and goodwill 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.

Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its 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. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Net realisable value of inventories

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at the end of the reporting period.

4. OPERATING SEGMENT INFORMATION

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

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, no major customer information is presented in accordance with HKFRS 8 *Operating Segments*.

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

Revenue represents the net invoiced value of goods sold and the value of services rendered after allowances for returns and trade discounts, where applicable.

	2017 RMB'000	2016 RMB'000
Revenue from the sale of motor vehicles	**6,799,625**	6,859,168
Others	**887,380**	826,826
	7,687,005	7,685,994

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

(b) Other income and gains, net:

	2017 RMB'000	2016 RMB'000
Commission income	**152,469**	130,120
Logistics and storage income	**33,539**	17,737
Interest income	**6,518**	6,899
Advertisement support received from motor vehicle manufacturers	**609**	3,320
Net gain/(loss) on disposal of items of property, plant and equipment	**7,127**	(11,263)
Government grants	**2,305**	459
Others	**3,892**	3,183
	206,459	150,455

6. PROFIT BEFORE TAX

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

(a) Employee benefit expense (including directors' and chief executive's remuneration (note 8))

	2017 RMB'000	2016 RMB'000
Wages and salaries	**148,014**	128,947
Equity-settled share award expense	**2,750**	2,242
Other welfare	**28,430**	22,527
	179,194	153,716

6. PROFIT BEFORE TAX *(continued)*

(b) Cost of sales and services

	2017 RMB'000	2016 RMB'000
Cost of sales of motor vehicles	**6,595,237**	6,757,479
Others*	**496,331**	457,887
	7,091,568	7,215,366

* Employee benefit expenses of RMB47,207,000 (2016: RMB39,807,000) were included in the cost of sales and services.

(c) Other items

	2017 RMB'000	2016 RMB'000
Depreciation of items of property, plant and equipment	**101,373**	97,335
Amortisation of land use rights	**7,561**	7,342
Amortisation of intangible assets	**753**	642
Auditors' remuneration	**2,180**	2,120
Advertising and business promotion expenses	**69,016**	63,002
Lease expense	**10,866**	7,587
Bank charges	**5,326**	8,156
Office expenses	**23,713**	22,989
Logistics expenses	**9,642**	9,859
Net (gain)/loss on disposal of items of property, plant and equipment	**(7,127)**	11,263

7. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank borrowings and other borrowings	**73,517**	87,482

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Year ended 31 December 2017				
	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
– Mr. Wu Tak Lam	–	201	–	10	211
– Ms. Chiu Man (i)	–	201	–	10	211
– Mr. Jia Ruobing	–	832	176	34	1,042
– Mr. Gou Xinfeng	–	567	96	37	700
	–	1,801	272	91	2,164
Independent non-executive directors					
– Mr. Liu Jie	159	–	–	–	159
– Mr. Yu Yuanbo (ii)	66	–	–	–	66
– Mr. Fu Johnson Chi-King (iii)	87	–	–	–	87
– Mr. Song Tao (iv)	93	–	–	–	93
– Dr. Liu Xiaofeng (v)	122	–	–	–	122
	527	–	–	–	527
	527	1,801	272	91	2,691

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

	Year ended 31 December 2016				
	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
– Mr. Wu Tak Lam	–	215	–	10	225
– Ms. Chiu Man (i)	–	215	–	10	225
– Mr. Jia Ruobing	–	866	229	34	1,129
– Mr. Xia Kun (vii)	–	250	–	34	284
– Mr. Gou Xinfeng	–	504	88	34	626
	–	2,050	317	122	2,489
Non-executive director:					
– Mr. Zhu Wei (vi)	–	–	–	–	–
Independent non-executive directors					
– Mr. Liu Jie	190	–	–	–	190
– Mr. Yu Yuanbo (ii)	190	–	–	–	190
– Mr. Fu Johnson Chi-King (iii)	224	–	–	–	224
	604	–	–	–	604
	604	2,050	317	122	3,093

(i) The Group and the Company's chief executive is Ms. Chiu Man, who is also an executive director of the Group and the Company.

(ii) Mr. Yu Yuanbo was appointed as an independent non-executive director with effect from 19 June 2012 and retired with effect from 26 May 2017.

(iii) Mr. Fu Johnson Chi-King was appointed as an independent non-executive director with effect from 18 January 2014 and retired with effect from 26 May 2017.

(iv) Mr. Song Tao was appointed as an independent non-executive director with effect from 26 May 2017.

(v) Dr. Liu Xiaofeng was appointed as an independent non-executive director with effect from 26 May 2017.

