HARMONY AUTO
和諧汽車

# China Harmony New Energy Auto Holding Limited
# 中國和諧新能源汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3836

# 2017
# Annual Report

# Contents

# Corporate Information

## Board of Directors

### Executive Directors

Mr. FENG Changge *(Chairman)*
Mr. LIU Fenglei
Ms. MA Lintao
Ms. FENG Guo (appointed on August 31, 2017)
Mr. YANG Lei (resigned on December 29, 2017)
Mr. QIAN Yewen (resigned on August 31, 2017)

### Non-executive Director

Mr. FAN Qihui

### Independent Non-executive Directors

Mr. XIAO Changnian
Mr. LIU Zhangmin
Mr. XUE Guoping

## Audit Committee

Mr. XIAO Changnian *(Chairman)*
Mr. LIU Zhangmin
Mr. XUE Guoping

## Remuneration Committee

Mr. XUE Guoping *(Chairman)*
Mr. LIU Zhangmin
Ms. FENG Guo (appointed on August 31, 2017)
Mr. YANG Lei (resigned on December 29, 2017)

## Nomination Committee

Mr. FENG Changge *(Chairman)*
Mr. XUE Guoping
Mr. XIAO Changnian

## Company Secretary

Ms. WONG Wai Yee, Ella
(appointed on January 24, 2018)
Ms. WONG Wai Ling
(resigned on January 24, 2018)

## Authorized Representatives

Mr. LIU Fenglei
(appointed on December 29, 2017)
Ms. Wong Wai Yee, Ella
(appointed on January 24, 2018)
Mr. YANG Lei
(resigned on December 29, 2017)
Ms. WONG Wai Ling
(resigned on January 24, 2018)

## Auditors

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

## Principal Banks

China CITIC Bank, Zhengzhou Branch
Shanghai Pudong Development Bank,
Zhengzhou Branch
China Merchants Bank, Zhengzhou Branch
The Bank of East Asia, Zhengzhou Branch
Bank of Communications, Zhengzhou Branch

## Registered Office

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

### Principal Place of Business and Headquarter in the PRC

15A, Tower A, World Trade Center Building
Shangwuneihuan Road
CBD Zhengdong New District
Zhengzhou, Henan Province
PRC

### Principal Place of Business in Hong Kong

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

### Cayman Islands Share Registrar

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

### Hong Kong Share Registrar

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

### Company's website

www.hexieauto.com

### Stock Code

3836

# Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of China Harmony New Energy Auto Holding Limited ("**China Harmony Auto**" or the "**Company**" or "**we**"), I am pleased to present the report for the results of the Company and its subsidiaries (the "**Group**") for 2017.

In 2017, the Group shifted its focus back to the principal business by actively developing the network layout, and in turn was authorized by various 4S outlets in the mid-west China and coastal areas, introducing 1 authorization of new luxury brand and obtaining 1 authorization of new ultra-luxury brand through acquisition. Benefitted from favorable market environment and the advent of strong cycle for major brands under our operation, couple with the successful introduction of external strategic investors by the two wing business, namely the comprehensive after-sale service business and the business of new energy vehicles, the Group achieved turning losses into profits in 2017, with the net profit and net profit attributable to the owners of the Company amounting to RMB1,021 million and RMB1,009 million, respectively, resulting that profit achieved a record high.

Key operating results during the period from January 1, 2017 to December 31, 2017 (the "**Reporting Period**") are as follows:

- In 2017, the Group recorded new vehicle sales volume of 25,917 units, representing an increase of 5.3% as compared with the same period in 2016, of which, the sales volume of BMW brand reached 21,019 units (inclusive of MINI brand). BMW retained its position as the largest brand under the Group's dealership and its sales volume accounted for 81.1%.

- In 2017, revenue of the Group amounted to approximately RMB10,840.4 million, of which, revenue from new vehicle sales reached RMB9,251.2 million, accounting for 85.3% of the revenue; revenue from after-sale services amounted to RMB1,336.3 million, representing an increase of 9.5% as compared with the same period in 2016.

- In 2017, gross profit of the Group amounted to approximately RMB1,017.8 million, representing an increase of 32.2% as compared with the same period in 2016. Gross profit margin of the Group for 2017 was 9.4%, representing an increase of 2.2 percentage points as compared with the same period in 2016. In 2017, the consolidated gross profit margin of the Group after taking into account the commission income contained in the account "other income and gains, net" was 11.9%, representing a year-on-year increase of 3.2 percentage points as compared with 2016.

- In 2017, commission income (mainly generated from insurance agency, vehicle financing agency and pre-owned cars agency services) of the Group was approximately RMB307.3 million, representing an increase of 70.5% as compared with the same period in 2016. In 2017, the Group recorded gain on transferring the investment in an associate to available-for-sale investment with an amount of RMB816 million, which was due to the appreciation in valuation of the equity value of FMC held by the Group.

- The Group will keep on devoting great efforts in expanding network layout by way of self-operation and acquisition. As at December 31, 2017, the Group had 21 authorized outlets pending operation.

I would like to extend my sincere gratitude to all staff for their continuous efforts and shareholders and business partners for their greatest support. In the future, the Group will continue to expand the dealer network of 4S outlets in full swing, continue to introduce external strategic investors for comprehensive after-sale service business and the business of new energy vehicles, develop synergic effect between the two businesses and the Group, and make full utilization of the Internet platform to facilitate the after-sale services and the business of pre-owned automobiles in realization of online and offline interaction and complementation. We believe that the overall promotion of one body with two wings (one body: the principal business of 4S outlets; two wings: comprehensive after-sale services and the business of new energy vehicles) will create remarkable value to the Company and shareholders.

**Feng Changge**
*Chairman of the Board*

March 26, 2018

# Management Discussion and Analysis

## INDUSTRY OVERVIEW

In 2017, China's automobile industry showed a stable growth in sales. According to China Association of Automobile Manufacturers, sales volume of passenger vehicles reached 24.718 million units in China in 2017, representing an increase of 1.3% as compared to the same period of 2016. Of which, the growth in overall sales volume of luxury vehicles was significantly higher than the growth in overall sales volume of passenger vehicles. In 2017, 12 luxury and ultra-luxury vehicle brands in China reached a sales volume of 2.575 million units. Motivated by the upward trend of per capita disposable income, the upgrade of consumption and the rising consumption in Mainland China cities as well as the constant launch of new products from various manufacturers of luxury brands, the Group believes that the luxury vehicle market in 2018 will continue to maintain its momentum of rapid growth.

New energy vehicle sales in China continued to have rapid growth. Statistics of China Association of Automobile Manufacturers showed that sales of new energy vehicles in China reached 576,000 units in 2017, representing a year-on-year increase of 13.6%. Among which, sales volume of pure electric vehicles reached 468,000 units, representing a year-on-year increase of 14.4%.

As the automobile market in China continues to reveal its potentials, vehicle ownership maintained a fast growing trend. According to the Traffic Management Bureau of the Public Security Ministry, as of December 31, 2017, vehicle ownership totaled 217 million units in China, representing a year-on-year increase of 11.9%. The Group believes that the rapid growth in vehicle ownership will further boost the development of the automobile after-sale services market.

## BUSINESS OVERVIEW

### Consolidation of Market Position and Expansion of Dealership Outlets

As of the date of this report, the Group had 53 dealership outlets and distributed 13 luxury and ultra-luxury brands, eight of which were luxury brands, namely, BMW, MINI, Lexus, Land Rover, Jaguar, Volvo, Zinoro and Alfa Romeo; and five were ultra-luxury brands, namely, Rolls Royce, Aston Martin, Ferrari, Maserati and Bentley.

The Group currently engages in 21 outlets under construction and to be constructed. The authorized outlets are mainly luxury and ultra-luxury brands, including BMW, Maserati, Alfa Romeo and Volvo, which is in line with the long-term strategic layout of the Company. Such 21 outlets under construction and to be constructed are mainly located in mid-west China, first-tier cities and coastal cities. On one hand, the strategic geographical layout can further consolidate the dominant position of the Group in mid-west China and, on the other hand, increase the Group's market penetration in developed regions in China. With the set-up of more authorized outlets and the further progression in mergers and acquisitions of the Company, we believe that the Group will achieve impressive growth in the sales volume of new vehicles in 2018.

### Sustained and Steady Growth in New Vehicles Sales

For the year ended December 31, 2017, the Group recorded new vehicle sales volume of 25,917 units, increased by 1,297 units or 5.3% as compared with 24,620 units in 2016.

A breakdown of the new vehicle sales volume of the Group for the year ended December 31, 2017 is as follows:

- Sales volume of BMW brand reached 21,019 units (inclusive of MINI brand). BMW remains as the largest brand under the Group's dealership and its sales volume accounted for 81.1% of the total sales volume.

- Sales volume of Lexus brand was 2,512 units, increased by 30.6% when comparing with the same period of 2016.

### Completion of Spin-off of Comprehensive After-sales Services Business

In 2017, Henan Hexie Automobile Aftersales Services Co., Ltd.* (河南和諧汽車維修服務有限公司) (the "**Independent Aftersales Company**") introduced a management team and investments from external investors for the completion of reorganization. Henan Hexie Automobile Trading Co., Ltd.* (河南和諧汽車貿易有限公司), the aftersales management team and the external investors held 49.28%, 25.36% and 25.36% equity interest in the Independent Aftersales Company, respectively. Upon completion of the transaction, the Company remains as an important investor of the Independent Aftersales Company and the Independent Aftersales Company plans to seek for listing after reorganizing the shareholding structure and the maturity of the business development.

### Progress of New Energy Auto Projects

In recent years, new energy vehicles have been developing rapidly around the globe and in China. The Group, as the founding investor, invested in the establishment of Future Mobility Corporation Limited Cayman ("**FMC**"), which focuses on the R&D and manufacturing of high-end intelligent interconnected electric vehicles in 2016. FMC formally launched its automobile brand BYTON (拜騰) in September 2017. As a global intelligent electric vehicle company, FMC is dedicated to manufacture high-end intelligent electric vehicles in China and build up the future for global automobile industry to provide pleasant travelling experience for people. The core teams of FMC are elite talents from large automobile companies and technology companies such as BMW, Tesla, Google, Apple and Infiniti, etc. Powerful R&D teams and experienced management teams provide strong driving force for the development of high-end intelligent interconnected electric vehicles.

* *For identification purpose only*

# Management Discussion and Analysis

BYTON Concept, the first model of FMC under the brand of BYTON, was successfully launched in the International Consumer Electronics Show ("**CES**") in Las Vegas, the U.S. on January 7, 2018. BYTON Concept is a luxury intelligent mid-size SUV with technology-inspired brand-new design and an innovative intelligent human-to-vehicle interactive system. The first mass production vehicles, to be equipped with the L3-level Advanced Driver Assistance Systems ("**ADAS**"), will have the L4-level auto-pilot function after 2020. The first mass production vehicles will be officially put into production in the fourth quarter of 2019 in the factory in Nanjing, China, selling price starting from USD45,000 (equivalent to approximately RMB300,000). FMC has set up headquarters, manufacturing and R&D bases in Nanjing, engineering R&D centre in Munich, as well as intelligent, internet and autonomous driving R&D centre in Silicon Valley.

In the third quarter of 2017, FMC completed Round A Financing amounting to USD240 million. The investment was led by local leading private enterprises in Jiangsu, and the investment funds introduced to FMC were managed by well-known investment management institutions and large-scale enterprise group, including Suning, Fullshare and a state-owned enterprise. FMC is listed as a key project in Jiangsu province and is fully supported by Nanjing government and syndicates in the establishment of headquarters and the construction of factories. At the same time, Nanjing government provides additional financial support for R&D and technological innovation of the Company. Due to the appreciation in valuation of FMC, the gain on transferring the investment in an associate to available-for-sale investment generated by the Group during the Reporting Period was RMB816 million. After FMC enters into mass production in the future, the Group will provide platform supports in new vehicle sales and after-sales services to FMC, and bring in new revenues to the Group.

**Strategic Cooperation in Diversified Aspects with Continent Insurance**

On January 15, 2018, the Group entered into a strategic cooperation agreement with China Continent Property & Casualty Insurance Company Ltd. ("**Continent Insurance**"), the only property and casualty insurance company under China Reinsurance (Group) Corporation, pursuant to which both parties agreed to cooperate in diversified aspects in terms of Chinese domestic insurance business, investment and financing business and communication on innovation. The Group is of the view that entering into the strategic cooperation agreement will bring along positive impacts to the Group in terms of the following aspects:

1) the business cooperation with Continent Insurance effectively supplements and enhances the existing insurance business of the Group. Regarding automobile insurance, in-depth cooperation will be carried out by focusing on motor vehicle insurance, automobile warranty extension insurance, indemnity insurance for replacement cost of motor vehicle, performance guarantee insurance, property insurance, etc.;

2) Continent Insurance will provide support to the Group in respect of risk management and risk data analysis;

3) as for investment and financing, the two parties will carry out in-depth cooperation in equity/debts/the combination of equity and debts, as well as public placement/private placement/financial products;

4) under the brilliant management model of grid sales platform of Continent Insurance, professional training and guidance will be provided to the insurance renewal specialists in the stores of the Group so as to enhance their work efficiency and level, hence increasing the insurance renewal rate of each store; and

5) the development of innovative products in various aspects, including but not limited to non-automobile insurance and personal insurance business.

**Future Outlook and Development Strategies**

In the opinion of the Group, the penetration rate of automobiles in China is still lagging behind that of developed countries and vehicle ownership is far from saturation; hence, there is room for the growth in sales volume of new vehicles. With the increase of household income and upgraded consumer spending, the luxury and ultra-luxury automobile markets grow constantly.

Though ranking first in automobile market scale in the world, China still has a low new energy vehicles penetration level. Under the encouragement and support from governmental policies, the increase in awareness on environmental protection among consumers as well as growth of maturity level of industry development, it is anticipated that new energy vehicles industry will continue its rapid development.

The Group will progressively execute the following development strategies with an aim to further boost up its scale of income and profitability to create greater value for its shareholders:

- rapidly developing 4S outlets business and proactively expanding dealership network to further enhance sales volume of new vehicles and revenue from after-sale services;

- actively introducing external investors for comprehensive after-sales business to facilitate its independent listing in the future;

- cooperating with the future development of FMC, and playing a role in undertaking its support on sales and after-sale-services of new vehicles; and

- proactively enhancing the penetration rate of automobile finance, increasing commission income and expanding finance lease business.

## FINANCIAL OVERVIEW

### Revenue

Revenue of the Group was RMB10,840.4 million for 2017, representing an increase of 1.4% as compared with RMB10,695.9 million in 2016.

Revenue from sales of new vehicles amounted to RMB9,251.2 million, which remained flat as compared to that of 2016, accounting for 85.3% of the revenue.

Revenue from after-sales services increased by 9.5% to RMB1,366.3 million in 2017 from RMB1,247.4 million in 2016, accounting for 12.6% of the revenue.

### Cost of sales and services

Our cost of sales and services decreased by 1.0% from RMB9,925.8 million in 2016 to RMB9,822.6 million in 2017. Cost of sales attributable to sales of new vehicles decreased by 2.2% from RMB9,107.6 million in 2016 to RMB8,908.9 million in 2017. Cost of sales attributable to after-sales services increased by 6.1% from RMB746.5 million in 2016 to RMB791.7 million in 2017.

### Gross profit and gross profit margin

The Group's gross profit was RMB1,017.8 million in 2017, representing an increase of 32.2% as compared to RMB770.1 million in 2016. The Group's gross profit margin was 9.4% in 2017, representing an increase of 2.2 percentage points as compared to 7.2% in 2016.

In 2017, the Group's consolidated gross profit margin, after taking into the effect of commission income contained in the account "other income and gains, net", was 11.9%, representing an increase of 3.2 percentage points as compared to 2016.

### Selling expenses

In 2017, selling expenses amounted to RMB787.5 million, increasing by 1.6% from RMB775.4 million in 2016. It was mainly attributed to the increased number in our dealership and after-sales services outlets.

### Administrative expenses

Benefited from various effective measures on cost control adopted by the Group, as compared to RMB180.8 million in 2016, administrative expenses decreased by 18.7% to RMB147.0 million in 2017.

**Other income and gains, net**

Other income and gains, net increased by 305.0% from RMB326.2 million in the corresponding period of 2016 to RMB1,321.2 million in 2017, which was mainly due to:

- commission income for 2017 amounted to RMB307.3 million, which was mainly generated from insurance agency and automobile finance agency business, representing an increase of 70.5% as compared to RMB180.2 million for the corresponding period of 2016;

- income from advertisement support received from manufacturers for 2017 was RMB36.3 million, representing an increase of 44.0% as compared to RMB25.2 million for the corresponding period of 2016;

- gain on transferring the investment in an associate to available-for-sale investment for 2017 was RMB816 million, which was due to the appreciation in valuation of the equity value of FMC held by the Group.

**Finance costs**

The Group's finance costs for 2017 was RMB63.4 million, representing a decrease of RMB31.6 million or 33.3% as compared to RMB95.0 million in 2016, primarily due to the repayment of part of the bank borrowings and the enhanced capital utilization efficiency by the Group in 2017.

**Profit from operations**

Based on the above, the Group's profit from operations for 2017 was RMB1,404.5 million as compared to RMB66.5 million in 2016.

**Profit for the period attributable to the owners of the parent**

The Group's profit for the period attributable to owners of the parent for 2017 was approximately RMB1,009.4 million, while there was a net loss of RMB370.7 million recorded for the corresponding period of 2016.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash flow

The Group's primary uses of cash are to pay for the purchases of passenger vehicles, spare parts and automobile accessories, to establish new dealership outlets and after-sales services outlets and to fund our working capital and operating expenses. The Group's liquidity needs was financed through a combination of short-term bank loans and cash flows generated from its operating activities.