(vi) Mr. Zhu Wei was appointed as a non-executive director with effect from 21 April 2011 and retired with effect from 26 May 2017.

(vii) Mr. Xia Kun was appointed as an executive director with effect from 20 November 2014 and resigned with effect from 9 November 2016.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

During the year ended 31 December 2017, certain directors were granted share awards, in respect of their services to the Group, under the share award scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of these share awards, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

No emoluments were paid to the non-executive director of the Company during the year (2016: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included two directors for the year (2016: two), details of whose remuneration are disclosed in note 8 above. Details of the remuneration for the year of the remaining three (2016: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	**1,913**	1,768
Pension scheme contributions	**111**	102
	2,024	1,870

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

	Number of employees	
	2017	2016
Nil to HK$1,000,000	**3**	3

9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

During the year ended 31 December 2017, share awards were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such share awards, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

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

	2017 **RMB'000**	2016 RMB'000
Current Mainland China corporate income tax	**67,246**	36,589
Deferred tax (note 28)	**13,319**	9,035
	80,565	45,624

Pursuant to Section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

The subsidiary incorporated in the BVI is not subject to income tax as this subsidiary does not have a place of business (other than a registered office only) or carry on any business in the BVI.

The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong 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 for the Mainland China subsidiaries is 25%.

10. 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 region in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2017 **RMB'000**	2016 RMB'000
Profit before tax	**227,741**	92,033
Tax at the applicable tax rate (25%)	**56,935**	23,008
Adjustment in respect of current tax of previous periods	**(344)**	1,523
Expenses not deductible for tax	**1,176**	1,732
Tax losses not recognised	**22,798**	19,361
Tax charge	**80,565**	45,624

11. DIVIDENDS

	2017 **RMB'000**	2016 RMB'000
Proposed final – HK$9.0 cents (2016: HK$2.2 cents) per ordinary share	**45,139**	11,808

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

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 600,000,000 (2016: 600,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2017.

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

	2017 RMB'000	2016 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**147,315**	46,863

	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year	**600,000,000**	600,000,000
Earnings per share		
Basic and diluted (RMB)	**0.25**	0.08

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 2017							
At 31 December 2016 and at 1 January 2017:							
Cost	**693,817**	**48,703**	**129,454**	**80,569**	**146,063**	**148,344**	**1,246,950**
Accumulated depreciation	**(146,068)**	**(15,355)**	**(64,955)**	**(57,238)**	**(41,884)**	**–**	**(325,500)**
Net carrying amount	**547,749**	**33,348**	**64,499**	**23,331**	**104,179**	**148,344**	**921,450**
At 1 January 2017, net of accumulated depreciation	**547,749**	**33,348**	**64,499**	**23,331**	**104,179**	**148,344**	**921,450**
Additions	**82,522**	**2,024**	**15,753**	**7,997**	**106,233**	**85,027**	**299,556**
Acquisition of a subsidiary	**21,093**	**–**	**2,549**	**1,283**	**2,318**	**–**	**27,243**
Disposals	**–**	**–**	**(2,087)**	**(1,532)**	**(75,272)**	**–**	**(78,891)**
Depreciation provided during the year	**(39,930)**	**(7,238)**	**(14,986)**	**(7,981)**	**(31,238)**	**–**	**(101,373)**
Transfer	**173,133**	**5,144**	**–**	**–**	**–**	**(178,277)**	**–**
At 31 December 2017, net of accumulated depreciation	**784,567**	**33,278**	**65,728**	**23,098**	**106,220**	**55,094**	**1,067,985**
At 31 December 2017:							
Cost	**970,565**	**55,871**	**144,352**	**86,262**	**145,932**	**55,094**	**1,458,076**
Accumulated depreciation	**(185,998)**	**(22,593)**	**(78,624)**	**(63,164)**	**(39,712)**	**–**	**(390,091)**
Net carrying amount	**784,567**	**33,278**	**65,728**	**23,098**	**106,220**	**55,094**	**1,067,985**
31 December 2016							
At 1 January 2016:							
Cost	681,077	58,404	121,146	77,718	174,347	81,867	1,194,559
Accumulated depreciation	(110,901)	(12,021)	(52,539)	(47,500)	(42,852)	–	(265,813)
Net carrying amount	570,176	46,383	68,607	30,218	131,495	81,867	928,746
At 1 January 2016, net of accumulated depreciation	570,176	46,383	68,607	30,218	131,495	81,867	928,746
Additions	22,847	143	8,997	4,560	84,915	71,217	192,679
Disposals	(11,595)	(8,219)	(291)	(878)	(78,927)	(2,730)	(102,640)
Depreciation provided during the year	(35,689)	(4,959)	(12,814)	(10,569)	(33,304)	–	(97,335)
Transfer	2,010	–	–	–	–	(2,010)	–
At 31 December 2016, net of accumulated depreciation	547,749	33,348	64,499	23,331	104,179	148,344	921,450
At 31 December 2016:							
Cost	693,817	48,703	129,454	80,569	146,063	148,344	1,246,950
Accumulated depreciation	(146,068)	(15,355)	(64,955)	(57,238)	(41,884)	–	(325,500)
Net carrying amount	547,749	33,348	64,499	23,331	104,179	148,344	921,450

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

As at 31 December 2017, the application for the property ownership certificates of certain buildings with an aggregate net book value of approximately RMB329,457,000 (2016: RMB125,345,000) was still in progress.

At 31 December 2017, certain of the Group's buildings with an aggregate net book value of approximately RMB285,068,000 (2016: RMB297,370,000) were pledged as security for the Group's bank borrowings (note 24(a)).

14. LAND USE RIGHTS

	2017 RMB'000	2016 RMB'000
Cost:		
At the beginning of the year	**326,717**	288,223
Acquisition of a subsidiary	**11,316**	–
Additions	**21,749**	38,494
At the end of the year	**359,782**	326,717
Amortisation:		
At the beginning of the year	**36,034**	28,692
Charge for the year	**7,561**	7,342
At the end of the year	**43,595**	36,034
Net book value:		
At the end of the year	**316,187**	290,683

The land use rights of the Group represent the cost of the Group's land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group range from 24 to 63 years.

At 31 December 2017, certain of the Group's land use rights with an aggregate net book value of approximately RMB178,004,000 (2016: RMB153,843,000) were pledged as security for the Group's bank borrowings (note 24(a)).

15. INTANGIBLE ASSETS

	Software RMB'000	Dealership RMB'000	Total RMB'000
31 December 2017			
Cost at January 2017,net of accumulated amortisation	**3,151**	**–**	**3,151**
Addition	**2,087**	**–**	**2,087**
Acquisition of a subsidiary	**–**	**8,643**	**8,643**
Amortisation provided during the year	**(753)**	**–**	**(753)**
At 31 December 2017	**4,485**	**8,643**	**13,128**
At 31 December 2017			
Cost	**9,136**	**8,643**	**17,779**
Accumulated amortisation	**(4,651)**	**–**	**(4,651)**
Net carrying amount	**4,485**	**8,643**	**13,128**
31 December 2016			
At 1 January 2016			
Cost	6,781	–	6,781
Accumulated amortisation	(3,256)	–	(3,256)
Net carrying amount	3,525	–	3,525
Cost at January 2016, net of accumulated amortisation	3,525	–	3,525
Addition	268	–	268
Amortisation provided during the year	(642)	–	(642)
At 31 December 2016	3,151	–	3,151
At 31 December 2016 and 1 January 2017			
Cost	7,049	–	7,049
Accumulated amortisation	(3,898)	–	(3,898)
Net carrying amount	3,151	–	3,151

The Group's principal identifiable intangible asset represent a dealership agreement in Mainland China with a certain vehicle manufacturer from a third party. The dealership agreement does not include a specified contract period or termination arrangement. The dealership agreement is amortised over 40 years, which is management's best estimation of its useful life.

16. PREPAYMENTS

	2017 RMB'000	2016 RMB'000
Prepaid lease payments for buildings and land use rights	**8,323**	5,120
Prepayments for purchase of land use rights	**66,255**	63,500
Prepayments for purchase of items of property, plant and equipment	**37,826**	29,023
	112,404	97,643

17. GOODWILL

	RMB'000
At 1 January 2016	
Cost	510
Accumulated impairment	–
Net carrying amount	510
Cost at 1 January 2016, net of accumulated impairment	510
Impairment during the year	–
At 31 December 2016	510
At 31 December 2016:	
Cost	510
Accumulated impairment	–
Net carrying amount	510
Cost at 1 January 2017, net of accumulated impairment	510
Acquisition of a subsidiary (note 32)	10,284
Accumulated impairment	–
Cost and net carrying amount at 31 December 2017	10,794
At 31 December 2017	
Cost	10,794
Accumulated impairment	–
Net carrying amount	10,794

17. GOODWILL *(continued)*

Impairment testing of goodwill

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

Goodwill acquired through business combination has been allocated to the relevant 4S dealership business from which the goodwill was resulted. This individual 4S dealership business is treated as a cash generating unit 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 ten-year period approved by senior management. The growth rate used to extrapolate the cash flows of the cash-generating unit beyond the ten-year period from the end of the reporting period is 3% (2016: 3%) for all years. The pre-tax discount rate applied to the cash flow projections beyond the one-year period is 12% (2016: 14%).