As at December 31, 2017, cash and deposits of the Group totaled RMB1,698.5 million.

In 2017, our net cash from operating activities was RMB107.3 million, net cash from investing activities was RMB65.4 million, and net cash used in financing activities was RMB238.0 million.

Taking into account the Group's existing cash and cash equivalents, anticipated cash flow from the operating activities, available bank facilities and other borrowings, the Board believes that the Group's liquidity needs can be satisfied.

### Net current assets

As at December 31, 2017, the Group had net current assets of RMB2,076.3 million as compared to RMB1,625.2 million as at December 31, 2016.

### Capital expenditure

In 2017, the Group's capital expenditure (primarily used for the expenditure and prepayment for purchase of items of property, plant and equipment in connection with the establishment of new outlets), was RMB313.9 million (2016: RMB481.6 million).

### Inventories

The Group's inventories primarily consist of new passenger vehicles, spare parts and automobile accessories. Each of the Group's outlets individually manages its orders for new passenger vehicles and after-sales products, but the headquarters of the Group implements active warning, supervision and management on inventories of all stores to ensure a reasonable inventory balance.

The Group's inventories increased by RMB386.3 million from RMB885.1 million as of December 31, 2016, to RMB1,271.4 million as of December 31, 2017. The increase in the Group's inventory of new vehicles was mainly due to (1) discounted sales of aged inventory by the Group in the second half of 2016, resulting in the relatively low inventory as of December 31, 2016 and the recovery of inventory to normal operation level in 2017; (2) the increase in the dealership outlets in 2017 to introduce new brands such as Alfa Romeo and Bentley; and (3) the Group's preparation for the peak sales season in 2018 due to the arrival of the new product cycle of BMW and other brands. As the management of the Company always pays attention to the turnover of inventory, the Group established an inventory warning management system, and introduced promotion, marketing plans and corresponding measures in accordance with market trend which benefit customers. The Group also established a unified dynamic inventory management system to consolidate the inventory resources.

The Group's average inventory turnover days for 2017 were 40 days, which remained the same as 2016.

### Bank loans and other borrowings

As at December 31, 2017, the Group had bank loans and other borrowings in the aggregate amount of RMB1,816.3 million, representing a year-on-year decrease of 2.5% as compared to RMB1,863.4 million as at December 31, 2016.

| | **December 31, 2017** *RMB'000* | December 31, 2016 *RMB'000* |
|---|---|---|
| **Bank loans repayable:** | | |
| Within one year | **732,800** | 1,087,696 |
| In the second year | **15,980** | 21,332 |
| In the third to fifth years | **–** | 17,610 |
| | **748,780** | 1,126,638 |
| **Other borrowings repayable:** | | |
| Within one year | **1,067,556** | 736,721 |
| Total | **1,816,336** | 1,863,359 |

As at December 31, 2017, the gearing ratio of the Group, calculated by total liabilities divided by total assets, was 37.2%, representing a decrease of 5.8 percentage points as compared with that of December 31, 2016.

## Management Discussion and Analysis

As at December 31, 2017, certain of the Group's bank loans and other borrowings were secured by mortgages or pledges over the Company's assets. The Company's assets, subject to these mortgages or pledges as at December 31, 2017, consisted of (i) inventories in the amount of RMB718.4 million; (ii) property, plant and equipment in the amount of RMB25.7 million; and (iii) prepaid land lease payments in the amount of RMB11.5 million. In addition, certain of the Group's bank loans and other borrowings were guaranteed by the Chairman of the Company or affiliates of the Chairman of the Company. As at December 31, 2017, the Group did not have bank borrowings, loans or bonds payable denominated in foreign currency.

### Contingent liabilities

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

### Interest rate risk and foreign exchange risk

The Group is exposed to interest rate risk resulting from fluctuations in interest rate on our debt. Increases in interest rate could result in an increase in the Group's cost of borrowing. If this occurs, it could adversely affect the Group's finance costs, profit and the Group's financial condition. The interest rates on bank loans and overdrafts in China depend on the benchmark lending rates published by the People's Bank of China. The Group do not currently use any derivative instruments to manage its interest rate risk.

Substantially all of the Group's revenue, cost of revenue and expenses are denominated in Renminbi. The Group also use Renminbi as its reporting currency. The Group is of the view that its operations are currently not subject to any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge its exposure to such risk.

### Employees and remuneration policies

As at December 31, 2017, the Group had a total of 3,303 employees (December 31, 2016: 5,363 employees). The change in number of employees was due to restructuring of comprehensive after-sales business. Relevant staff cost for 2017 was approximately RMB363.4 million (including employee share option incentive of RMB7.7 million), while the staff cost was approximately RMB398.8 million for 2016 (including employee share option incentive of RMB22.8 million). According to the restricted share unit scheme (the "**RSU Scheme**") adopted by the Company in May 2013 (which was amended by the Board in August 2013 as agreed upon by all participants of the RSU Scheme), as at December 31, 2017, a total of 19,110,898 shares under the RSU Scheme had been issued and granted to a number of directors, senior management personnel and employees of the Group and two of them were current directors. For the twelve months ended December 31, 2017, a total of 14,355,683 RSU awards were exercised. As at December 31, 2017, a total of 4,755,215 RSU awards were forfeited due to the resignation of certain RSU Participants. As at the date of this report, the Company did not have any RSU awards outstanding under the RSU Scheme.

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to success of the Group's operations. Eligible participants of the share option scheme include employees of the Company and its subsidiaries. The share option scheme became effective on June 26, 2015, and unless otherwise cancelled or amended, will remain in force for ten years from that date. As of December 31, 2017, the Company had 84,050,000 share options outstanding under the share option scheme, which represented approximately 5.5% of the Company's share in issue as at that date.

For further details of the RSU Scheme and the share option scheme, please refer to "RSU Scheme" on pages 43 to 44 and "Share Option Scheme" on pages 45 to 47 of this annual report. The Group will regularly review its compensation policies and employee benefits with reference to market practices and individual performance.

# Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended December 31, 2017.

## CORPORATE GOVERNANCE PRACTICES

The Board has committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to formulate its business strategies and policies, and to enhance its transparency and accountability.

For the year ended December 31, 2017, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**" or "**Hong Kong Stock Exchange**"), save and except for the deviation as set out below.

In accordance with code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and should also invite the chairman of the nomination, audit and remuneration committees to attend. Mr. FENG Changge, the chairman of the Board and the chairman of the Nomination Committee, Mr. XIAO Changnian, the chairman of the Audit Committee and Mr. XUE Guoping, the chairman of the Remuneration Committee were not able to attend the annual general meeting of the Company held on June 9, 2017 due to their other business commitments.

The Board will continue to review and monitor the corporate governance practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

## 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 code of conduct regarding directors' securities transactions.

All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code for the year ended December 31, 2017.

## BOARD OF DIRECTORS

As at the date of this report, the Board of the Company comprises the following directors:

**Executive Directors:**
Mr. FENG Changge *(Chairman)*
Mr. LIU Fenglei *(Chief Executive Officer)*
Ms. MA Lintao *(Vice-president)*
Ms. FENG Guo *(Vice-president)*

**Non-executive Director:**
Mr. FAN Qihui

**Independent Non-executive Directors:**
Mr. XIAO Changnian
Mr. LIU Zhangmin
Mr. XUE Guoping

The biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 28 to 32 of this annual report. The relationships between the members of the Board are also disclosed under that section.

### Chairman and Chief Executive Officer

The position of Chairman is held by Mr. FENG Changge and that of Chief Executive Officer, is held by Mr. LIU Fenglei. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

### Independent Non-executive Directors

During the year ended December 31, 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

### Directors' Appointment and Re-election

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors of the Company has entered into either a service agreement or a letter of appointment with the Company for a term of three years subject to retirement by rotation in accordance with the articles of association (the "**Articles of Association**") of the Company.

In accordance with the Articles of Association, all Directors are subject to retirement by rotation and re-election at an annual general meeting at least once every three years and any Director appointed to fill a casual vacancy shall hold office until the first general meeting and any Director appointed as an addition to the Board shall hold office only until the next annual general meeting and shall then be eligible for re-election at that meeting.

**Responsibilities, Accountabilities and Contributions of the Board and Management**

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board shall take decisions objectively in the interests of the Company.

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

All Directors have full and timely access to all the information of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

**Continuous Professional Development of Directors**

Directors shall keep abreast of their responsibilities as a Director and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of a Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and appropriate.

The Company had from time to time provided relevant reading materials including industry updates and corporate governance to all Directors subsequent to the listing of the Company for their reference and studying. This is to ensure that all the Directors are sufficiently aware of their responsibilities under the Listing Rules and other relevant regulatory requirements.

In addition, all the Directors of the Company (including Mr. FENG Changge, Mr. LIU Fenglei, Ms. MA Lintao, Ms. FENG Guo, Mr. FAN Qihui, Mr. XIAO Changnian, Mr. LIU Zhangmin and Mr. XUE Guoping) had participated in various trainings and/or read materials of relevant topics, including:

– Corporate strategic management/Corporate operational management

– Financial strategic management

– Investment strategies

– Research on audit development strategies

The Company understands that the Directors should participate in appropriate continuous professional development programs to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

## BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

### Audit Committee

The Company established the Audit Committee on May 20, 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and code provision C.3.3 of the CG Code and terms of reference amended on August 31, 2016.

The Audit Committee consists of three members, namely Mr. XIAO Changnian (chairman), Mr. LIU Zhangmin and Mr. XUE Guoping, all of whom are independent non-executive Directors of the Company (including one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control and risk management systems, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held 2 meetings to review interim and annual financial results and reports during the year ended December 31, 2017 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, the effectiveness of the internal audit function, scope of work and engagement of external auditors.

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

**Remuneration Committee**

The Company established the Remuneration Committee on May 20, 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and code provision B.1.2 of the CG Code.

The Remuneration Committee consists of three members, namely Mr. XUE Guoping (chairman) and Mr. LIU Zhangmin, both being independent non-executive Directors; and Ms. FENG Guo, an executive Director.

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee held 1 meeting during the year ended December 31, 2017. During the meeting, the Remuneration Committee reviewed and advised on the remuneration packages of the executive Directors and senior management.

**Nomination Committee**

The Company established the Nomination Committee on May 20, 2013 with written terms of reference in compliance with code provisions A.5.1 and A.5.2 of the CG Code.

The Nomination Committee consists of three members, namely Mr. FENG Changge (chairman), an executive Director, and Mr. XIAO Changnian and Mr. XUE Guoping, both being independent non-executive Directors.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Company firmly believes that the increasing diversity at the board level is one of essential elements in supporting the attainment of its strategic objectives and its sustainable development, therefore, the Company has adopted a Board Diversity Policy in accordance with the requirement set out in the CG Code.

The Nomination Committee held 1 meeting during the year ended December 31, 2017 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider the qualification of the retiring Directors standing for re-election at the Annual General Meeting.

**Corporate Governance Functions**

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, 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 Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

### Attendance Record of Directors and Board Committee Members

The attendance record of each Director at the Board meetings and Board committee meetings of the Company held during the year ended December 31, 2017, is set out in the table below:

| Name of Director | Board | Audit Committee | Remuneration Committee | Nomination Committee | General Meeting |
|---|---|---|---|---|---|
| Mr. FENG Changge | 4/4 | N/A | N/A | 1/1 | 0/1 |
| Mr. LIU Fenglei | 4/4 | N/A | N/A | N/A | 0/1 |
| Ms. MA Lintao | 4/4 | N/A | N/A | N/A | 0/1 |
| Mr. YANG Lei (resigned on December 29, 2017) | 4/4 | N/A | 1/1 | N/A | 0/1 |
| Mr. QIAN Yewen (resigned on August 31, 2017) | 3/4 | N/A | N/A | N/A | 1/1 |
| Ms. FENG Guo (appointed on August 31, 2017) | 1/4 | N/A | N/A | N/A | N/A |
| Mr. FAN Qihui | 4/4 | N/A | N/A | N/A | 0/1 |
| Mr. XIAO Changnian | 4/4 | 2/2 | N/A | 1/1 | 0/1 |
| Mr. LIU Zhangmin | 4/4 | 2/2 | 1/1 | N/A | 0/1 |
| Mr. XUE Guoping | 4/4 | 2/2 | 1/1 | 1/1 | 0/1 |

Apart from regular Board meetings, the Chairman also held a meeting with the non-executive Directors (including the independent non-executive Directors) without the presence of executive Directors during the year ended December 31, 2017.

## DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended December 31, 2017.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 79 to 81.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

## AUDITOR'S REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended December 31, 2017 is set out below:

| **Service Category** | **Fees Paid/ Payable** *RMB'000* |
|---|---|
| Audit Services | 4,000 |
| Non-audit Services | – |
| | 4,000 |

## RISK MANAGEMENT AND INTERNAL CONTROL

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control systems of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The Directors consider that the Group's existing risk management and internal control systems are effective and adequate.

The Group's internal audit department plays an important role in monitoring the internal governance of the Company. The major duties of internal audit department are to regulate and review the internal control and compliance related matters of the Company and conduct comprehensive audits of all branches and subsidiaries of the Company on a regular basis. The Group's internal audit department performs regular evaluation on the effectiveness of risk control measures taken by each operating department and issues an appraisal report which shall be submitted to our Audit Committee for approval.

The Company has established a risk management process, pursuant to which each operating department is required to identify any significant risks associated with their work and corporate strategies of the Company. Based on the assessment of the identified risks in terms of their likelihood and potential impact, the Company prioritizes and pairs each risk with a mitigation plan. Furthermore, any emergencies are required to be reported, evaluated and managed in time to mitigate the impact.

The Group has established a three-tier risk control corporate structure in implementing our internal control and risk management policies and procedures. First, the Board and the senior management oversee and manage the overall risks associated with our business operations. Second, the Audit Committee provides the Directors with an independent review of the effectiveness of the financial reporting process, internal controls, and risk management system of the Group. Third, the Group's internal audit department supervises the implementation of our risk management policy at the corporate level and organizes an annual audit progress for regularly evaluating the effectiveness of the risk management and internal control measures taken by each operating department and issues an appraisal report which shall be submitted to the Audit Committee for approval.

The Board is responsible for the management of inside information. Without the approval of the Board, the Company prohibits any inside information from being disclosed to the public.

## COMPANY SECRETARY

Ms. WONG Wai Ling of SW Corporate Services Group Limited, an external service provider, has been engaged by the Company as its company secretary (resigned on January 24, 2018). She has taken no less than 15 hours of relevant professional training during the year ended December 31, 2017 in compliance with the relevant requirements on training of Rule 3.29 of the Listing Rules.

Ms. WONG Wai Yee, Ella of Tricor Services Limited, an external service provider, was engaged by the Company as its company secretary on January 24, 2018.

The primary contact person of the Company is Mr. YANG Shengjun, the Board Secretary of the Company.

## SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions proposed at general meetings will be voted by poll pursuant to the Listing Rules, unless otherwise required by the Listing Rules and poll voting results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

### Convening an Extraordinary General Meeting and Proposing Resolutions at Extraordinary General Meetings by Shareholders

Pursuant to Article 58 of the Articles of Association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders should follow the requirements and procedures as set out above for proposing resolutions at extraordinary general meetings of the Company.

### Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company normally does not deal with verbal or anonymous enquiries.

### Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

| | |
|---|---|
| Address: | 19/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong |
| Tel: | (852) 2251 1830 |
| Fax: | (852) 2251 1823 |
| Email: | hk@hexieauto.com |

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

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings.

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 chairmen of the Nomination Committee, Remuneration Committee and Audit Committee (or their delegates) will make themselves available at the annual general meetings to meet shareholders and answer their enquiries.

The 2018 Annual General Meeting of the Company ("**AGM**") will be held on June 13, 2018. The notice of AGM will be despatched to shareholders at least 21 clear days and 20 clear business days before the AGM in accordance with the Articles of Association of the Company and the CG Code.

To promote effective communication, the Company maintains a website at www.hexieauto.com where up-to-date information and updates on the Company's financial information, corporate governance practices and other information are posted.

During the year ended December 31, 2017, the Company has not made any changes to its Articles of Association. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

# Directors and Senior Management

## DIRECTORS AND SENIOR MANAGEMENT

### Executive Directors

**FENG Changge (馮長革)**, aged 47, is an executive Director and the Chairman of the Board. Mr. FENG was appointed as an executive Director of the Company on September 24, 2012 and is responsible for the overall strategic and business direction of the Group. He is the founder of the Group, and has been in the automobile industry since 2005 when he founded Henan Zhongdebao Automobile Sales & Services Co., Ltd ("**Zhongdebao**"). Zhongdebao is a wholly-owned subsidiary of the Company and the first BMW dealership outlet in Henan Province. Mr. FENG graduated with a bachelor's degree in economic law from Zhongnan Institute of Politics and Law (中南政法學院) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) in 1992 and received a master's degree in law from the same institution in 2001. After graduation in 1992, Mr. FENG entered the judiciary system in Henan Province, serving as assistant judge and judge of the Higher People's Court of Henan Province (河南省高級人民法院). In 2002, Mr. FENG left the judicial system and established a law firm, while at the same time starting various business enterprises. He became involved in real estate investment through his vehicle, Yuanda Investment, and was also involved in the auction and valuation businesses. He is also the controlling shareholder of Hexie Industrial Group, a privately-owned group headquartered in Zhengzhou, Henan Province, China, with business interests focusing on branded and luxury lifestyle goods and services, including property development, golf courses and automobile sales. Over the past three years, Mr. FENG has not been a director of any other listed companies. Mr. FENG is the husband of Ms. MA Lintao and the uncle of Ms. FENG Guo.