Assumptions used in the value in use calculation

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

Revenue from sale and services 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 the Group's 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.

18. INVENTORIES

	2017 RMB'000	2016 RMB'000
Motor vehicles	**709,019**	597,605
Spare parts	**72,006**	84,204
	781,025	681,809

At 31 December 2017, certain of the Group's inventories with an aggregate carrying amount of approximately RMB493,519,000 (2016: RMB281,985,000) were pledged as security for the Group's bank loans and other borrowings (note 24(a)).

At 31 December 2017, certain of the Group's inventories with an aggregate carrying amount of approximately RMB108,427,000 (2016: RMB124,368,000) were pledged as security for the Group's bills payable (note 25).

19. TRADE RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**52,974**	63,375

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over the trade receivable balances. Trade receivables are non-interest-bearing.

An aging analysis of the trade receivables as at each reporting date (based on the invoice date) is as follows:

	2017 RMB'000	2016 RMB'000
Within 3 months	**46,966**	55,089
More than 3 months but less than 1 year	**4,361**	3,026
Over 1 year	**1,647**	5,260
	52,974	63,375

19. TRADE RECEIVABLES *(continued)*

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**51,327**	58,115
Over 1 year past due but not impaired	**1,647**	5,260
	52,974	63,375

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.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments and deposits to suppliers	**433,498**	294,765
Vendor rebate receivables	**159,274**	178,325
VAT receivables (i)	**7,860**	6,130
Others	**91,366**	60,011
	691,998	539,231

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 VAT rate for 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.

21. PLEDGED BANK DEPOSITS

	2017 RMB'000	2016 RMB'000
Deposits pledged with banks as collateral against credit facilities granted by the banks and bills payable	**274,365**	190,260

Pledged bank deposits earn interest at interest rates stipulated by financial institutions.

As at 31 December 2017, certain of the Group's pledged bank deposits with an aggregate carrying amount of approximately RMB203,677,000 (2016: RMB190,260,000) were pledged as security for the Group's bills payable (note 25).

As at 31 December 2017, certain of the Group's pledged bank deposits with an aggregate carrying amount of approximately HK$17,100,000 (equivalent to RMB14,295,000) and US$8,630,000 (equivalent to RMB56,393,000) (2016: Nil) were pledged as security for the Group's bank loans and other borrowings (note 24(a)).

22. CASH IN TRANSIT

	2017 RMB'000	2016 RMB'000
Cash in transit	**19,517**	21,526

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

23. CASH AND CASH IN BANKS AND SHOTR-TERM DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash and cash in banks	**615,571**	754,980
Short-term deposits	**55,209**	91,226
	670,780	846,206
Time deposits with maturity over three months	**55,209**	–
Cash and cash equivalents	**615,571**	846,206

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances 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.

As at 31 December 2017, the cash and cash in banks and short term deposits of the Group denominated in RMB amounted to RMB549,011,000 (2016: RMB620,310,000) in Mainland China. 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.

24. BANK LOANS AND OTHER BORROWINGS

	2017 Effective interest rate (%)	2017 Amount RMB'000	2016 Effective interest rate (%)	2016 Amount RMB'000
CURRENT:				
Bank loans	**3.3-7.0**	**1,140,520**	1.4-7.0	1,099,160
Other borrowings	**5.6-7.8**	**137,769**	5.6-7.9	128,831
		1,278,289		1,227,991
NON-CURRENT:				
Bank loans	**3.3-5.5**	**212,941**	5.0-7.4	59,500
		1,491,230		1,287,491
Bank loans and other borrowings represent:				
– secured loans (a)		**1,212,583**		1,197,491
– unsecured loans		**278,647**		90,000
		1,491,230		1,287,491

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**1,140,520**	1,099,160
In the second year	**3,000**	56,500
In the third to fifth years, inclusive	**79,455**	3,000
Over five years	**130,486**	–
	1,353,461	1,158,660
Other borrowings repayable:		
Within one year	**137,769**	128,831
	1,491,230	1,287,491

24. BANK LOANS AND OTHER BORROWINGS *(continued)*

Notes:

(a) As at 31 December 2017, certain of the Group's bank loans and other borrowings are secured by:

(i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately RMB178,004,000 (2016: RMB153,843,000) (note 14);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB285,068,000 (2016: RMB297,370,000) (note 13);

(iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB493,519,000 (2016: RMB281,985,000) (note 18);

(iv) mortgages over the Group's bank deposits, which had an aggregate carrying value of approximately HK$17,100,000 (equivalent to RMB14,295,000) and US$8,630,000 (equivalent to RMB56,393,000) (2016: Nil) (note 21);

(b) On 10 March 2017, the Company borrowed a long-term bank loan of HK$223,000,000 with interest rate at 1.8% over 12 months HIBOR from certain bank with final maturity date on 31 December 2026. The bank loan shall be repaid according to the instalments arrangement from 31 December 2020 to 31 December 2026.

(c) Except for the secured bank loan amounting to HK$280,000,000 (equivalent to RMB234,055,000) (2016: Nil) which is denominated in Hong Kong dollars, all borrowings are in Renminbi.

25. TRADE AND BILLS PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	**109,512**	96,665
Bills payable	**280,246**	329,728
Trade and bills payables	**389,758**	426,393

An aging analysis of the trade and bills payables as at each reporting date, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 3 months	**298,162**	392,477
3 to 6 months	**87,138**	31,994
6 to 12 months	**3,173**	639
Over 12 months	**1,285**	1,283
	389,758	426,393

The trade and bills payables are non-interest-bearing. The trade and bills payables are normally settled on 90-180 days terms.

25. TRADE AND BILLS PAYABLES *(continued)*

As at 31 December 2017, the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB108,427,000 (2016: RMB124,368,000) (note 18).

As at 31 December 2017, the Group's bills payable are secured by mortgages over the Group's pledged bank deposits, which had an aggregate carrying value of approximately RMB203,677,000 (2016: RMB190,260,000) (note 21).

26. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Payables for purchase of items of property, plant and equipment	**36,474**	28,383
Advances from customers	**135,818**	130,932
Staff payroll and welfare payables	**37,616**	34,683
Tax payable (other than income tax)	**14,068**	12,834
Deposit received from a construction service provider	**70,000**	70,000
Others	**31,915**	20,993
	325,891	297,825

27. EMPLOYEE RETIREMENT BENEFITS

Under the People's Republic of China (the "PRC") state regulations, the employees of the Group's subsidiaries in Mainland China are required to 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 subsidiaries in Mainland China are required to make contributions to the local social security bureau at 10% to 22% of the previous year's average basic salary amount of the geographical area where the employees are under employment with the subsidiaries in Mainland China.

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

28. DEFERRED TAX

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 future taxable profits RMB'000	Accrued payroll and social welfare RMB'000	Total RMB'000
At 1 January 2016	24,485	5,324	29,809
Deferred tax credited in the consolidated statement of profit or loss during the year (note 10(a))	(6,283)	(2,752)	(9,035)
At 31 December 2016	18,202	2,572	20,774
Deferred tax credited in the consolidated statement of profit or loss during the year (note 10(a))	(13,319)	–	(13,319)
At 31 December 2017	4,883	2,572	7,455

As at 31 December 2017, deferred tax assets have not been recognised in respect of tax losses arising in Mainland China of RMB233,832,000 (2016: RMB142,681,000) 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.

Deferred tax liabilities

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

	Fair value adjustment arising from acquisition of a subsidiary RMB'000
At 1 January 2017	–
Deferred tax arising from acquisition of a subsidiary (note 32)	2,658
At 31 December 2017	2,658

28. DEFERRED TAX *(continued)*

Deferred tax liabilities *(continued)*

Pursuant to the PRC CIT Law, a 5% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

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 established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,229,138,000 and RMB1,034,167,000 at 31 December 2017 and 2016, respectively.

29. SHARE CAPITAL

Authorised

	2017 No. of shares of US$0.0001 each	2016 No. of shares of US$0.0001 each
Ordinary shares	**1,000,000,000**	1,000,000,000

Shares

	No. of shares of US$0.0001 each	Equivalent to RMB'000
Issued and fully paid: ordinary shares	**600,000,000**	377

	Number of issued and fully paid ordinary shares	**Nominal value of ordinary shares** US$'000	**Equivalent nominal value of ordinary shares** RMB'000
As at 1 January 2016 and 31 December 2016	600,000,000	60	377
As at 1 January 2017 and 31 December 2017	600,000,000	60	377

30. SHARE-BASED PAYMENTS

(a) PRE-IPO SHARE AWARD SCHEME

The Company's Pre-IPO Share Award Scheme was approved and adopted on 8 January 2014 for the purpose of recognising and rewarding the contributions of the selected employees of the Group and motivating their contribution to the future development of the Group.