**LIU Fenglei (劉風雷)**, aged 42, was appointed as an executive Director and chief executive officer of the Company on October 19, 2015. Mr. LIU is one of the initial founders of the Group. He has approximately 13 years' experience in China's automobile industry. He obtained a Bachelor's degree of Business English from Zhengzhou University (鄭州大學) in 1998. He joined the Group in February 2003 and worked at Henan Zhongdebao Automobile Sales & Service Co., Ltd. (河南中德寶汽車銷售服務有限公司) as the assistant to the chairman. From August 2006 to April 2013, he was the general manager of Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd. (鄭州遠達雷克薩斯汽車銷售服務有限公司). From April 2013 to October 2015, he was the senior vice president of the Company in charge of the Group's network development and luxury passenger vehicles' business. Over the past three years, Mr. LIU has not been a director of any other listed companies.

**MA Lintao (馬林濤)**, aged 50, is an executive Director and a vice-president of the Company. She is responsible for the Group's overall administrative matters and public relationships. Ms. MA graduated from Henan Institute of Finance and Economics (河南財經學院) (now known as Henan University of Economics and Law (河南財經政法大學)) with a bachelor's degree in national economic planning and statistics in June 1992. From July 1992 to December 2003, Ms. MA worked in China Construction Bank Henan branch (中國建設銀行河南分行) in various positions such as director of the credit approval committee of the Zhengzhou branch and vice-president of the Zhengzhou futures branch office, where she was responsible for matters such as credit assessment and approval and public and retail sales. Ms. MA joined our Group in September 2006 as the chairlady of Yuanda Lexus, our wholly-owned subsidiary. Over the past three years, Ms. MA has not been a director of any other listed companies. Ms. MA is the wife of Mr. FENG Changge.

**FENG Guo (馮果)**, aged 36, was appointed as an executive Director and vice-president of the Company on August 31, 2017. Ms FENG graduated with a bachelor's degree in law from Zhengzhou University in July 2004, obtained a master's degree in business administration from Zhongnan University of Economics and Law in December 2009 and obtained an executive master's degree in business administration from China Europe International Business School in July 2017. She joined the Group in March 2004 as a financial manager, and was appointed as a deputy general manager from March 2008 to September 2010 and was responsible for finance matters. In October 2010, Ms. FENG was appointed as the financial controller of the Company and was responsible for financial affairs of the Group, including financial budgeting, accounting, fund planning, financial talent management and assistance in formulating various approval processes and policies as well as development objectives. Ms. FENG has rich experience in the operations of automobile distribution group, financial accounting, fund planning and financial data analysis for luxury and ultra-luxury automobile brands. She was involved in establishing our partnership with BMW China in Henan Province and setting up Zhongdebao. Ms. FENG was also tasked with the development of automobile brands such as BMW, Land Rover and Rolls Royce. Ms. FENG is the niece of Mr. FENG Changge, the chairman and executive Director of the Group. Over the past three years, Ms. FENG has not been a director of any other listed companies.

# Directors and Senior Management

## Non-Executive Director

**FAN Qihui (范奇暉)**, aged 41, was appointed as an non-executive Director of the Company on November 16, 2015. Mr. FAN is an executive director of Beijing Legend Capital Co., Ltd. ("**Legend Capital**"), which is an associate company of Legend Holdings Corporation (Hong Kong stock code: 3396). Mr. FAN has over 16 years of experiences in finance and investments. He joined Legend Capital in 2007 as a manager, and was later promoted to the vice president and a director. He focuses on investment opportunities in the intelligent hardware and services, and advanced equipment sectors. Mr. FAN participated in several important investments by funds managed by Legend Capital or its related parties, including in the Company, Sevalo, Wuqiao Heavy Industries Group, Tianji New Material, QuantumCTek, CATL Battery, Putailai New Energy, Zongmu Tech, Feima Robotics, etc. Prior to joining Legend Capital, Mr. FAN worked as a senior manager of the investment banking department of Head & Shoulders Securities and subsequently as an executive director of the merger and acquisition department of Hengxin Securities. Mr. FAN obtained his bachelor's degree of economics from Hangzhou Dianzi University and a master's degree of management from Fudan University. Save as disclosed above, Mr. FAN has not been a director of any other listed companies.

## Independent Non-Executive Directors

**XIAO Changnian (肖長年)**, aged 69, was appointed as an independent non-executive Director of the Company on March 18, 2013. Mr. XIAO graduated with a bachelor's degree in industrial accounting from Hubei Institute of Finance and Economics (湖北財經學院) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) in 1982. Mr. XIAO has more than 30 years of experience in the accounting and auditing profession. After graduation, Mr. XIAO worked for the National Audit Office of the PRC in the department of public transport (審計署工交局) from August 1982 to July 1994 and served as the deputy bureau chief of the Audit Office of the National Sports Commission of the PRC (國家體委審計局) from July 1994 to September 1998. He went on to serve as the deputy bureau chief in various departments of the National Audit Office of the PRC, such as the Customs Audit Office (海關審計局), the Transportation Audit Office (交通運輸審計局) and the Second Economics Audit Office (經濟審計二局) from September 1998 to December 2003. Thereafter, Mr. XIAO was appointed as auditing official (deputy bureau chief grade) of the Economics and Trade Office of National Audit Office of the PRC (審計署經貿司), where he served till December 2008. Mr. XIAO was the chairman of the board of supervisors of the Quantum Hi-Tech (China) Biological Co., Ltd (量子高科(中國)生物股份有限公司) (stock code: 300149.SZ), a company listed on the Shenzhen Stock Exchange, from November 2010 to August 13, 2014, and an independent director of Zhejiang Qianjiang Motorcycle Co., Ltd (浙江錢江摩托股份有限公司), (stock code: 000913.SZ), a company listed on the Shenzhen Stock Exchange, from April 2012 to June 2015. Save as disclosed above, Mr. Xiao has not been a director of any other listed companies.

**LIU Zhangmin (劉章民)**, aged 68, was appointed as our independent non-executive Director on March 18, 2013. Mr. LIU graduated with a college degree in industrial accounting from the Beijing Institute of Machinery Management (北京機械工業管理學院) (now known as the Beijing Information Science and Technology University (北京資訊科技大學)) in 1986. He also qualified as a senior auditor in 1996, and as a senior accountant in 2006. Mr. LIU has over 40 years of experience in the automobile industry since he joined the Dongfeng Motor Corporation (東風汽車公司) in 1970. Mr. LIU started as a deputy head of factory in Dongfeng Motor Corporation in July 1982, and held different positions in procurement, finance and other departments. Mr. LIU was appointed as a vice president of Dongfeng Motor Corporation in July 1995 and chief accounting officer in April 2005. He was appointed as chairman of the board of directors of Dongfeng Motor Finance Co., Ltd. (東風汽車財務有限公司) in November 1997, Dongfeng Checheng Logistics Co., Ltd (東風車城物流股份有限公司) in February 2004 and Dongfeng Nissan Auto Finance Co., Ltd (東風日產汽車金融有限公司) in July 2007. Mr. LIU was an external director of China Poly Group Corporation (中國保利集團公司) (from April 2014 to December 2017).

Mr. LIU is an external director of the China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司) (since January 2016). He also held the following positions in the relevant listed companies:

- the president and an executive director of Dongfeng Motor Group Company Limited (東風汽車集團股份有限公司) (stock code: 0489.HK), a company listed on the Hong Kong Stock Exchange (from December 2004 to June 2010);

- an independent director of China First Heavy Industries Co., Ltd (中國第一重型機械股份公司) (stock code: 601106.SS), a company listed on the Shanghai Stock Exchange (from December 2011 to April 2015);

- an independent director of China Yangtze Power Co., Ltd (中國長江電力股份有限公司) (stock code: 600900.SS), a company listed on the Shanghai Stock Exchange (from June 2010 to May 2015); and

- an independent non-executive director of China Communications Construction Co., Ltd (中國交通建設股份有限公司) (stock code: 1800.HK, 601800.SS), a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange (from December 2009 to November 2017).

Save as disclosed above, Mr. LIU has not been a director of any other listed companies.

# Directors and Senior Management

**XUE Guoping (薛國平)**, aged 67, was appointed as our independent non-executive Director of the Company on March 18, 2013. Mr. XUE graduated from Beijing University of Foreign Trade (北京對外貿易大學) (now known as University of International Business and Economics (對外經濟貿易大學)) in 1976. Mr. XUE began his career in the COFCO Group (中糧集團) and was appointed as the deputy chief executive officer in 1994. He also served as the deputy general manager and general manager of COFCO Hong Kong (previously known as Top Glory International Holdings Limited (鵬利國際集團有限公司)) between 1994 and 2004. Mr. XUE continued to serve as the deputy chief executive officer of the COFCO Group until he retired in 2010. Mr. XUE was an executive director and later the chairman of the board of directors of China Foods Limited (中國食品有限公司) (stock code: 0506.HK), a company listed on the Stock Exchange and a branch of the COFCO Group, from 1995 to 2007, and chairman of the board of directors of CPMC Holdings Limited (中糧包裝控股有限公司) (stock code: 0906.HK), a company listed on the Stock Exchange and a branch of the COFCO Group, from 2008 to 2011. Save as the above, Mr. Xue has not been a director of any listed companies.

### Senior Management

**Zhang Lei (張雷)**, aged 38, graduated from Henan University of Finance and Economics majoring in financial accounting in June 2000, obtained a bachelor's degree in management from Zhongnan University of Economics and Law in December 2009, and obtained an executive master's degree in business administration from Zhengzhou University in July 2017. Mr. Zhang has 15 years of experience in financial affairs in the automobile industry, and has been engaging in financial related works in the Company for 12 years. Mr. Zhang served for Henan Zhongdebao Automobile Sales & Services Co., Ltd. from March 2005 to May 2011 as the head of accounting affairs and financial manager and the chief accountant of the Group since May 2011 and was appointed as the Chief Financial Officer of the Company since August 31, 2017. Mr. Zhang is a qualified senior accountant.

**YANG Shengjun (楊勝軍)**, aged 53, is the Board Secretary and the chief officer of human resources of our Group. Mr. YANG joined our Group in October 2012. Mr. YANG graduated from the Beijing Institute of Technology (北京理工大學) in July 1986 with a bachelor's degree in machinery manufacturing, and in March 1989 with a master's degree in machinery manufacturing. He also graduated from the Institute of Psychology, Chinese Academy of Sciences (中國科學院心理研究所) with a master's degree in applied psychology in July 2002. Mr. YANG has more than 10 years of experience in human resource planning and management. He joined Legends Holding Corporation (聯想控股集團) in March 1999 and served in various positions in his ten years with Legend Holdings Corporation and its subsidiaries, including as deputy general manager of human resources and director of human resources of its subsidiaries. He then worked at Tianya Online Network Technology Co. Ltd. (天涯社區網絡科技股份有限公司) from June 2010 to October 2012 as director of human resource and deputy general manager of the Beijing branch office. Over the past three years, Mr. YANG has not been a director of any listed companies.

## Company Secretary

**Ms. Wong Wai Yee, Ella**, is a Director of Corporate Services of Tricor Services Limited. Ms. Wong has over 20 years of experience in the corporate services field. Ms. Wong has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Wong was the Company Secretary of the Company during the period from April 2013 to September 2016. Ms. Wong is currently the company secretary/one of the joint company secretaries of four listed companies on the Hong Kong Stock Exchange namely, China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司) (Hong Kong Stock Code: 1988), Vedan International (Holdings) Limited (味丹國際(控股)有限公司) (Hong Kong Stock Code: 2317), Precision Tsugami (China) Corporation Limited (津上精密機床(中國)有限公司) (Hong Kong Stock Code: 1651) and ZhongAn Online P & C Insurance Co., Ltd. (眾安在綫財產保險股份有限公司) (Hong Kong Stock Code: 6060). Ms. Wong 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. Wong holds a bachelor's degree of Economics from The University of Hong Kong and a Postgraduate Diploma in Corporate Administration from the City University of Hong Kong.

# Directors' Report

The Directors are pleased to present this report together with the audited consolidated financial statements of the Group for the year ended December 31, 2017.

## PRINCIPAL PLACE OF BUSINESS

The Company is a company incorporated in the Cayman Islands with limited liability where its registered office is located in the Cayman Islands. Its principal place of business and headquarter in PRC is located in Zhengzhou, Henan Province.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of the subsidiaries of the Company are set out in note 1 to the financial statements.

## BUSINESS REVIEW

A review of the Group's business during the year, which includes a discussion of the principal risks and uncertainties facing by the Group, an analysis of 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 the Management Discussion and Analysis set out on pages 6 to 15 of this annual report. In addition, discussions on the Group's environmental policies and compliance with relevant laws and regulations which have a significant impact on the Group are also included in the Management Discussion and Analysis, Corporate Governance Report and Environment, Social and Governance Report of this annual report. The review forms part of this directors' report.

## SUBSIDIARIES

Please refer to note 1 to the financial statements.

## RESULTS AND DIVIDEND

The results of the Group for the year ended December 31, 2017 are set out in the consolidated financial statements.

The Board recommended the payment of a final dividend of HK13 cents per ordinary share for the year ended December 31, 2017, subject to the approval of such final dividend by the shareholders at the forthcoming AGM and if approved, the final dividend shall be paid on or before August 13, 2018 to the shareholders of the Company. Further announcements will be published for details on the closure of register of members to determine the entitlement of shareholders to the proposed final dividend.

## USE OF PROCEEDS FROM THE ALLOTMENT OF NEW SHARES

(1) On December 22, 2014, the Company entered into a subscription agreement with Foxconn (Far East) Limited ("**Foxconn**"), a wholly-owned subsidiary of Hon Hai Precision Industry Co. Ltd., pursuant to which Foxconn conditionally agreed to subscribe for an aggregate of 128,734,000 Shares with a nominal value of HK$0.01 each at the subscription price of HK$4.73 per Share. The net issue price per Share of the aforesaid subscription was approximately HK$4.67. On December 22, 2014, the closing price of the Shares of the Company was HK$5.31 per Share as quoted on the Stock Exchange. The allotment of the said Shares was completed on March 2, 2015.

(2) On January 9, 2015, the Company and Eagle Seeker Company Limited ("**Eagle Seeker**") entered into separate placing agreements with each of First Shanghai Securities Limited ("**First Shanghai**") and Haitong International Securities Company Limited ("**Haitong Securities**"), pursuant to which First Shanghai and Haitong Securities as the placing agents have agreed to severally, as agents of Eagle Seeker, procure placees to purchase a total of up to 90,113,000 Shares owned by Eagle Seeker at the price of HK$6.08 per Share. The net issue price per the new Share was approximately HK$5.90 per Share. On January 9, 2015, the closing price of the Shares was HK$6.15 per Share as quoted on the Stock Exchange. The placing and subscription were completed on January 13, 2015 and January 21, 2015, respectively. The Company intends to use the net proceeds for potential investments in the manufacturing of new energy electric vehicles.

(3) On May 22, 2015, the Company, Mr. FENG Chengge and Eagle Seeker entered into a placing agreement with Credit Suisse (Hong Kong) Limited and Haitong (collectively, the "**Joint Placing Agents**"), pursuant to which the Joint Placing Agents have agreed to, as agents of Eagle Seeker, procure placees to purchase a total of up to 262,616,779 Shares owned by Eagle Seeker at the placing price of HK$8.18 per Share. The net issue price per the new Share was approximately HK$8.04 per Share. On May 22, 2015, the closing price of the Shares was HK$8.91 per Share as quoted on the Stock Exchange. The completion of the placing agreements of May 22, 2015 is subject to the entering into of the subscription agreement between the Company and Eagle Seeker which conditionally agrees to subscribe from the Company for an aggregate of up to 262,616,779 new Shares at the subscription price of HK$8.18 per subscription Share. The placing and the subscription were completed on May 27, 2015 and June 3, 2015, respectively.

As mentioned in the announcement dated May 22, 2015, the Company has been pursuing a proactive strategy of diversifying its business from the traditional automobile dealership business into the new energy vehicles sector and intended to use the net proceeds from all the above placings (totaling approximately HK$3,242.2 million) as follows:

- approximately 20% for investments in GFMC and Aiche Company of which HK$375 million was committed to be used as stated in the announcement relating to the acquisition of GFMC, and the rest for the acquisition of the remaining minority stake in GFMC if and when the Company is able to do so;

- approximately 15% as initial investment capital from the Group into one or more funds or other investment platforms to be set up with the Company's chosen partners to co-invest in suitable opportunities in the new energy vehicles sector;

- approximately 20% for investments in opportunities in the new energy vehicles sector with best-in-class partners, including developing and/or investing in the manufacture of high speed electric vehicles (approximately 19%) and research and development (approximately 1%);

- approximately 10% for investment in the after-sales services center of Tesla Motors, Inc. operated by the Group;

- approximately 20% for investment in comprehensive after-sales services through online to offline platforms; and

- approximately 15% for general working capital.

As of the date of this report, approximately 45% of the net proceeds had been applied.

## FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 192 of this annual report. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

Detail of the movement in the share capital of the Company during the year are set out in note 33 to the financial statements.

## DISTRIBUTABLE RESERVES

As at December 31, 2017, the Company's reserves available for distribution, subject to the Cayman Companies Law and the Articles of Association of the Company, amounted to RMB3,384.5 million.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 49 to the financial statements and in the consolidated statement of changes in equity, respectively.

## MAJOR RISKS AND UNCERTAINTIES

### (1) Macro policies

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

### (2) Industry policies

The Group must comply with policies and regulations promulgated by the PRC government in its business operation. The alterations in the finance system of China, for instance, the introduction of new tax and increase in tax rate, may affect the profit of the Group. The acceleration in promotion and application of new energy automobiles by the Chinese government may also exert impact on the automobile industry. On the other hand, the limits or other measures imposed by local governments may have an influence on the sales of passenger vehicle, which in turn controls the number of the passenger vehicles in the cities where the network of the Group are located. As a result, the Group will monitor closely any developments in government policies on our industry, while enhancing our service standards on an ongoing basis to address any risks arising from changes in industry policies.