For the implementation of the Pre-IPO Share Award Scheme, a Management Trust was established by Top Wheel Limited which was fully owned by Mr. Wu Tak Lam and Ms. Chiu Man on 8 January 2014 with Cantrust (Far East) Limited acting as the trustee. On the same date, Top Wheel Limited transferred, for nil consideration, 9,000,000 Shares in the Company to the Management Trust pursuant to the Pre-IPO Share Award Scheme. The vest in full of the share award would, under the present capital structure of the Company, have no impact on the additional ordinary shares of the Company.

The following awarded shares were outstanding under the Scheme during the year:

	2017 Number of awarded shares '000	2016 Number of awarded shares '000
At 1 January	**2,224**	2,002
Granted during the year	**1,910**	780
Forfeited during the year	**(10)**	(100)
Vested during the year	**(579)**	(458)
At 31 December	**3,545**	2,224

Under the Pre-IPO Share Award Scheme, the vesting period is five years during which the awarded shares granted to any particular selected employee will vest on each anniversary of the grant date of the relevant awards in equal portions.

30. SHARE-BASED PAYMENTS *(continued)*

(a) PRE-IPO SHARE AWARD SCHEME *(continued)*

Particulars of awarded shares as at 31 December 2017 and 2016 are as follows:

Vesting period	Dates of grant	Market price at grant dates HK$/share	Number of outstanding shares as at 31 December 2017 '000	2016 '000
5 years	15 May 2014	3.76	**516**	774
5 years	2 July 2015	2.95	**503**	680
5 years	6 February 2016	2.54	**616**	770
5 years	23 January 2017	2.19	**1,910**	–
			3,545	2,224

The fair value of the share awards granted was RMB3,497,000 (2016: RMB1,772,000) for the year ended 31 December 2017.

The fair value of share awards granted was estimated, by reference to the market value of the shares as at the date of grant, taking into account the terms and conditions upon which the share award was granted.

The Group recognised a share awards expense of RMB2,750,000 (2016: RMB2,242,000) during the year ended 31 December 2017.

At the end of the reporting period, the Company had 3,545,000 (2016: 2,224,000) awarded shares outstanding under the Pre-IPO Share Award Scheme.

(b) Share option scheme

On 18 January 2014, a share option scheme was approved and adopted by the then shareholder (the "Share Option Scheme") for the purposes of recognising and rewarding the contributions of the selected employees of the Group and motivating their contribution to the future development of the Group.

No share options were granted under the Share Option Scheme during the year ended 31 December 2017 (2016: Nil).

31. RESERVES

(i) Statutory reserve

Pursuant to the relevant PRC rules and regulations, these PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 1 to the financial statements 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.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(iv) Capital reserve

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

32. BUSINESS COMBINATION

As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, on 30 November 2017, the Group acquired 100% of the equity interests of Weinan Zongshen Baotai Automobile Sales & Service Co., Ltd. (渭南市宗申寶泰汽車銷售服務有限公司, "Weinan Zongshen Baotai"), which is engaged in the motor vehicle sales and service business in Mainland China, at a total consideration of RMB47,900,000. The purchase consideration for the acquisition was in the form of cash, with RMB47,600,000 has been paid in 2017.

32. BUSINESS COMBINATION *(continued)*

The fair values of the identifiable assets and liabilities of Weinan Zongshen Baotai as at the date of acquisition were as follows:

	Notes	**Fair values recognised on acquisition date** RMB'000
Property, plant and equipment	13	27,243
Land use rights	14	11,316
Intangible assets	15	8,643
Inventories		18,442
Trade receivables		680
Prepayments, deposits and other receivables		8,169
Cash and cash equivalents		3,276
Bank loans and other borrowings		(5,231)
Trade and bills payables		(599)
Other payables and accruals		(31,665)
Deferred tax liabilities	28	(2,658)
Total identifiable net assets		37,616
Goodwill on acquisition		10,284
Total purchase consideration		47,900

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

	RMB'000
Cash consideration paid	(47,600)
Cash and cash equivalents acquired	3,276
Net cash outflow	(44,324)

Since the acquisition, the acquired business contributed RMB9,676,000 to the Group's revenue and a loss of RMB916,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB7,774,384,000 and RMB143,816,000 respectively.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other loans RMB'000	Dividends Payable RMB'000
At 1 January 2017	1,287,491	–
Changes from financing cash flows	198,508	(11,616)
Increase arising from acquisition of a subsidiary	5,231	–
Final 2016 dividend declared	–	11,616
At 31 December 2017	1,491,230	–