**(3) Automobile manufacturers' policies**

As an automobile dealership group, the Group maintains sound cooperation with branded automobile manufacturers. The Group generates the majority of the revenue from operation of dealership outlets, which relies on the authorization from manufacturers on operating our existing dealership outlets and establishing new outlets. Changes in the policies of such manufacturers might result in changes in the sales strategies for their brands, sales incentives and business policy support for us, and such changes might lead to a decrease in products sales and revenue. Hence, the Group will actively enhance communication with the manufacturers and continue to adopt a development strategy that covers a diverse range of brands.

**(4) Market competition**

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

**(5) Market risks**

The Group exposes to various types of market risks, including credit risks, liquidity risks, interest rate risks and exchange risks, the details of which are set out in note 48 to the financial statements in this annual report. The Group has exercised effective control over market risks through continuous monitoring of risks and changes, timely risk warnings and appropriate application of hedge instruments.

## MAJOR SUPPLIERS AND CUSTOMERS

For the year ended December 31, 2017, the aggregate purchases from our top five suppliers and our largest supplier accounted for approximately 95.41% and 41.95% of our total purchases, respectively.

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year ended December 31, 2017, no major customer information is presented in accordance with HKFRS 8 Operating Segments.

As far as the Directors are aware, neither the Directors, their close associates, nor shareholders who own more than 5% of the Company's number of issued shares as at December 31, 2017 had any interest in any of the five largest suppliers and customers disclosed above.

## RELATIONSHIP WITH CUSTOMERS

In respect of customer service, the Group listened to various demands of consumers on motor use carefully and provided them with high-quality services to constantly raise customer satisfaction. The Group proactively conducted customer satisfaction surveys, scored evaluation on sales team and customer service to fully understand the Company's shortcomings in terms of service so as to pursue improvement. In the provision of maintenance services, the Group's stores are established taking the customer's consumption experience into full consideration, which provide customers with barrier-free communication, and offers them with catering, entertainment, leisure and other activities to render services of the finest quality. At the same time, the Group places emphasis on securing customer privacy, confidentiality and filing of customer information to protect information security of customers. During the Reporting Period, no leakage of customer information has been occurred.

The Group has established a complete motor recall service system and actively took the initiative of liaising and negotiating with customers on motor quality issues to minimize the potential safety threats to motor owners caused by product quality. For recalled vehicles, recall solutions were carried out in the Group's stores according to the "Recall Emergency Plan" to ensure that the recall indicators of motor manufacturers are reached after sales, increase the contribution from warranty to output value of aftersales, and enhance smooth experience of the recall process. During the Reporting Period, the Group has not experienced any incident and complaint of motor recall due to safety and health. In response to complaints, the customer service department first classifies the complaints according to the types of complaints, and then hand over to professional technicians or account managers to offer system solutions in order to fully satisfy various demands of customers.

## RELATIONSHIP WITH SUPPLIERS

The Group maintains long-term and stable cooperation with major automobile suppliers, being luxury and ultra-luxury brands such as BMW, Maserati, Lexus, Land Rover, Ferrari, etc., ensuring the sound development of the sales business of vehicles. In addition, the Group also maintains long-term and stable relationships with 29 suppliers for not originally manufactured vehicle equipment and accessories in the PRC. The Group will also provide tendering opportunities for various kinds of projects on an open, fair, transparent and fair basis in order to select the most excellence. Furthermore, the Group conducted regular assessment and rating on the performance of existing suppliers to realize the performance of suppliers, promote its level of provision of supply, while continuously cooperating with outstanding suppliers and terminating partnered suppliers with unsatisfactory performance. The Group attaches great emphasis on maintaining the relationship with suppliers and establishes long-term cooperation based on the concept of "equality and mutual benefit".

## RELATIONSHIP WITH EMPLOYEES

The Group lays much stress on maintaining sound relationship with employees. The Group regards employees as essential asset of the Group and a very foundation of the sustainable development of the Group. Providing employees with competitive salaries and premier working environment and benefits are conducive to establish good relationship with our staff and retain our staff. The remuneration policies of the Group are determined and reviewed regularly based on the performance of employees. Discretionary bonus is granted to employees for encouraging contribution to the Group from them and promotion is released to excellent employees by the Group depending on the profitability and employees' performance. The Group also offers trainings for new employees and existing employees to enhance their technical knowledge. These initiatives are beneficial to the improvement of the production capacity and efficiency of the Group. Staff is recruited and treated equally by the Group regardless of gender, race and age. The Group provides staff with healthy, safe, enjoyable and harmonious working environment and pays attention to and satisfies various needs of staff, endeavoring to build the Group as a big family which is harmonious, united, healthy and pleasant.

## DETAILED INFORMATION ON MAJOR CUSTOMERS AND SUPPLIERS

The Directors of the Group are of the view that the Group does not rely on any individual customer.

The largest supplier of the Group is an automobile manufacturer. The Group has maintained business relationship with the five largest suppliers for more than 13 years.

## DIRECTORS

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

**Executive Directors:**

Mr. FENG Changge *(Chairman)*
Mr. LIU Fenglei *(Chief Executive Officer)*
Mr. YANG Lei *(Chief Operating Officer and Vice-president)* (resigned on December 29, 2017)
Mr. QIAN Yewen *(Chief Financial Officer)* (resigned on August 31, 2017)
Ms. MA Lintao *(Vice-president)*
Ms. FENG Guo *(Vice-president)* (appointed on August 31, 2017)

**Non-executive Director:**

Mr. FAN Qihui

**Independent Non-executive Directors:**

Mr. XIAO Changnian
Mr. LIU Zhangmin
Mr. XUE Guoping

In accordance with Article 83(3) of the Company's Articles of Association, Ms. FENG Guo, an executive Director, who has been appointed by the Board on August 31, 2017 shall hold office until the forthcoming AGM and shall then be eligible for re-election at that meeting.

Pursuant to Article 84 of the Company's Articles of Association, Mr. FENG Changge, Mr. LIU Fenglei and Ms. MA Lintao, all being executive Directors, will retire by rotation at the AGM.

All of the above retiring Directors, being eligible, will offer themselves for re-election at the AGM. Biographical details of the directors of the Company and the senior management of the Group are set out in pages 28 to 32 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service agreement with the Company for an initial fixed period of three years commencing from their respective date of appointment unless terminated earlier. The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Association of the Company.

Each of our non-executive Director and independent non-executive Directors has signed a letter of appointment with the Company for an initial fixed period of three years commencing from their respective date of appointment. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed director's fee of HK$300,000 per annum while the non-executive Director is not entitled to any remuneration. The appointments of the non-executive Director and independent non-executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Associations of the Company.

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

## PERMITTED INDEMNITY

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the year.

## DIRECTORS' INTEREST IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Except for the service contracts detailed above, no Director nor an entity connected with him/her had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

## DIRECTORS' COMPETING INTERESTS

None of our Directors are interested in any business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the business of the Group.

## MANAGEMENT CONTRACT

No contracts concerning the management and distribution of the whole or any substantial part of the business of the Company was entered into or existed during the year ended December 31, 2017.

## INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

## EQUITY-LINKED AGREEMENTS

Save for the Restricted Share Unit Scheme and Share Option Scheme of the Company as set out in this report, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2017.

## RESTRICTED SHARE UNIT SCHEME

On May 20, 2013, the RSU Scheme of the Company was approved and adopted by the then shareholders of the Company. The purpose of the RSU Scheme is to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in our Company.

An award granted under the RSU Scheme (the "**RSU Award(s)**") gives a participant in the RSU Scheme (the "**RSU Participant**") a conditional right when the RSU Award vests to obtain either Shares or an equivalent value in cash with reference to the market value of the Shares on or about the date of vesting, as determined by the Board in its absolute discretion.

On May 28, 2013, RSU Awards in respect of an aggregate of 19,110,898 new Shares, representing approximately 1.24% of the Shares in issue as at the date of this report, were granted pursuant to the RSU Scheme to several RSU Participants and 2 of them were current Directors. The RSU Awards granted to the RSU Participants on May 28, 2013 pursuant to the RSU Scheme originally had a vesting period of four years as follows: 10% on January 2, 2014, 30% on January 2, 2015, 30% on January 2, 2016 and 30% on January 2, 2017. Pursuant to a resolution passed by the Board on August 27, 2013 and as confirmed by each of the RSU Participants, the vesting period in respect of the RSU Awards granted is extended from four years to five years as follows: 10% on January 2, 2014, 10% on June 30, 2014, 20% on January 2, 2015, 20% on January 2, 2016, 20% on January 2, 2017 and 20% on January 2, 2018. Other than the aforesaid, the terms of the RSU Scheme remain unchanged. Please refer to the prospectus of the Company dated May 31, 2013 for further details of the principal terms of the RSU Scheme. As of December 31, 2017, a total of 4,755,215 RSU Awards were forfeited due to the resignation of certain RSU Participants and 14,355,683 RSU Awards were exercised. At the end of 2017, the Company did not have RSU Awards outstanding under the RSU Scheme.

Details of the RSU Awards granted and outstanding under the RSU Scheme are set out below:

| Name | Number of Shares underlying the RSU Awards granted as at January 1, 2017 | Cancelled/ lapsed/ forfeited during the year | Vested during the year | Number of Shares underlying the RSU Awards granted as at December 31, 2017 |
|---|---|---|---|---|
| *Directors* | | | | |
| Mr. LIU Fenglei | 250,633 | – | 250,633 | – |
| Ms. FENG Guo[(1)] | 720,573 | – | 720,573 | – |
| *Former Directors* | | | | |
| Mr. YANG Lei[(2)] | 977,740 | – | 977,740 | – |
| Mr. YU Feng[(3)] | 1,040,397 | – | 1,040,397 | – |
| Mr. CUI Ke[(4)] | 727,104 | – | 727,104 | – |
| *Employees* | 1,439,824 | – | 1,439,824 | – |
| Total | 5,156,271 | – | 5,156,271 | – |

*Notes:*

(1) Ms. FENG Guo was appointed as an executive Director and Vice-president with effect from August 31, 2017.

(2) Mr. YANG Lei resigned as an executive Director, Chief Operating Officer and Vice-president of the Company with effect from December 29, 2017.

(3) Mr. YU Feng resigned as an executive Director and Chief Executive Officer of the Company with effect from October 19, 2015.

(4) Mr. CUI Ke resigned as an executive Director and Vice-president of the Company with effect from September 1, 2015.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme on June 26, 2015 ("**Share Option Scheme**"), which is made pursuant to Chapter 17 of the Listing Rules, in relation to grant of share options (the "**Existing Share Options**") to certain employees of the Company or its subsidiaries (the "**Existing Grantees**") to subscribe for up to aggregate number of 45,000,000 shares (the "**Shares**") of HK$0.01 each of the Company, for the purpose of attracting, retaining and motivating talented employees to strive towards long-term performance targets set by the Group and to provide them with an incentive to work better for the interest of the Group. Out of the 45,000,000 Existing Share Options, 29,600,000 share options have lapsed and 15,400,000 share options have not been exercised ("**Outstanding Options**") on May 9, 2017.

The Board has resolved to grant up to 70,000,000 new Share Options to the Existing Grantees and certain new grantees (collectively, the "**Grantees**", each a "**Grantee**") to replace the Outstanding Options, subject to the acceptance of each of these Existing Grantees. No compensation shall be payable to them for cancellation of the Outstanding Options. New Grantees are mainly senior management of the subsidiaries of the Company and general managers of its outlets.

On December 15, 2017, the Company further offered to grant new Share Options to certain Grantees under the Share Option Scheme, entitling them to subscribe for a total of 15,000,000 Shares of HK$0.01 each of the Company. The grant of the Share Options will be subject to the acceptance of the Grantees. The Grantee is not a director, chief executive or substantial shareholder of the Company.

Summary of each of the Share Option Scheme and the new Share Options has been set out in note 35 to the financial statement.

Details of the Share Options to subscribe ordinary shares of the Company as follows:

| | | | | Number of Share Options | | | |
|---|---|---|---|---|---|---|---|
| **Name of Grantees** | **Date granted** | **Exercise price per Share** | **Outstanding as at January 1, 2017** | **Granted during the period** | **Exercised during the period** | **Lapsed/ cancelled during the period** | **Outstanding as at December 31, 2017[6]** |
| *Directors* | | | | | | | |
| Mr. FENG Changge<br>– Executive Director and Chairman of the Board | May 9, 2017 | HK$3.00 | - | 5,000,000[1] | – | – | 5,000,000[1] |

| Name of Grantees | Date granted | Exercise price per Share | Outstanding as at January 1, 2017 | Number of Share Options: Granted during the period | Exercised during the period | Lapsed/ cancelled during the period | Outstanding as at December 31, 2017[6] |
|---|---|---|---|---|---|---|---|
| Mr. LIU Fenglei – Executive Director and Chief Executive Officer | May 9, 2017 | HK$3.00 | - | 5,000,000[1] | – | – | 5,000,000[1] |
| Ms. FENG Guo[3] – Executive Director and Vice President | May 9, 2017 | HK$3.00 | – | 800,000[1] | – | – | 800,000[1] |

| Name of Grantees | Date granted | Exercise price per Share | Outstanding as at January 1, 2017 | Number of Share Options: Granted during the period | Exercised during the period | Replacement during the period[6] | Lapsed/ cancelled during the period | Outstanding as at December 31, 2017 |
|---|---|---|---|---|---|---|---|---|
| *Former Directors* | | | | | | | | |
| Mr. YANG Lei[4] | June 29, 2015 | HK$10.60 | 3,000,000 | – | – | 3,000,000[6] | – | – |
| – Former Executive Director, Chief Operating Officer and Vice President | May 9, 2017 | HK$3.00 | – | 2,250,000[1] | – | – | – | 2,250,000[1] |
| Mr. QIAN Yewen[5] | July 2, 2015 | HK$10.60 | 8,000,000 | – | – | 8,000,000[6] | – | – |
| – Former Executive Director and Chief Financial Officer | May 9, 2017 | HK$3.00 | – | 6,000,000[1] | – | – | – | 6,000,000[1] |
| Other eligible employees | June 29, 2015 | HK$10.60 | 28,900,000 | – | – | 4,400,000[6] | 24,500,000 | – |
| | May 9, 2017 | HK$3.00 | - | 50,950,000[1] | 590,000 | – | 360,000 | 50,000,000[1] |
| | December 15, 2017 | HK$4.80 | – | 15,000,000[2] | – | – | – | 15,000,000[2] |
| Total | | | | | | | | 84,050,000 |

*Notes:*

(1) The Share Option period of the 70,000,000 new Share Options is valid from May 9, 2017 (i.e. date of grant) till the earlier of (i) the day on which the relevant Grantee ceases to be an employee or a director of the Company and its subsidiaries on one or more of the grounds of termination of employment, appointment or directorship specified in paragraph 8(vi) of the Share Option Scheme, and (ii) June 28, 2025, the cessation of directorships of the former Directors Mr. QIAN Yewen and Mr. YANG Lei did not involve the grounds of termination as specified in the above (i), and their Share Options remained valid as at December 31, 2017.

(2) The Share Option period of the 15,000,000 new Share Options is valid from December 15, 2017 (i.e. date of grant) till the earlier of (i) the day on which the relevant Grantee ceases to be an employee or a director of the Company and its subsidiaries on one or more of the grounds of termination of employment, appointment or directorship specified in paragraph 8(vi) of the Share Option Scheme, and (ii) June 28, 2025.

(3) Ms. FENG Guo was appointed as an executive Director and Vice-president with effect from August 31, 2017.

(4) Mr. YANG Lei ceased to act as an executive Director, Chief Operating Officer and Vice-president of the Company with effect from December 29, 2017.

(5) Mr. QIAN Yewen ceased to act as an executive Director and Chief Financial Officer of the Company with effect from August 31, 2017.

(6) 15,400,000 share options granted in 2015 were replaced by the new Share Options at May 9, 2017.

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

As at December 31, 2017, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

| | | Ordinary Shares | | | Underlying Shares under Restricted Share Unit Scheme | Underlying Shares under Share Options | | |
|---|---|---|---|---|---|---|---|---|
| | | Nature of Interests | | | | | | |
| Name | Position | Personal Interests | Family Interests | Interest of Controlled Corporation | Beneficiaries | Personal Interests | Total Interests | Approximate % of Shareholding Interest |
| Mr. FENG Changge | Director | – | – | 690,066,160 (L)(1) | –(3) | 5,000,000(4)(5) | 695,066,160 (L) | 45.17% |
| Ms. MA Lintao | Director | – | 695,066,160 (L)(2) | – | –(3) | – | 695,066,160 (L) | 45.17% |
| Mr. LIU Fenglei | Director | 653,272 (L) | – | – | –(3) | 5,000,000(4)(5) | 5,653,272 (L) | 0.37% |
| Ms. FENG Guo | Director | – | – | – | –(3) | 800,000(4)(5) | 800,000 (L) | 0.05% |

*Notes:*

(1) These 690,066,160 shares in the Company are held by Eagle Seeker Company Limited ("**Eagle Seeker**"). Mr. FENG Changge is deemed to be interested in the said 690,066,160 shares by virtue of Eagle Seeker being controlled by Mr. FENG Changge.

(2) Ms. MA Lintao is Mr. FENG Changge's spouse and is therefore deemed to be interested in all the shares of the Company in which Mr. FENG Changge is deemed to be interested in.

(3) These Shares represent Shares underlying the RSU Awards granted to the relevant Directors pursuant to the RSU Scheme. For further details, please refer to the section headed "Restricted Share Unit Scheme".

(4) These interests represent options to subscribe Shares in accordance with the Share Option Scheme granted to the relevant Directors. For further details, please refer to the section headed "Share Options Scheme".

(5) These options were granted by the Company in May 2017 and accepted by the relevant grantees in May 2017.

(6) "Personal Interests" represents interests directly beneficially owned.

(7) "Family Interests" represents interests of spouse or child under 18.

(8) The letter "L" denotes the long position in the shares of the Company.

Save as disclosed above, as at December 31, 2017, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at December 31, 2017, as far as the Company is aware, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

| Name | Capacity/nature of interest | Number of Shares directly or indirectly held[3] | Approximate % of shareholding interest |
|---|---|---|---|
| Eagle Seeker[1] | Beneficial owner | 690,066,160 (L) | 44.85% |
| Foxconn (Far East) Limited[2] | Beneficial owner | 128,734,000 (L) | 8.37% |
| Hon Hai Precision Industry Co. Ltd.[2] | Interest of controlled corporation | 128,734,000 (L) | 8.37% |

*Notes:*

(1) Eagle Seeker is wholly-owned by Mr. FENG Changge, an executive Director and the chairman of the Company.

(2) Foxconn (Far East) Limited ("**Foxconn**") is wholly-owned by Hon Hai Precision Industry Co. Ltd. ("**Hon Hai**"), a company listed on the Taiwan Stock Exchange. Accordingly, Hon Hai is deemed to have interest in the 128,734,000 Shares held by Foxconn.

(3) The letter "L" denotes long position in such Shares.

Save as disclosed above, as at December 31, 2017, no persons (other than the Directors or the chief executive of the Company) had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

## CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS

Mr. LIU Zhangmin, an independent non-executive Director, no longer served as the independent non-executive director of China Communications Construction Co., Ltd (中國交通建設股份有限公司), a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange (stock code: 1800.HK, 601800.SS); and the outside director of China Poly Group Corporation (中國保利集團公司), since November 2017 and December 2017, respectively.

Save as disclosed above, no other information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the RSU Awards and the Share Options, at no time during the year was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, debentures of, the Company or any other body corporate.

## NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the controlling shareholders, Mr. FENG Changge and Eagle Seeker Limited, in respect of their compliance with the terms of the non-competition undertaking as described in the prospectus of the Company dated May 31, 2013 and that they have not engaged, nor interested, in any business which directly or indirectly, competes or may compete with the business of the Group during the year 2017.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at December 31, 2017 are set out in note 28 to the financial statements.

## EMOLUMENT POLICY

The emolument policy of the general staff of the Company is set up by the management of the Group on the basis of their merit, qualifications and competence. The emoluments of the Directors and senior management of the Company are proposed by the Remuneration Committee of the Company to the Board, having regard to the Company's operating results, individual performance and comparable market statistics, subject to the final decision by the Board. The remuneration of the Directors and chief executive are set out in note 8 to the financial statements. Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended December 31, 2017 is set out below:

| Remuneration bands | Number of persons |
|---|---|
| Nil to HK$1,000,000 | – |
| HK$1,000,001 to HK$1,500,000 | – |
| HK$3,000,001 to HK$3,500,000 | 1 |
| | 1 |

## RELATED PARTY TRANSACTIONS

During the year, the Group entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of the related party transactions entered into by the Group during the year are disclosed in note 46 to the financial statements. The related party transactions disclosed in note 46 were not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

## CORPORATE GOVERNANCE

For the year ended December 31, 2017, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules, save and except for the deviation as set out below.

In accordance with code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and should also invite the chairmen of the nomination, audit and remuneration committees to attend. Mr. FENG Changge, the chairman of the Board and the chairman of the Nomination Committee, Mr. XIAO Changnian, the chairman of the Audit Committee and Mr. XUE Guoping, the chairman of the Remuneration Committee were not able to attend the annual general meeting of the Company held on June 9, 2017 due to their other business commitments.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the period from the Listing Date to December 31, 2017.

## SUFFICIENCY OF PUBLIC FLOAT

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

## PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

For the year ended December 31, 2017, the Company repurchased a total of 37,663,500 of ordinary shares of HK$0.01 each on the Stock Exchange for a total consideration of approximately HK$140,127,587.10 (excluding transaction cost). The 37,663,500 repurchased shares were subsequently cancelled on July 17, 2017. Details of the shares repurchased during the period are set out as follows:

| **Month of repurchase** | **Number of shares** | **Repurchase price per share** | | **Aggregate consideration (excluding transaction cost)** |
|---|---|---|---|---|
| | | **Highest** | **Lowest** | |
| | | *(HK$)* | *(HK$)* | *(HK$)* |
| January 2017 | 1,988,500 | 3.76 | 3.62 | 7,388,875.00 |
| February 2017 | 30,759,500 | 3.94 | 3.67 | 116,633,000.00 |
| April 2017 | 1,035,000 | 3.27 | 3.17 | 3,346,170.00 |
| May 2017 | 1,980,000 | 3.40 | 2.66 | 6,230,394.00 |
| June 2017 | 1,900,500 | 3.59 | 3.29 | 6,529,148.10 |
| Total | 37,663,500 | | | 140,127,587.10 |

The Directors believe that repurchases of shares are in the best interests of the Company and its shareholders and that such repurchases of shares would benefit shareholders as a whole by enhancing the earnings per share of the Company. Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended December 31, 2017.

## PRE-EMPTIVE RIGHTS

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

## DONATIONS

Donations made by the Group during the year ended December 31, 2017 amounting to RMB9,400 (2016: RMB1,420).

## AUDITORS

The consolidated financial statements have been audited by Ernst & Young who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM of the Company to be held in June 13, 2018. A resolution for the re-appointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming AGM of the Company.

By Order of the Board
**CHINA HARMONY NEW ENERGY AUTO HOLDING LIMITED**
**FENG Changge**
*Chairman and Executive Director*

March 26, 2018

# Environmental, Social and Governance Report

## ABOUT THE REPORT

### Summary

The report is the second environmental, social and governance report (the "**Report**") issued by China Harmony New Energy Auto Holding Limited. Unless otherwise specified, the Report shall be read in conjunction with the section headed "Corporate Governance Report" on pages 16 to 27 of the 2017 annual report. The Report will be published on the website of the Stock Exchange and the website of the Company. The Report will be issued once each year.

### Basis of Preparation

The Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Guide**") as set out in Appendix 27 to the Listing Rules.

### Scope and Extent of Reporting

The data and information cited in the Report are referenced from the archived questionnaires, records, statistics and research of the Group. The Report covers an information period that spans the Reporting Period, exactly the financial year covered by the 2017 annual report of the Company.

### Contact

Should you have any query or feedback on the Report, please contact us via the following methods:

- Address: 19/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
- Tel.: (852) 2251 1830
- Email: hk@hexieauto.com
- Official website: www.hexieauto.com

# Environmental, Social and Governance Report

## GROUP PROFILE

As a leading dealership group that deals exclusively in luxury and ultra-luxury passenger vehicles in the People's Republic of China (the "**PRC**"), the Group currently operates 13 international well-known luxury and ultra-luxury passenger vehicle brands including BMW, Maserati, Land Rover, Rolls-Royce, Ferrari, etc., together with 53 dealership outlets, with its presence in 26 large and medium-sized cities in the PRC. Over the years, the Group has insisted on the goal of "becoming a leading and the largest operation group in terms of sales and repairs for luxury and ultra-luxury passenger vehicles in China", committed to becoming the first and the largest, the most luxurious, responsible, respected and excellent vehicle dealer.

## CORE VALUES OF THE GROUP

In the course of corporate development, the Group deeply realized consumers' demand, continued to improve the service system and strive for sustainable, sound and rapid corporate development. While creating economic benefits for its shareholders, the Group vigorously advocated the corporate spiritual concept of "simplicity, broadness, harmony, sunshine and happiness", proactively involved in community building and development, practically discharged various social responsibilities, making the Group's every effort to invest in and give back to the community, in an endeavor to promote the harmonious development of the community.

## IDENTIFICATION OF AND COMMUNICATION WITH STAKEHOLDERS

The Group has always been concerned about the requests, expectation and recommendations of various stakeholders. While identifying relevant major issues, the Group created efficient and smooth communication channels for various stakeholders, timely gave response and feedback initiative based on the corporate actual operations to ensure that various stakeholders have received timely and valid feedbacks, and establish trustworthy inter-relationships with stakeholders as to jointly promote the sound and sustainable corporate development.

During the Reporting Period, major stakeholders of the Company were shareholders and investors, employees, consumers, suppliers, government and regulators, media and community, etc. Key issues of major concern and corresponding measures are as follows:

**Major issues concerned by stakeholders and corresponding measures**

| Stakeholders | Major concerns | Communication channels | Measures adopted by the Company |
|---|---|---|---|
| Shareholders/ investors | Business strategies<br>Sustained and steady returns on investment<br>Prompt information disclosure<br>Good corporate image<br>Compliant corporate operation | General meeting<br>Information disclosure of listed company<br>Road shows/teleconference/ meet-and-greet<br>Media communication mechanism<br>Enquiry via telephone/email<br>Investors visits<br>Information disclosure on the website | Issue notices of annual general meeting and proposals according to the regulations<br>Disclosure of corporate information on schedule<br>Disclosure of announcements and release of periodic reports according to the regulations<br>Create smooth communication channel |
| Staff | Training and room for career development<br>Remuneration package<br>Working condition<br>Health and safety assurance | Direct Communication<br>Body checks<br>Staff activities<br>Consulting with staff opinions<br>Staff training | Create a healthy and safe work environment<br>Build a fair promotion system<br>Create an exchange platform for staff<br>Organize staff activities |
| Consumers | Product quality<br>Service quality<br>Customer information protection | Customer satisfaction investigation<br>After-sales services and complaints | Conduct customer surveys<br>Conduct after-sales services management<br>Handle complaints and other after-sales problems timely |

| Stakeholders | Major concerns | Communication channels | Measures adopted by the Company |
|---|---|---|---|
| Suppliers | Fulfillment of contract obligations on schedule<br>Long-term stable cooperation<br>Corporate credibility | Trade fair<br>Daily communications | Fulfillment of contract obligations<br>Maintenance of long-term partnership |
| Government and regulators | Compliant operation<br>Payment of tax according to laws<br>Governance transparency<br>Information disclosure and reporting materials | Compliance with laws and regulations<br>Daily work reports<br>Information disclosure | Strict compliance with laws and regulations<br>Accurate information disclosure<br>Pay taxes according to laws<br>Acceptance of governmental inspection and investigation |
| Community | Employment opportunities<br>Ecological environment<br>Community development<br>Social welfare | Community activities | Give priority to hiring local employees<br>Protect ecological environment<br>Organize community activities |
| Media | Open access of information<br>Good relationship with the media | Information disclosure | Maintain good communication<br>Prompt information disclosure |

## 1. ENVIRONMENT

As a leading car dealer in the PRC, the Group attaches great importance to the impact on environment, energy and natural resources incurred by corporate operation. In addition to strict compliance with the Environmental Protection Law, the Atmospheric Pollution Prevention Law, the Water Pollution Prevention Law and other laws and regulations of the PRC, the Group has carried out stringent administration measures on the daily operations of various 4S stores and monitored the reasonable discharge and scientific treatment of various emissions and wastes to minimize the impact on the environment brought by corporate operation to the greatest extent.

In recent years, new energy vehicles have gradually become generalized under strong support of the Chinese government policies. New energy vehicles can effectively reduce vehicle exhaust emissions and even achieve zero emission by use of clean energy and hybrid energy, which play a significant role in energy conservation and improvement of air quality. The Group has assumed the responsibility of environmental protection by speeding up the layout of new energy vehicle projects. In 2017, the FMC Project invested by the Group successfully launched the first model of SUV new energy vehicles which has been planned for mass production in the factory in Nanjing, China, in the second half of 2019.

### 1.1 Emissions

The Group does not generate a large amount of emissions by direct combustion of any fuel in the course of daily operation. During the Reporting Period, the exhaust emissions generated by the Group were mainly vehicle exhaust emissions generated by the Company's own vehicles. Major emission data is as follows:

| Major emissions | Unit | Emissions |
|---|---|---|
| Nitrogen oxides ($NO_x$) | kg | 2,387.2 |
| Sulfur dioxide ($SO_x$) | kg | 2.6 |
| Particulates | kg | 212.1 |

The direct generation or emission of greenhouse gas is not derived from the business operations of the Group through combustion of fixed source fuels but mainly comes from vehicle exhaust emissions from vehicles and air-conditioners and refrigeration equipment. In addition, daily use of electricity and gas, waste paper and waste water produced by the Group, coupled with employees' business flights also indirectly discharge a certain portion of greenhouse gas. Based on the statistics of the Group's internal data, during the Reporting Period, the data of greenhouse emissions generated by the Group is as follows:

| Type of greenhouse gas | Emissions *(tonnes)* | Density *(tonnes/store)* |
|---|---|---|
| Carbon dioxide | 13,909.9 | 262.5 |
| Methane | 0.9 | 0.02 |
| Nitrous oxide | 51.9 | 1.0 |

The Group's stores generate various hazardous wastes, such as waste motor oil and discarded auto parts, when carrying out the after-sales service and automobile maintenance and repair business. In order to prevent hazardous wastes from endangering the environment, the Group has adopted recycling and reuse measures to deter any stores from discharging hazardous wastes, and engaged a professional third-party agency to collect them on site. For example, discarded auto parts are firstly smashed for preliminary disposal to prevent defective products from re-entering into the market, and then collected on site to be recycled by the third-party agency for further processing.

In addition, the harmless wastes generated by the Group are primarily household garbage and a small amount of other discarded auto parts. The Group has entered into garbage disposal agreements with the municipal environmental protection departments in various regions in relation to the disposal of household garbage, in a way that garbage shall be sorted and stacked by category before it is collected, transported and disposed by a professional agency, so as to ensure a pleasant working environment in all stores. During the Reporting Period, due to the diversified and complex composition of wastes, no specific statistics have been available up to now. The Group will work on relevant statistics in the next financial year.

In order to reduce various effluents and greenhouse emissions, the Group encouraged its employees to travel in a green manner by walking or using public transportation to and from work to reduce greenhouse gas directly discharged due to use of private cars, and requested the administrative department to monitor the use of air conditioners and the inventory level of refrigerants in all stores for rational use of air conditioners and other refrigeration equipment. In addition, the Group, when screening suppliers, prioritized partners who provide environmental-friendly products, and strongly advocated paperless office to cultivate employees' work habits of being economical and environmental-friendly, so as to create a conserving working condition.

### 1.2 Use of Resources

In order to achieve its harmonious and sustainable development, the Group adhered to the principle of rational use of various resources and strived to accelerate the implementation of energy conservation and emission reduction measures, so as to diminish the consumption of resources and energy of all kinds in the course of the Group's operation. During the Reporting Period, the major consumption of energy and resources is as follows:

| **Type of energy** | **Consumption** *(tonnes)* | **Density** *(consumption/store)* |
|---|---|---|
| Electricity | 13.4507 million KWh | 253.8 |
| Water | 22,574 tonnes | 452.9 |
| Natural gas | 79,127 m$^3$ | 1,493.0 |
| Gas | 1,428.5 m$^3$ | 27.0 |
| Gasoline | 177,533.9 litres | 3,349.7 |

The Group has adopted a series of measures to ensure rational use of various resources. Firstly, all of the 53 stores operated by the Group have obtained the ISO 14001 certification for environmental management system. The store design does not only take factors such as daylighting and energy conservation into full consideration, but also utilizes environmental-friendly materials and technologies to reduce various kinds of energy consumption of the stores to the fullest extent. For instance, thermal insulation coating is used for external walls of the stores with installation of and replacement with high-efficiency and energy-saving LED lighting devices as well as installation and use of solar water heater and other renewable energy equipment. In addition, the Group has also established a stringent energy management system. The administrative department conducted monthly monitoring and management on data of various kinds of energy consumption in all stores to timely detect over-consumption of energy or other abnormalities, and set up effective counter-measures and punitive measures. During the Reporting Period, the Group has made obvious progress in terms of energy use and efficiency, and showed significant improvement in respect of utilization efficiency of various resources with a decrease in the consumption of electricity, gas and natural gas per store of 5.7%, 7.9% and 5.2%, respectively.

The water resources used by the Group are provided by the local water company. Meanwhile, the Group strengthens the recycling and reuse of water resources, for instance, by collection and storage of rainwater for car washing service, enhancing the utilization efficiency of water resources and utilization rate of repetitive water use. During the Reporting Period, the Group's water consumption per store decreased by approximately 12.8%.

As the Group does not manufacture or produce any finished products directly, and all of the automobiles sold are produced by suppliers, the Group does not use any packaging materials.

### 1.3 The Environment and Natural Resources

The business operations of the Group do not have a significant influence on the environment and natural resources. The Group is committed to building a harmonious, sustainable and environmental-friendly enterprise, constantly pursuing coordinated development between the Company's business and ecological environment, and incorporating the protection of environment and natural resources into the scope for consideration of corporate strategic planning and policy implementation. In the meantime, the Group devotes itself to vigorously developing new energy vehicle projects, spreading the awareness of environmental protection to consumers, and practically fulfilling its obligation on environmental protection at business level.

## 2. EMPLOYMENT AND LABOR PRACTICES

The Group has always regarded its employees as one of the most valuable assets and wealth in corporate development and improvement. The Group has employed and treated each employee the same regardless of gender, ethnic groups and age, providing employees with a healthy, safe, happy and harmonious working environment, and giving continued concern to and addressing various needs of employees, so as to make the Group to become a harmonious, united, healthy and happy family.

### 2.1 Employment

The Group abides by the Labour Law of the PRC, Labor Contract Law of the PRC, Labor Dispute Mediation and Arbitration Law of the PRC and local decrees and regulations in recruitment, and guarantees employee salaries and benefits in accordance with the Payment of Wages Tentative Provisions, Regulations on Paid Annual Leave of the Employees and other laws according to legal requirements.