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the reporting date were as follows:

Financial assets

	Loans and receivables	
	2017	2016
	RMB'000	RMB'000
Trade receivables	**52,974**	63,375
Financial assets included in prepayments, deposits and other receivables	**250,640**	238,336
Amount due from a related party	**12,020**	21,662
Pledged bank deposits	**274,365**	190,260
Cash in transit	**19,517**	21,526
Cash and cash in banks and short-term deposits	**670,780**	846,206
	1,280,296	1,381,365

34. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial liabilities

	Financial liabilities at amortised cost	
	2017	2016
	RMB'000	RMB'000
Trade and bills payables	**389,758**	426,393
Financial liabilities included in other payables and accruals	**138,389**	119,376
Bank loans and other borrowings	**1,491,230**	1,287,491
	2,019,377	1,833,260

35. CONTINGENT LIABILITIES

As at 31 December 2017 and 2016, the Group did not have any significant contingent liabilities.

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The fair values of bank loans 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, which approximate to their carrying amounts. The Group's own non-performance risk for bank loans and other borrowings as at 31 December 2017 was assessed to be insignificant.

37. COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property and equipment outstanding at the reporting date not provided for in these financial statements are as follows:

	2017	2016
	RMB'000	RMB'000
Contracted, but not provided for land use rights and buildings	**19,746**	74,248

37. COMMITMENTS *(continued)*

(b) Operating lease commitments

The Group is the lessee in respect of a number of properties and land held under operating leases. The leases typically run for an initial period of one to fifteen years, with an option to renew the leases when all the terms are renegotiated.

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

	2017		2016	
	Properties RMB'000	**Land RMB'000**	Properties RMB'000	Land RMB'000
Within 1 year	**4,626**	**3,320**	3,485	3,622
After 1 year but within 5 years	**15,485**	**11,102**	6,417	14,417
After 5 years	**19,469**	**1,444**	8,221	2,833
	39,580	**15,866**	18,123	20,872

38. PLEDGE OF ASSETS

Details of the Group's assets pledged for its bank loans and other borrowings and bills payable are disclosed in notes 13, 14, 18 and 21 to these financial statements.

39. RELATED PARTY TRANSACTIONS AND BALANCES

Mr. Wu Tak Lam and Ms. Chiu Man are collectively the Controlling Shareholders (the "Controlling Shareholders") of the Group. They are also the key management personnel and considered to be related parties of the Group.

Mr. Zhao Yijian is a close family member of the Controlling Shareholders and considered to be a related party of the Group.

The Group had the following transactions with related parties during the year:

39. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(a) Transactions with related parties

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

		2017 RMB'000	2016 RMB'000
(i)	Sales of motor vehicles		
	Yangzhou Sunfonda Automobile Co., Ltd.*	**271**	9,516
(ii)	Purchase of motor vehicles and spare parts		
	Yangzhou Sunfonda Automobile Co., Ltd.*	**1,310**	–

* Yangzhou Sunfonda Automobile Co., Ltd. is controlled by Mr. Zhao Yijian.

The related party transactions above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Balances with related parties

Due from a related party:

	2017 RMB'000	2016 RMB'000
Trade related Yangzhou Sunfonda Automobile Co., Ltd.	**12,020**	21,662

The balance due from a related party is repayable on credit terms similar to those offered to the major customers of the Group.

(c) Compensation of key management personnel of the Group

	2017 RMB'000	2016 RMB'000
Short term employee benefits	**3,634**	3,936
Equity-settled share award expense	**683**	705
Post-employment benefits	**165**	190
Total compensation paid to key management personnel	**4,482**	4,831

Further details of directors' and chief executive's emoluments are included in note 8 to the financial statements.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and other borrowings, and cash and cash equivalents. 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 main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group has no significant interest-bearing assets other than pledged bank deposits (note 21), short-term deposits and cash and cash in banks (note 23).

The Group's interest rate risk arises from its borrowings, details of which are set out in note 24. Borrowings at variable rates expose the Group to the risk of changes in market interest rates.

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

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

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

	Increase/(decrease) in basis points	Increase/(decrease) in profit before tax RMB'000
Year ended 31 December 2017		
RMB	**50**	**(1,044)**
RMB	**(50)**	**1,044**
Year ended 31 December 2016		
RMB	50	(480)
RMB	(50)	480

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in US$ and HK$ and certain loans denominated in HK$.