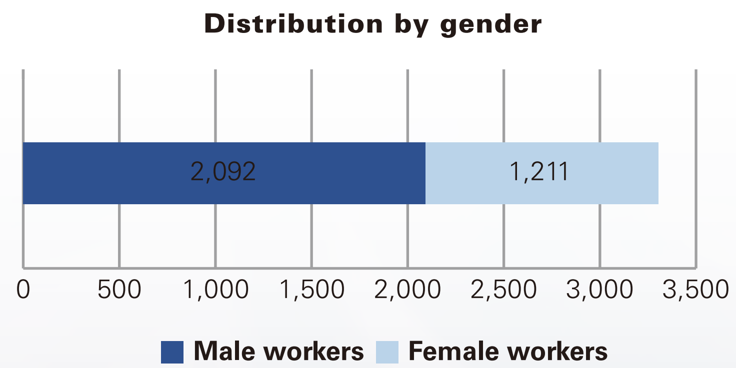
In the course of recruitment, the Group has established an employment mechanism of fair competition, selection of the excellence and reasonable transfer in accordance with the Employment Management System. It mainly adopts a combination of campus recruitment and social recruitment by means of online recruitment and headhunters' recommendation to attract outstanding new graduates and talents in the society without differentiation in any form, any discriminative information or screening requirements against candidates in respect of treatment, so as to provide an unreserved and open environment ideal for job search for each applicant. In addition, the Group pays attention to talent search within the Company by adopting the "in-out" principle to firstly discover and make use of existing employees, thereby facilitating the rapid growth of employees and maintaining the harmonious and stable corporate development.

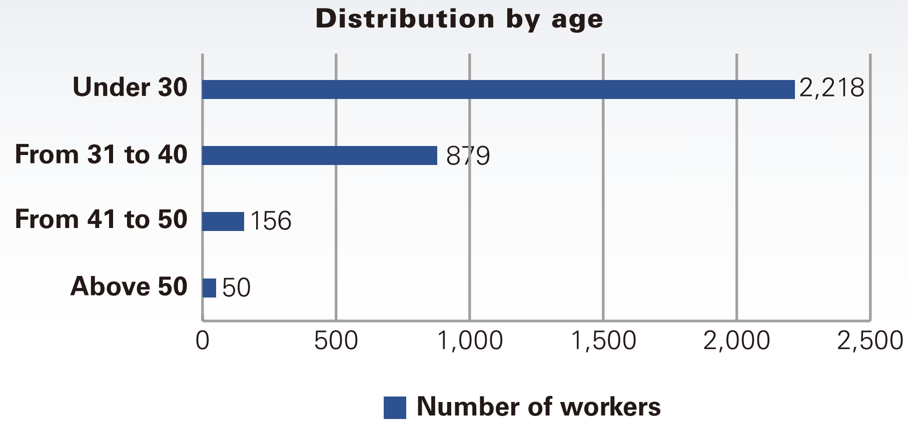
In addition to ensuring entitlement of statutory salaries and fringe benefits for employees, the Group also constantly optimizes employee salaries and fringe benefits based on its own conditions. For example, the Group purchases commercial insurance for employees who do not meet the requirements for social security purchase; provides additional festive benefits for staff; distributes meal allowances and outbound allowances for employees and those who are dispatched to other locations, etc. The Group also organizes a variety of staff activities, such as team building, travelling, sports competitions, to strengthen cohesion among employees and enrich their spiritual lives. At present, an effective top-down feedback and complaint mechanism has been established within the Group to create an unimpeded communication channel for staff complaints and suggestions.

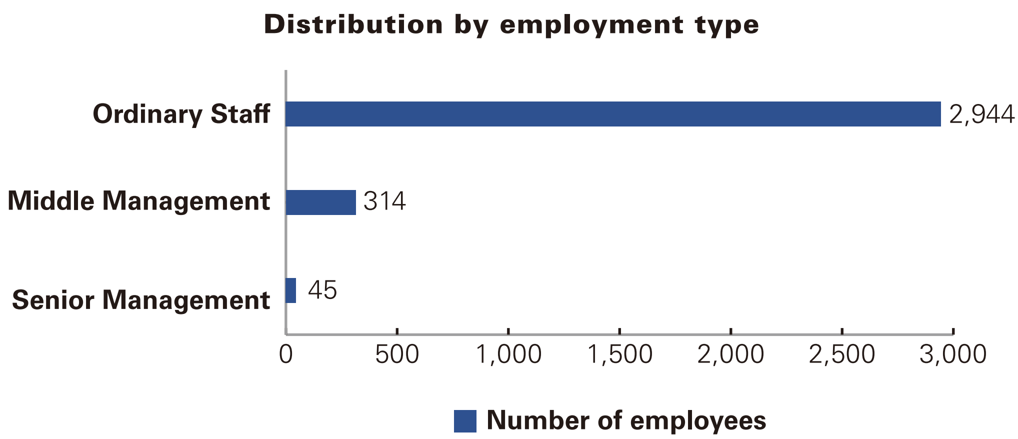
The Group's businesses cover all over the country, welcoming and attracting talents from different regions and ethnic groups and offering them with equal opportunities for employment. Meanwhile, the Group promotes the diversification in corporate personnel structure and diversified development of culture to build a harmonious, stable and united team for corporate development. Up to the end of the Reporting Period, the Group had a total of 3,303 workers, of which 63.3% were males and 36.7% were females. Due to the peculiarity of the industry, majority of the workers engaged in after-sales and repair services were males, therefore the proportion of male workers was relatively high in the Group.

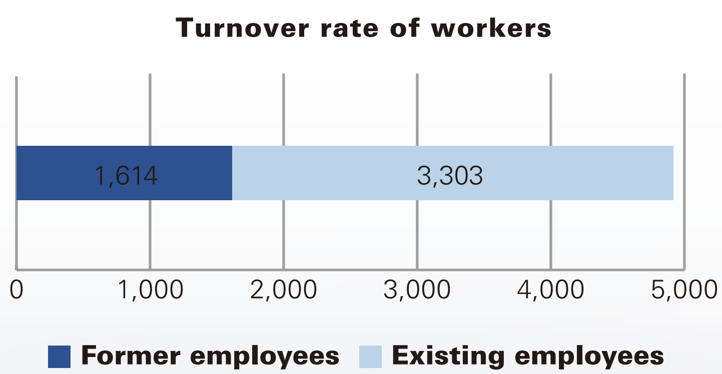

Staff of the Group

2017 Indicators for Core Employees




Distribution by age
Under 30
From 31 to 40
From 41 to 50
Above 50
2,218
879
156
50
0
500
1,000
1,500
2,000
2,500
Number of workers


Distribution by employment type
Ordinary Staff
Middle Management
Senior Management
2,944
314
45
0
500
1,000
1,500
2,000
2,500
3,000
Number of employees


Turnover rate of workers
1,614
3,303
0
1,000
2,000
3,000
4,000
5,000
Former employees
Existing employees

### 2.2 Health and Safety

Committed to providing its employees with a healthy and safe working environment, the Group abides by the Fire Protection Law of the PRC, Prevention and Control of Occupational Diseases Law of the PRC, Regulation on Work-related Injury Insurances and other laws to ensure the health and safety of employees. The Group arranges annual body checks for all staff. In the meantime, for employees with special duties, such as spray paint, sheet metal welding, etc., the Groups also conducts random checks for occupational disease and body checks in accordance with the policies and requirements of the region where the Group is located, so as to ensure the health of employees for such positions.

The Group has adopted a series of measures and supervisory methods to ensure the occupational health and safety of employees, and prevent potential occupational diseases from endangering the physical health of employees. The prevention and control system within the Group has introduced the measures for safe production and occupational disease prevention from various regions. Posters relating to safe production and prevention of occupational injuries are hung in work stations, and comprehensive safety trainings are conducted for employees by special safety personnel to reinforce their awareness of potential safety risks and ability to cope with dangers. The Group organizes periodic fire drills and related trainings through cooperation with the local fire service department each year to promote knowledge on fire safety and raise awareness of fire safety. Furthermore, the Group accepts annual inspections from environmental protection departments and occupational disease management centers of various regions on a regular basis. The Group as a whole strives to do everything possible in terms of health and safe protection, requires itself to meet the highest standards, and refrain potential threats to the health and safety of its employees to the largest extent.

In order to avoid occurrence of major safety incidents, the Group has formulated the Management System for Avoidance of Major Safety Incidents with an aim of tightening control over potential risks and preventing emergence of major incidents. The manager of the administration department and the general managers of the Group's subsidiaries are responsible for enforcing management, monitoring and controlling the potential risks of major incidents in the areas under their jurisdiction, realizing the distribution of hidden dangers and their dynamic changes, formulating and improving emergency rescue plans for emergency rescue teams, strictly implementing the safety operation procedures as well as safety management rules and regulations, thereby practically discharging their safety responsibility to make potential risks nipped in the bud.

During the Reporting Period, there was no death case arising from work for the Group, and there were 9 minor occupational injuries, with a total loss of 125 working days.

### 2.3 Development and Training

In order to enhance the business abilities and occupational skills of the Group's employees, the Group has established a systematic training system to provide employees with continuous and systematic training activities on career development through accumulation of knowledge, experience, capabilities, dissemination, application and innovation and other forms. The Group attaches great importance to talent cultivation. We believe that systematic development and training does not only facilitate employees to become mature quickly and adapt to the requirements of business development, but also serve as a good way to cultivate helpful talents for social development.

The Group's training activities can be divided into four categories by type of the organizers:

➢ **Level I training:** Group trainings. They are organized by the Human Resources Department of the Group, which conduct internal and external trainings targeted at the Group and its subsidiaries;

➢ **Level II training:** Subsidiary trainings. They are organized by the Human Resources Department of the subsidiary, which conduct internal and external trainings for branch employees;

➢ **Level III training:** Intra-departmental trainings. Internal training activities are organized by heads of various departments; and

➢ **Level IV training:** Self-trainings. They are training activities that employees achieve self-development through self-study.

The Group's training activities can be further divided into four categories by subject of trainings:

➢ **Induction trainings for new employees:** To assist new comers to integrate into the Company in a faster and better way, the Group provides systematic training activities for each new employee, including basic training and on-job training.

➢ **Competency training:** This is a training activity organized to renew and extend the scope of knowledge of employees, enhance their ability of performance of duties, and prepare for promotion of office and improve their work efficiency. For instance, in 2017, Mr. YANG Shengjun, our Board Secretary and chief officer of human resources, organized and initiated "Unleash Your Potential" – the phase I training activity for echelon construction (建設梯隊) of Harmony Auto Trading, as the main training activity for retaining a pool of general managers for the Group.

➢ **External trainings:** The Group's companies also provide external training activities to employees due to work requirements, as the Company is temporarily unable to provide such training. They may, upon obtaining approval from the Group, apply for participation in those training activities organized by the Group, industry peers, manufacturers, and professional training institutions. For instance, related personnel of the BMW 4S store under the Group, led by BMW China in 2017, participated in the Human Resource Development Seminar by a distributor of BMW (Harmony).

➢ **Amateur training:** The Group encourages employees to use their spare time to participate in learning activities related to their professions, in order to enrich themselves, and improve their own occupational skills and career qualities.

During the Reporting Period, the proportions of trainings completed by the senior management, middle management and general staff of the Group were 42.7%, 52.6% and 35.3%, respectively, and the average number of training hours attended was 48.7, 49.3 and 38.1 hours respectively.

Photos taken from training activities

### 2.4 Labor Standards

The Group, in strict compliance with legal requirements including Labor Law of the PRC, Law of the PRC on the Protection of Minors and Provisions on the Prohibition of Using Child Labor, is determined to resists and oppose the occurrence of forced labor and child labor. At present, all full-time employees, either being recruited or holding office, are aged 18 or above, and interns and apprentices are aged 16 or above, all of whom are in compliance with relevant laws and regulations. In addition, the Group conducts assessment on the work tasks and achievements of the Company's internal employees through regular performance appraisal scheme, and stringently monitors the work intensity that employees can withstand to avoid behaviors of forced labor. During the Reporting Period, the Group has not encountered any form of child labor or forced labor.

## 3. OPERATING PRACTICES

### 3.1 Supply Chain Management

The Group has formulated the Tendering and Bidding Administration Measures in accordance with the Tendering and Bidding Law of the People's Republic of China to regulate the tendering and bidding activities of the Group companies' projects such as construction engineering and procurement of materials. The Group, by adopting such administration measures as general principles, also formulated the Supplier Evaluation and Administration Measures to regulate the screening behaviors of suppliers, strengthen supervision and management on suppliers, fully safeguard product quality, and ensure the stability of supply chain management.

The Company cooperated with major automobile suppliers, being luxury and ultra-luxury brands such as BMW, Maserati, Lexus, Land Rover, Ferrari, etc. and maintained long term and stable relationships with them, ensuring the stable development of the sales business of vehicles. In addition, the Group also maintains long-term and stable relationships with 29 suppliers for not originally manufactured vehicle equipment and accessories in the PRC. During the Reporting Period, the distribution of major suppliers for vehicle equipment and accessories by region was 13 in Guangdong, 7 in Shanghai, 4 in Beijing, 2 in Zhejiang, 2 in Henan, and 1 in Jiangsu.

In screening suppliers for not originally manufactured equipment and accessories, in addition to requiring the party to have the most basic operation qualifications and product quality, the Group will also fully consider the supplier's own environmental and social risk factors, such as whether the materials used by the supplier on products are in compliance with standards of environment protection, as well as market reputation of the supplier's brand and other factors. Meanwhile, the Group will also provide tendering opportunities for various kinds of projects on an open, fair, transparent and fair basis in order to select the most excellence. Furthermore, the Group conducted regular assessment and rating on the performance of existing suppliers to realize the performance of suppliers, promote its level of provision of supply, while continuously cooperating with outstanding suppliers and terminating partnered suppliers with unsatisfactory performance.

### 3.2 Product Liability

The Company offered world-famous motors from luxury and ultra-luxury brands to numerous consumers. Supply of motors come from automobile manufacturers, such as BMW, Lexus, Maserati, etc. and the Company maintained long term and stable relationships with them. As motors are end products for sales, the Group has established a sound product quality management system covering the entire supply chain and sales service process from ex-factory, transportation, inventory and sale of motors to consumers, thereby delivering high-quality and all-round integrated motor products to consumers. Upon exiting from factories after production, all of the motors obtain certification of compliance from their manufacturers, and meet the international and national production quality standards required by the state and the industry. In the meantime, the Group's quality inspection department will also examine various standards of the motors to ensure that the production quality of motors fulfils the sale requirements of the Group. During the Reporting Period, all of the Group's stores have obtained ISO9001 certification for quality management system.

In respect of customer service, the Group carefully listened to various demands of consumers on motor use and provided them with high-quality services to constantly raise customer satisfaction. The Group proactively conducted customer satisfaction surveys, scored evaluation on sales team and customer service to fully understand the Company's shortcomings in terms of service so as to pursue improvement. In the provision of maintenance services, the Group's stores are established taking the customer's consumption experience into full consideration, which provide customers with barrier-free communication, and offers them with catering, entertainment, leisure and other activities to render services of the finest quality. At the same time, the Group places emphasis on securing customer privacy, confidentiality and filing of customer information to protect information security of customers. During the Reporting Period, no information leakage of customer information has been occurred.

The Group has established a complete motor recall service system and actively took the initiative of liaising and negotiating with customers on motor quality issues to minimize the potential safety threats to motor owners caused by product quality. For recalled vehicles, recall solutions were carried out in the Group's stores according to the "Recall Emergency Plan" to ensure that the recall indicators of motor manufacturers are reached after sales, increase the contribution of warranty to the output value of after-sales, and enhance smooth experience of the recall process. During the Reporting Period, the Group has not experienced any incident and complaint of motor recall due to safety and health. In response to complaints, the customer service department first classifies the complaints according to the types of complaints, and then hand over to professional technicians or account managers to offer system solutions in order to fully satisfy various demands of customers.

### 3.3 Anti-Corruption

The Group strictly abided by Anti-Unfair Competition Law of the PRC, Anti-Money Laundering Law of the PRC, Interim Provisions on Prohibiting Commercial Bribery and other laws and regulations, stringently prohibited any employee of the Company from bribery, racketeering, fraud, money laundering and other illegal criminal offences. Currently, the Group's human resources department, finance department, and audit department have a public mailbox for complaints and whistleblowing. The form of contact is open to the public. If bribery, racketeering, fraud, money laundering and other illegal criminal offence is discovered, any of the employee within the Company may report the same directly in an anonymous manner, which will, after verification, be handed over to relevant departments for handling according to law. In addition, in the course of routine work and training activities, the Group will also promote awareness of anti-corruption and advocate integrity, and increase the ability to identify corruption behaviors among employees, and remind the management members and employees at all levels to think of adversity in the time of prosperity, and act as role models.

## 4. COMMUNITY INVESTMENT

The Group aspires to serve as a leading conglomerate engaged in luxury and ultra-luxury passenger vehicle operation and maintenance in the PRC, and become a century-old enterprise with sustainable development. While creating economic benefits for shareholders, investors and the society, the Group also shoulders the social responsibility of building a harmonious society and promoting the development of the community. In the past days of 2017, the Group continued to adhere to the corporate cultural advocates of "simplicity, broadness, harmony, sunshine, happiness", and proactively take part in community life, gain a better understanding of community needs. Each of the companies under the Group spared no effort in launching various social and public welfare activities, take pragmatic actions to participate in community building and foster harmonious and common prosperous relationship with the community in which it operates.

During the Reporting Period, dealer companies under the Group successively carried out several social and public welfare activities:

**Henan Zhongdebao**

1) On May 6, 2017, the "Poverty Alleviation and Agriculture Support" campaign was carried out by arranging customers being motor peers for a visit to Zhongmou County, Zhengzhou, procuring 1,000 jin garlic sprouts in aggregate, thus helping garlic farmers solve their difficulties of price slumps and unsalable products.

2) On June 14, 2017, a visit to the Zijing Mount was held for a voluntary blood donation activity with an aim to recalling health awareness of the neighborhood.

3) On October 22, 2017, the mother of the BMW owner suffered from illness in a sudden. Supply of the hospital's plasma was tense. The Company arranged 10 employees to visit the hospital for voluntary blood donation as to ensure that the owner's mother received further treatment.

4) On December 27, 2017, Zhongdebao launched the warm winter campaign of "Sail your dream, exercise with vigor", and arranged 5 employees and 4 groups of customers to visit the Huangqiao Primary School in Xinyang to provide care and assistance to lodging pupils for a warm winter, bringing sports supplies, daily necessities and other items which added up almost RMB10,000.



Public welfare campaigns held by Zhongdebao


**Beijing Huadebao**

1) On June 3, 2017, CRM Manager of Huadebao arranged caring car owners to visit Zhixing Boyue Rehabilitation Center in Huo County, Tongzhou, to provide children with daily necessities and benevolent help which added up over RMB13,200.

2) On July 16, 2017, car owners visited a trampoline hall of the Air Factory in Chaoyang District to express solicitude to autistic children and offer the best rehabilitation methods, spending over RMB12,100 in aggregate.

3) On November 26, 2017, CRM Manager of Huadebao arranged caring car owners to visit the Xinlong School in Changping District to provide children with elementary education on football, spending over RMB11,400 in aggregate.

4) Throughout the month of November in 2017, a caring donation campaign was organized such that all of the Company's employees and customers being car owners donated plenty of clothes and items, and on December 16, they donated those collected items to impoverished children.


Public welfare campaigns held by Huadebao

**Zhengzhou Zhengdebao**

1) On March 11, 2017, the Company held the 6th Tree Planting Event 2017 jointly with the Jinsha Golf Mansion. The Company has always adhered to its responsibility of environmental protection.

2) In 2017 the BMW Children's Traffic Safety Training Camp was launched to continuously put corporate social responsibility into practice, shoulder responsibility for supporting children's education on safety, and raise children's awareness of traffic safety.

3) On May 23, 2017, in order to enrich the leisure life of employees, the Company held a barbecue party and a tug-of-war competition which truly achieved the goal of "working side by side diligently in daytime and enjoying team life together at night".



Public welfare campaigns held by Zhengdebao

**Public welfare campaigns in other stores**

➢ On July 12, 2017, Luohe Luodebao conducted the BMW X1 Children's Safety Training Camp, through which there were simulations on traffic scenarios and briefings for safety knowledge to reinforce children's awareness of traffic safety and assume the social responsibility of children cultivation.

➢ On June 3, 2017, Wuxi Longjunhang took part in "Walk for Love", a charity walk organized by Maserati in the Nianhua Bay of Ling Shan Brahma Palace, with a total investment of over RMB100,000.

➢ On August 29, 2017, Changzhou Changjunhang launched an event called "Yes (see), all possible – Maserati's Cycling Experience and Fund-raising Day for Media", with a total investment of nearly RMB10,000.

➢ On December 14, 2017, Suzhou Yijun Automobile Sales & Services Co., Ltd. held a visit to a deaf-mute school in Suzhou to conduct charitable and public welfare activities, adhering to the principle of "obtaining from the society and giving back to the society" to bring warmth and items to deaf and mute students, spending approximately RMB20,000 in aggregate.



Other public welfare campaigns

The Group will constantly increase its investment in the society, sustain the corporate level of participation in public welfare campaigns, give full play to the Group's social role in the community, and contribute its efforts to building a harmonious and happy community life.

# Independent Auditor's Report

Ernst & Young
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**To the shareholders of China Harmony New Energy Auto Holding Limited**
(Incorporated in the Cayman Islands as an exempted company with limited liability)

## OPINION

We have audited the consolidated financial statements of China Harmony New Energy Auto Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 82 to 191, which comprise the consolidated statement of financial position as at December 31, 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 December 31, 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 |
|---|---|
| *Estimation of rebates* | |
| The Group recognises volume-related vendor rebates on an accrual basis based on the terms of the supplier contracts. As at December 31, 2017, the rebate receivables recognised in the consolidated statement of financial position amounted to RMB554 million. The balance of rebate receivables was significant and the process of estimating the accrual was complex.<br><br>Information about the rebate receivables is disclosed in note 23 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 also checked subsequent receipts of the rebate receivables. |

## KEY AUDIT MATTERS (CONTINUED)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Deferred tax assets* | |
| As at December 31, 2017, the deferred tax assets recognised in the consolidated statement of financial position amounted to RMB50 million. The deferred tax assets were recognised based on management's estimation of future taxable profits that would be available to utilise the deferred tax assets. The process of estimating the amount of the future taxable profits was complex, and involved estimates and judgements that would be affected by future actual operations, tax regulations, market or economic conditions.<br><br>Information about the deferred tax assets and the unrecognised temporary differences are disclosed in note 32 to the financial statements. | We evaluated and tested management's estimation of available taxable profits by, among others, evaluating the Group's business plans approved by those charged with governance, expected future profit forecasts, and the associated growth rates used in the estimation. We also checked the appropriateness of the relevant disclosures of deferred tax assets and unrecognised temporary differences. |

## KEY AUDIT MATTERS (CONTINUED)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Valuation of equity interests of an unlisted company* | |
| An associate company became an available-for-sale investment in 2017, and a gain of RMB816 million was recognized based on the fair value of the available-for-sale investment. The Company engaged an external valuer to perform a valuation of the available-for-sale investment. The valuation involved significant management judgements.<br><br>Information relating to the available-for-sale investment and the gain are disclosed in note 24 and note 5 to the financial statements. | Our audit procedures included, among others, evaluating the independent professional valuer's competence, capabilities and objectivity; checking the accuracy and reasonableness of the key assumptions provided by management to the independent professional valuer, such as future development plan, future selling price and cost, growth rate to supporting evidence; Including our internal valuation expert to assist in the review of the valuation methodology, discount rate and perpetual growth rate. We also compared the fair value with recent capital contribution by investor. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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.

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

- 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 NG CHEUNG.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong
March 26, 2018

# Consolidated Statement of Profit or Loss

*Year ended December 31, 2017*

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **REVENUE** | 5(a) | **10,840,411** | 10,695,872 |
| Cost of sales and services | 6(b) | **(9,822,566)** | (9,925,790) |
| **Gross profit** | | **1,017,845** | 770,082 |
| Other income and gains, net | 5(b) | **1,321,199** | 326,227 |
| Selling and distribution expenses | | **(787,488)** | (775,392) |
| Administrative expenses | | **(147,013)** | (180,754) |
| Other expenses | 6(c) | **–** | (73,709) |
| **PROFIT FROM OPERATIONS** | | **1,404,543** | 66,454 |
| Finance costs | 7 | **(63,437)** | (95,040) |
| Share of profits and losses of: | | | |
| Joint ventures | | **(18,587)** | (101,817) |
| Associates | | **(99,137)** | (189,942) |
| **PROFIT/(LOSS) BEFORE TAX** | 6 | **1,223,382** | (320,345) |
| Income tax expense | 10 | **(202,094)** | (47,302) |
| **PROFIT/(LOSS) FOR THE YEAR** | | **1,021,288** | (367,647) |
| **Attributable to:** | | | |
| Owners of the parent | | **1,009,356** | (370,674) |
| Non-controlling interests | | **11,932** | 3,027 |
| | | **1,021,288** | (367,647) |
| **EARNINGS/(LOSS) per share attributable to ordinary equity holders of the parent** | 12 | | |
| Basic *(RMB)* | | **0.66** | (0.24) |
| Diluted *(RMB)* | | **0.65** | (0.24) |

# Consolidated Statement of Comprehensive Income

*Year ended December 31, 2017*

| | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| **PROFIT/(LOSS) FOR THE YEAR** | **1,021,288** | (367,647) |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | |
| Exchange differences: | | |
| Exchange differences on translation of foreign operations | **(46,072)** | 87,681 |
| Other comprehensive (loss)/income for the year, net of tax | **(46,072)** | 87,681 |
| Total comprehensive income/(loss) for the year, net of tax | **975,216** | (279,966) |
| **Attributable to:** | | |
| Owners of the parent | **963,284** | (282,993) |
| Non-controlling interests | **11,932** | 3,027 |
| | **975,216** | (279,966) |

# Consolidated Statement of Financial Position

*December 31, 2017*

| | Notes | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **1,976,165** | 2,757,592 |
| Prepaid land lease payments | 14 | **11,497** | 11,897 |
| Intangible assets | 15 | **108,379** | 35,418 |
| Goodwill | 16 | **57,911** | 7,892 |
| Prepayments | 17 | **420,183** | 494,425 |
| Finance lease receivables | 18 | **14,512** | – |
| Investments in joint ventures | 19 | **5,589** | 297,596 |
| Investments in associates | 20 | **789,041** | 228,506 |
| Available-for-sale investments | 24 | **887,023** | – |
| Deferred tax assets | 32 | **50,366** | 82,530 |
| Total non-current assets | | **4,320,666** | 3,915,856 |
| **CURRENT ASSETS** | | | |
| Inventories | 21 | **1,271,376** | 885,136 |
| Trade receivables | 22 | **106,190** | 247,471 |
| Finance lease receivables | 18 | **6,724** | – |
| Prepayments, deposits and other receivables | 23 | **2,553,068** | 1,383,688 |
| Available-for-sale investments | 24 | **120,577** | 38,000 |
| Pledged and restricted bank deposits | 25 | **81,043** | 134,117 |
| Cash in transit | 26 | **37,085** | 26,323 |
| Cash and bank balances | 27 | **1,580,378** | 2,969,098 |
| Total current assets | | **5,756,441** | 5,683,833 |
| **CURRENT LIABILITIES** | | | |
| Bank loans and other borrowings | 28 | **1,800,356** | 1,824,417 |
| Trade and bills payables | 29 | **206,207** | 289,388 |
| Other payables and accruals | 30 | **918,371** | 1,231,878 |
| Income tax payable | | **755,221** | 712,926 |
| Total current liabilities | | **3,680,155** | 4,058,609 |

# Consolidated Statement of Financial Position

*December 31, 2017*

| | Notes | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|---|
| **NET CURRENT ASSETS** | | **2,076,286** | 1,625,224 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **6,396,952** | 5,541,080 |
| **NON-CURRENT LIABILITIES** | | | |
| Bank loans and other borrowings | 28 | **15,980** | 38,942 |
| Deferred tax liabilities | 32 | **50,507** | 32,680 |
| Total non-current liabilities | | **66,487** | 71,622 |
| **NET ASSETS** | | **6,330,465** | 5,469,458 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 33 | **12,176** | 12,498 |
| Reserves | 36 | **6,275,144** | 5,426,610 |
| | | **6,287,320** | 5,439,108 |
| **Non-controlling interests** | | **43,145** | 30,350 |
| Total equity | | **6,330,465** | 5,469,458 |

**Liu Fenglei**
*Director*

**Feng Guo**
*Director*

# Consolidated Statement of Changes in Equity

*Year ended December 31, 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** | Share option 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 January 1, 2017 | 12,498 | 3,484,857 | 1,583 | 187,666 | 371,200 | 22,275 | 28,082 | 159,821 | 1,171,126 | 5,439,108 | 30,350 | 5,469,458 |
| Profit for the year | - | - | - | - | - | - | - | - | 1,009,356 | 1,009,356 | 11,932 | 1,021,288 |
| Other comprehensive income for the year: | | | | | | | | | | | | |
| Exchange differences related to foreign operations | - | - | - | - | - | - | - | (46,072) | - | (46,072) | - | (46,072) |
| Total comprehensive income for the year | - | - | - | - | - | - | - | (46,072) | 1,009,356 | 963,284 | 11,932 | 975,216 |
| Capital injection by non-controlling interests arising from establishment of a new subsidiary | - | - | - | - | - | - | - | - | - | - | 2,700 | 2,700 |
| Deemed disposal of subsidiaries | - | - | - | (15,808) | - | - | - | - | 15,808 | - | (477) | (477) |
| Shares repurchased and cancelled *(note 33)* | (327) | (124,317) | - | - | - | - | - | - | - | (124,644) | - | (124,644) |
| Acquisition of non-controlling interests | - | - | 360 | - | - | - | - | - | - | 360 | (1,360) | (1,000) |
| Exercise of share options | 5 | 1,726 | - | - | - | - | (238) | - | - | 1,493 | - | 1,493 |
| Equity-settled-share option arrangement *(note 35)* | - | - | - | - | - | - | 7,719 | - | - | 7,719 | - | 7,719 |
| Restricted shares exercised *(note 34)* | - | 22,275 | - | - | - | (22,275) | - | - | - | - | - | - |
| Transfer from retained profits | - | - | - | 41,592 | - | - | - | - | (41,592) | - | - | - |
| At December 31, 2017 | 12,176 | 3,384,541 | 1,943 | 213,450 | 371,200 | - | 35,563 | 113,749 | 2,154,698 | 6,287,320 | 43,145 | 6,330,465 |

* These reserve accounts comprise the consolidated other reserves of RMB6,275,144,000 (2016: RMB5,426,610,000) in the consolidated statement of financial position.

# Consolidated Statement of Changes in Equity

*Year ended December 31, 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** | Share option 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 January 1, 2016 | 12,498 | 3,629,373 | – | 168,220 | 371,200 | 30,582 | 10,502 | 72,140 | 1,561,246 | 5,855,761 | 31,306 | 5,887,067 |
| Profit for the year | – | – | – | – | – | – | – | – | (370,674) | (370,674) | 3,027 | (367,647) |
| Other comprehensive income for the year: | | | | | | | | | | | | |
| Exchange differences related to foreign operations | – | – | – | – | – | – | – | 87,681 | – | 87,681 | – | 87,681 |
| Total comprehensive loss for the year | – | – | – | – | – | – | – | 87,681 | (370,674) | (282,993) | 3,027 | (279,966) |
| Acquisition of non-controlling interests | – | – | 1,583 | – | – | – | – | – | – | 1,583 | (3,983) | (2,400) |
| Final 2015 dividend declared | – | (158,074) | – | – | – | – | – | – | – | (158,074) | – | (158,074) |
| Equity-settled – share award expense *(note 34)* | – | – | – | – | – | 5,251 | – | – | – | 5,251 | – | 5,251 |
| Equity-settled share option arrangements *(note 35)* | – | – | – | – | – | – | 17,580 | – | – | 17,580 | – | 17,580 |
| Restricted shares exercised *(note 33)* | – | 13,558 | – | – | – | (13,558) | – | – | – | – | – | – |
| Transfer from retained profits | – | – | – | 19,446 | – | – | – | – | (19,446) | – | – | – |
| At December 31, 2016 | 12,498 | 3,484,857 | 1,583 | 187,666 | 371,200 | 22,275 | 28,082 | 159,821 | 1,171,126 | 5,439,108 | 30,350 | 5,469,458 |

# Consolidated Statement of Cash Flows

*Year ended December 31, 2017*

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit/(loss) before tax | | **1,223,382** | (320,345) |
| Adjustments for: | | | |
| Share of profits and losses of joint ventures and associates | | **117,724** | 291,759 |
| Depreciation of items of property, plant and equipment | 13 | **232,405** | 184,280 |
| Amortisation of prepaid land lease payments | 14 | **400** | 400 |
| Amortisation of intangible assets | 15 | **2,998** | 2,034 |
| Interest income | 5(b) | **(31,259)** | (83,580) |
| Loss on disposal of a subsidiary | 6(c) | **1,727** | – |
| Net loss on disposal of items of property, plant and equipment | 6(c) | **9,497** | 26,829 |
| Gain on deemed disposal of subsidiaries | 5(b) | **(27,935)** | – |
| Gain on deemed partial disposal of an associate | 5(b) | **(29,765)** | – |
| Gain on transferring the investment in an associate to available-for-sale investment | 5(b) | **(815,700)** | – |
| Gain on disposal of shares in an associate | 5(b) | **(29,304)** | – |
| Reversal of impairment of inventories | 6(b) | **(1,771)** | (8,960) |
| Impairment of property, plant and equipment | 6(c) | **–** | 73,709 |
| Equity-settled share award expense | 6(a) | **–** | 5,251 |
| Equity-settled share option expense | 6(a) | **7,719** | 17,580 |
| Finance costs | 7 | **63,437** | 95,040 |
| | | **723,555** | 283,997 |
| Decrease in pledged and restricted bank deposits | | **53,074** | 250,181 |
| (Increase)/decrease in cash in transit | | **(11,587)** | 13,112 |
| Decrease/(increase) in trade receivables | | **132,906** | (159,925) |
| Increase in prepayments, deposits and other receivables | | **(673,443)** | (19,874) |
| (Increase)/decrease in inventories | | **(412,142)** | 463,918 |
| Increase in finance lease receivables | | **(21,236)** | – |
| Decrease in trade and bills payables | | **(50,976)** | (636,546) |
| Increase/(decrease) in other payables and accruals | | **471,592** | (63,676) |

# Consolidated Statement of Cash Flows

*Year ended December 31, 2017*

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Cash generated from operations** | | **211,743** | 131,187 |
| Income tax paid | | **(104,398)** | (44,519) |
| **Net cash generated from operating activities** | | **107,345** | 86,668 |
| **Investing activities** | | | |
| Interest received | | **42,862** | 82,317 |
| Dividends received from an associate | | **–** | 1,685 |
| Purchase of items of property, plant and equipment | | **(313,943)** | (481,555) |
| Proceeds from disposal of items of property, plant and equipment | | **86,731** | 85,501 |
| Purchase of intangible assets | | **(7,685)** | (1,018) |
| Acquisition of a subsidiary | | **(150,916)** | 1,202 |
| Disposal of a subsidiary | 39 | **280** | – |
| Deemed disposal of subsidiaries | 40 | **(93,927)** | – |
| Investments in associates | | **(53,441)** | (365,677) |
| Proceeds from capital reduction in the investment in a joint venture | | **273,420** | – |
| Proceeds from liquidation of an associate | | **50,000** | – |
| Purchases of available-for-sale investments | | **(120,577)** | (38,000) |
| Proceeds from disposal of available-for-sale investments | | **38,000** | – |
| Loans to third parties | | **–** | (330,000) |
| Advance made to a related party | | **(1,021,716)** | – |
| Collection of loans and receivables from third parties | | **–** | 975,000 |
| Proceeds from disposal of shares in an associate | | **58,876** | – |
| Decrease/(increase) in time deposits | | **1,277,388** | (558,988) |
| Decrease in structured deposits | | **–** | 305,000 |
| **Net cash generated from (used in) investing activities** | | **65,352** | (324,533) |

# Consolidated Statement of Cash Flows

*Year ended December 31, 2017*

| | Notes | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|---|
| **Financing activities** | | | |
| Proceeds from exercise of share options | | **1,493** | – |
| Repurchase of shares | | **(124,644)** | – |
| Proceeds from bank loans and other borrowings | | **10,748,435** | 9,475,705 |
| Repayment of bank loans and other borrowings | | **(10,795,458)** | (10,131,892) |
| Acquisition of non-controlling interests | | **(1,000)** | (2,400) |
| Dividends paid | | **–** | (158,074) |
| Capital contributions from non-controlling shareholders | | **2,700** | – |
| Interest paid | | **(69,483)** | (113,266) |
| **Net cash used in financing activities** | | **(237,957)** | (929,927) |
| **Net decrease in cash and cash equivalents** | | **(65,260)** | (1,167,792) |
| Cash and cash equivalents at beginning of year | | **1,586,710** | 2,666,488 |
| Effect of foreign exchange rate changes, net | | **(46,072)** | 88,014 |
| **Cash and cash equivalents at end of year** | | **1,475,378** | 1,586,710 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 27 | **1,475,378** | 1,586,710 |
| Cash and cash equivalents as stated in the statement of cash flows | | **1,475,378** | 1,586,710 |
| Non-pledged time deposits with original maturity of more than three months when acquired | | **105,000** | 1,382,388 |
| Cash and bank balances as stated in the statement of financial position | | **1,580,378** | 2,969,098 |

## 1. CORPORATE AND GROUP INFORMATION

China Harmony New Energy Auto Holding Limited (the "Company") was incorporated on September 24, 2012 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on June 13, 2013 ("Listing").