The Group's assets and liabilities denominated in US$ and HK$ were mainly held by certain subsidiaries incorporated outside Mainland China which had HK$ as their functional currency and the Group did not have material foreign currency transactions in Mainland China during the year.

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of pledged bank deposits, cash in transit, short-term deposits, cash and cash in banks, trade and other receivables, available-for-sale investments, an amount due from a related party included in the financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2017, all pledged bank deposits and short-term deposits, cash and cash in banks were deposited in reputable financial institutions without significant credit risk.

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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

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

	As at 31 December 2017					
	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
Bank loans and other borrowings	**–**	**302,395**	**1,008,613**	**118,624**	**141,996**	**1,571,628**
Trade and bills payables	**109,512**	**206,080**	**74,166**	**–**	**–**	**389,758**
Financial liabilities included in other payables and accruals	**31,914**	**9,119**	**97,356**	**–**	**–**	**138,389**
	141,426	**517,594**	**1,180,135**	**118,624**	**141,996**	**2,099,775**

	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
Bank loans and other borrowings	–	369,979	867,088	65,416	–	1,302,483
Trade and bills payables	96,665	318,182	11,546	–	–	426,393
Financial liabilities included in other payables and accruals	20,993	7,096	21,287	70,000	–	119,376
	117,658	695,257	899,921	135,416	–	1,848,252

Capital management

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

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is bank loans and other borrowings divided by the equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2017 RMB'000	2016 RMB'000
Bank loans and other borrowings	**1,491,230**	1,287,491
Equity attributable to owners of the parent	**1,793,873**	1,658,943
Gearing ratio	**83.1%**	77.6%

41. EVENTS AFTER THE REPORTING PERIOD

There is no significant subsequent event undertaken by the Group after 31 December 2017.

42. 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:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	797,370	550,888
CURRENT ASSETS		
Prepayments, deposits and other receivables	336	209
Pledged bank deposits	69,503	–
Cash and cash equivalents	17,505	109,584
Total current assets	87,344	109,793
CURRENT LIABILITIES		
Bank loans and other borrowings	47,647	–
Other payables and accruals	–	154
Total current liabilities	47,647	154
NET CURRENT ASSETS	39,697	109,639
TOTAL ASSETS LESS CURRENT LIABILITIES	837,067	660,527
NON-CURRENT LIABILITIES		
Bank loans and other borrowings	186,408	–
NET ASSETS	650,659	660,527
EQUITY		
Share capital	377	377
Reserves (note)	650,282	660,150
Total equity	650,659	660,527

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

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

	Share premium RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	347,058	320,214	2,695	(4,881)	665,086
Total comprehensive income for the year	–	–	(3,242)	(1,694)	(4,936)
At 31 December 2016 and 1 January 2017	347,058	320,214	(547)	(6,575)	660,150
Total comprehensive income-for the year	–	–	2,533	(785)	1,748
Final 2016 dividend declared	(11,616)	–	–	–	(11,616)
At 31 December 2017	335,442	320,214	1,986	(7,360)	650,282

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

FINANCIAL SUMMARY

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**7,687,005**	7,685,994	7,487,079	7,879,528	7,432,699
Cost of sales and services	**(7,091,568)**	(7,215,366)	(6,996,371)	(7,272,444)	(6,787,872)
Gross profit	**595,437**	470,628	490,708	607,084	644,827
Other income and gains, net	**206,459**	150,455	118,212	201,468	93,901
Selling and distribution expenses	**(293,357)**	(258,890)	(267,229)	(249,460)	(213,292)
Administrative expenses	**(207,281)**	(182,678)	(178,298)	(186,624)	(152,270)
Profit from operations	**301,258**	179,515	163,393	372,468	373,166
Finance costs	**(73,517)**	(87,482)	(121,759)	(138,642)	(124,584)
Profit before tax	**227,741**	92,033	41,634	233,826	248,582
Income tax expense	**(80,565)**	(45,624)	(16,507)	(61,096)	(62,969)
Profit for the year	**147,176**	46,409	25,127	172,730	185,613
Attributable to:					
Owners of the parent	**147,315**	46,863	25,916	172,370	185,636
Non-controlling interests	**(139)**	(454)	(789)	360	(23)
	147,176	46,409	25,127	172,730	185,613
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**4,030,632**	3,698,280	3,998,403	4,231,179	3,387,174
Total liabilities	**2,233,611**	2,035,243	2,399,673	2,648,912	2,351,093
Non-controlling interests	**3,148**	4,094	4,548	5,337	4,977
Equity attributable to owners of the parent	**1,793,873**	1,658,943	1,594,182	1,576,930	1,031,104