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the sale of automobiles and provision of after-sales services in Mainland China.

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

### Information about subsidiaries

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

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Proportion of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Crystalline Prestige Investments Limited | Tortola, British Virgin Islands 2012 | Registered capital of US$500 and paid-in capital of US$0.01 | 100% | – | Investment holding |
| LC Gloricar Investment Limited | Tortola, British Virgin Islands 2011 | Registered capital of US$1,000,000 and paid-in capital of US$10,000 | – | 100% | Investment holding |
| Ace Manufacturing Holding Limited | Hong Kong, the PRC 2012 | Paid-in capital of HK$100 | – | 100% | Investment holding |
| Daoable Future Limited | Hong Kong, the PRC 2011 | Paid-in capital of US$100 | – | 100% | Investment holding |
| 河南和諧汽車貿易有限公司 (Henan Hexie Automobile Trading Co., Ltd.) | Zhengzhou, the PRC | Registered and paid-in capital of RMB1,815,000,000 | – | 100% | Investment holding |

## 1. CORPORATE AND GROUP INFORMATION (CONTINUED)

### Information about subsidiaries (Continued)

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

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Proportion of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 河南中德寶汽車銷售服務有限公司 (Henan Zhongdebao Automobile Sales & Services Co., Ltd.) | Zhengzhou, the PRC | Registered and paid-in capital of RMB42,860,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 鄭州鄭德寶汽車銷售服務有限公司 (Zhengzhou Zhengdebao Automobile Sales & Services Co., Ltd.) | Zhengzhou, the PRC | Registered and paid-in capital of RMB40,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 西安華都汽車銷售服務有限公司 (Xi'an Huadu Automobile Sales & Services Co., Ltd.) | Xi'an, the PRC | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 河南英之翼汽車銷售服務有限公司 (Henan Yingzhiyi Automobile Sales & Services Co., Ltd.) | Zhengzhou, the PRC | Registered and paid-in capital of RMB10,010,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 廣州市廣德寶汽車銷售服務有限公司 (Guangzhou Guangdebao Automobile Sales & Services Co., Ltd.) | Guangzhou, the PRC | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 鄭州華鼎汽車銷售服務有限公司 (Zhengzhou Huading Automobile Sales & Services Co., Ltd.) | Zhengzhou, the PRC | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 上海上德寶駿汽車銷售服務有限公司 (Shanghai Shangdebaojun Automobile Sales & Services Co., Ltd.) | Shanghai, the PRC | Registered and paid-in capital of RMB50,000,000 | – | 90% | Sale of automobiles and provision of after-sales services |

# 1. CORPORATE AND GROUP INFORMATION (CONTINUED)

## Information about subsidiaries (Continued)

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

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Proportion of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 宜昌路順汽車銷售服務有限公司 (Yichang Lushun Automobile Sales & Services Co., Ltd.) | Yichang, the PRC | Registered and paid-in capital of RMB10,000,000 | – | 65% | Sale of automobiles and provision of after-sales services |
| 洛陽豫德寶汽車銷售服務有限公司 (Luoyang Yudebao Automobile Sales & Services Co., Ltd.) | Luoyang, the PRC | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 南陽宛德寶汽車銷售服務有限公司 (Nanyang Wandebao Automobile Sales & Services Co., Ltd.) | Nanyang, the PRC | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 鄭州華誠汽車銷售服務有限公司 (Zhengzhou Huacheng Automobile Sales & Services Co., Ltd.) | Zhengzhou, the PRC | Registered and paid-in capital of RMB20,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 安陽安德寶汽車銷售服務有限公司 (Anyang Andebao Automobile Sales & Services Co., Ltd.) | Anyang, the PRC | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 開封汴德寶汽車銷售服務有限公司 (Kaifeng Biandebao Automobile Sales & Services Co., Ltd.) | Kaifeng, the PRC | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 北京市華德寶汽車銷售服務有限公司 (Beijing Huadebao Automobile Sales & Services Co., Ltd.) | Beijing, the PRC | Registered and paid-in capital of RMB55,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |

## 1. CORPORATE AND GROUP INFORMATION (CONTINUED)

### Information about subsidiaries (Continued)

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

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Proportion of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 鄭州遠達雷克薩斯汽車銷售服務有限公司 (Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd.) | Zhengzhou, the PRC | Registered and paid-in capital of RMB50,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 廈門遠達雷克薩斯汽車銷售服務有限公司 (Xiamen Yuanda Lexus Automobile Sales & Services Co., Ltd.) | Xiamen, the PRC | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 武漢漢德寶汽車銷售服務有限公司 (Wuhan Handebao Automobile Sales & Services Co., Ltd.) | Wuhan, the PRC | Registered and paid-in capital of RMB20,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 武漢華鄭汽車銷售服務有限公司 (Wuhan Huazheng Automobile Sales & Services Co., Ltd.) | Wuhan, the PRC | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 蘇州意駿汽車銷售服務有限公司 (Suzhou Yijun Automobile Sales & Services Co., Ltd.) | Suzhou, the PRC | Registered and paid-in capital of RMB50,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 新鄉和德寶汽車銷售服務有限公司 (Xinxiang Hedebao Automobile Sales & Services Co., Ltd.) | Xinxiang, the PRC | Registered and paid-in capital of RMB10,000,000 | – | 51% | Sale of automobiles and provision of after-sales services |
| 北京豪駿行汽車銷售服務有限公司 (Beijing Haojunhang Automobile Sales & Services Co., Ltd.) | Beijing, the PRC | Registered and paid-in capital of RMB50,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |

# 1. CORPORATE AND GROUP INFORMATION (CONTINUED)

## Information about subsidiaries (Continued)

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

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Proportion of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 漯河漯德寶汽車銷售服務有限公司 (Luohe Luodebao Automobile Sales & Services Co., Ltd.) | Luohe, the PRC | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 常州常駿行汽車銷售服務有限公司 (Changzhou Changjunhang Automobile Sales & Services Co., Ltd.) | Changzhou, the PRC | Registered and paid-in capital of RMB20,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 無錫龍駿行汽車銷售服務有限公司 (Wuxi Longjunhang Automobile Sales & Services Co., Ltd.) | Wuxi, the PRC | Registered and paid-in capital of RMB50,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 河南和諧汽車融資租賃有限公司 (Henan Lease Finance Co., Ltd.) | Zhengzhou, the PRC | Registered and paid-in capital of HK$250,000,000 | – | 100% | Service of finance leases |
| 上海谷卡二手車有限公司 (Shanghai Goocar Pre-owned Automobile Co., Ltd.) | Shanghai, the PRC | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale of pre-owned motor vehicles |
| 洛陽遠達雷克薩斯汽車銷售服務有限公司 (Luoyang Yuanda Lexus Automobile Sales & Services Co., Ltd.) | Luoyang, the PRC | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 鄭州華德寶汽車銷售服務有限公司 (Zhengzhou Huadebao Automobile Sales & Services Co., Ltd.) | Zhengzhou, the PRC | Registered and paid-in capital of RMB30,010,000 | – | 100% | Sale of automobiles and provision of after-sales services |

## 1. CORPORATE AND GROUP INFORMATION (CONTINUED)

### Information about subsidiaries (Continued)

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

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Proportion of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 邯鄲遠達雷克薩斯汽車銷售服務有限公司 (Handan Yuanda Lexus Automobile Sales & Services Co., Ltd.) | Handan, the PRC | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 商丘商沃汽車銷售服務有限公司 (Shangqiu Shangwo Automobile Sales & Services Co., Ltd.) | Shangqiu, the PRC | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 商丘商德寶汽車銷售服務有限公司 (Shangqiu Shangdebao Automobile Sales & Services Co., Ltd.) | Shangqiu, the PRC | Registered and paid-in capital of RMB10,000,000 | – | 90% | Sale of automobiles and provision of after-sales services |
| 南陽宛沃汽車銷售服務有限公司 (Nanyang Wanwo Automobile Sales & Services Co., Ltd.) | Nanyang, the PRC | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 上海君諾汽車服務有限公司 (Shanghai Junnuo Automobile Services Co., Ltd.) | Shanghai, the PRC | Registered and paid-in capital of RMB5,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 上海和諧進出口貿易有限公司 (Shanghai Hexie Import & Export Trading Co., Ltd.) | Shanghai, the PRC | Registered and paid-in capital of RMB10,000,000 | – | 100% | Parallel-import vehicles |
| 周口周德寶汽車銷售服務有限公司 (Zhoukou Zhoudebao Automobile Sales & Services Co., Ltd.) | Zhoukou, the PRC | Registered and paid-in capital of RMB10,000,000 | – | 51% | Sale of automobiles and provision of after-sales services |

## 1. CORPORATE AND GROUP INFORMATION (CONTINUED)

### Information about subsidiaries (Continued)

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

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Proportion of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 焦作遠達雷克薩斯汽車銷售服務有限公司 (Jiaozuo Yuanda Lexus Automobile Sales & Services Co., Ltd.) | Jiaozuo, the PRC | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 鄭州和駿汽車銷售有限公司 (Zhengzhou Hejun Automobile Sales Co., Ltd.) | Zhengzhou, the PRC | Registered and paid-in capital of RMB50,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 鞏義市義德寶汽車銷售服務有限公司 (Gongyi Yidebao Automobile Sales & Services Co., Ltd.) | Gongyi, the PRC | Registered and paid-in capital of RMB20,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 鄭州賓馳汽車銷售服務有限公司 (Zhengzhou Binchi Automobile Sales & Services Co., Ltd.) | Zhengzhou, the PRC | Registered and paid-in capital of RMB10,000,000 | – | 100% | Sale of automobiles and provision of after-sales services |
| 河南和諧汽車控股有限公司 (Henan Hexie Automobile Holding Co., Ltd.) | Zhengzhou, the PRC | Registered capital of RMB100,000,000 | – | 100% | Investment holding |

All the subsidiaries were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

During the year, the Group acquired Zhengzhou Binchi Automobile Sales & Services Co., Ltd. from a third party. Further details of this acquisition are included in notes 16 and 38 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 Company and its subsidiaries for the year ended December 31, 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 above. A change in the ownership interest of a subsidiary without a loss of control, is accounted for as an equity transaction.

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following 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 41 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 Instruments1* |
| 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] |
| HKFRS 17 | *Insurance Contracts*[3] |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures*[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] |
| *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 January 1, 2018
2 Effective for annual periods beginning on or after January 1, 2019
3 Effective for annual periods beginning on or after January 1, 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.

## 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 January 1, 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 January 1, 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at January 1, 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 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.

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

## 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 plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at January 1, 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before January 1, 2018. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15. The Group expects that the transitional adjustment to be made on January 1, 2018 upon initial adoption of HKFRS 15 will not be material and the expected changes in accounting policies, as further explained below, will have no significant impact on the Group's financial statements from 2018 onwards.

## 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 elective 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 January 1, 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.

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

As disclosed in note 44(b) to the financial statements, at December 31, 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB705,793,000. 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.

Amendments to HKAS 28 issued in January 2018 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on January 1, 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on January 1, 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from January 1, 2018. The amendments are 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 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 January 1, 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

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 January 1, 2019. 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)

Amendments to HKFRS 9, issued in December 2017, allow financial assets with prepayment features that permit or require either the borrower or the lender to pay or receive reasonable compensation for the early termination of the contract to be measured at amortised cost or at fair value through other comprehensive income, instead of at fair value through profit or loss. The amendments clarify that a financial asset passes the "solely payments of principal and interest on the principal amount outstanding" criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for that early termination. The Group expects to adopt these amendments from January 1, 2019 and to apply the exemption from restating comparative information of prior periods. Any difference between the previous carrying amount and the adjusted carrying amount will be recognised in the opening balance of equity. The amendments do not apply to the Group as the Group does not have any debt instruments with prepayment features along with compensation for early termination. In addition, as clarified in the amendments to the basis for conclusions on HKFRS 9, the gain or loss arising on modification of a financial liability that does not result in derecognition (calculated by discounting the change in contractual cash flows at the original effective rate) is immediately recognised in profit or loss. As there is no specific relief on this clarification, this requirement shall be applied retrospectively. The Group's current accounting policy is consistent with this clarification and therefore the adoption of the amendments is not expected to have any impact on the Group.

*Annual Improvements to HKFRSs 2014–2016 Cycle*, issued in March 2017, sets out amendments to HKFRS 1, HKFRS 12 and HKAS 28. Except for the amendments to HKFRS 12 which have been adopted by the Group for the current year's financial statements, the Group expects to adopt the amendments from January 1, 2018. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments to HKFRS 1 and HKAS 28 are as follows:

- HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*: Deletes the short-term exemptions for first-time adopters because the reliefs provided in the exemptions are no longer applicable.

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

- HKAS 28 *Investments in Associates and Joint Ventures*: Clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries when applying the equity method. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognised; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent. These amendments should be applied retrospectively.

*Annual Improvements to HKFRSs 2015–2017 Cycle*, issued in February 2018, sets out amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23. The Group expects to adopt the amendments from January 1, 2019. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments are as follows:

- *HKFRS 3 Business Combinations*: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.

- *HKFRS 11 Joint Arrangements*: Clarifies that when an entity that participates in, but does not have joint control of a joint operation, obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.

- *HKAS 12 Income Taxes*: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.

- *HKAS 23 Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sales are complete.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Business combinations and goodwill

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

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

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

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

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Business combinations and goodwill (Continued)**

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.

**Fair value measurement**

The Group measures financial instruments 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Fair value measurement (Continued)**

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.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Impairment of non-financial assets (Continued)**

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.

**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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Related parties (Continued)**

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

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

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

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

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

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

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

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

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

**Property, plant and equipment and depreciation**

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

| Category | Estimated useful life | Estimated residual value |
|---|---|---|
| Buildings | 20–40 years | 5% |
| Leasehold improvements | Over the shorter of the lease terms and 10 years | – |
| Plant and machinery | 5–10 years | 5% |
| Furniture and fixtures | 3–10 years | 5% |
| Motor vehicles | 4–10 years | 5% |

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

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

Construction in progress represents buildings, plant and machinery under construction or pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be 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:

| Category | Estimated useful life |
|---|---|
| Software | 5 years |
| Dealership agreements | 40 years |
| Customer relationships | 15 years |
| Others | 10 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, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Leases (Continued)**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

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

**Investments and other financial assets**

*Initial recognition and measurement*

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

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

*Subsequent measurement*

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments and other financial assets (Continued)

*Subsequent measurement (Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at 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.

Available-for-sale financial investments

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

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

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

## 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 any 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 amount of 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)

**Impairment of financial assets (Continued)**

*Available-for-sale financial investments*

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

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

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

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

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised 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, bank loans and other 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 attributable to specific items of inventory 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 price in the ordinary course less the estimated costs to be incurred to completion and 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, associates and joint ventures, 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, associates and joint ventures, 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 exists 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.

### Government grants

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

### Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services in the period in which the services are rendered;

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

### 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 34 and note 35 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 expense 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Share-based payments (Continued)

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

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

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

### Other employee benefits

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

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 4.9% has been applied to the expenditure on the individual assets during the year ended December 31, 2017 (2016: 5.2%).

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 the notes to the financial statements.

### Foreign currencies

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

The resulting exchange differences are 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 the Company and 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.

### Judgements

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

*Operating lease commitments – Group as lessee*

The Group has entered into plant leases for its business. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessor retains all the significant risks and rewards of relevant properties and so accounts for them as operating leases.

### Estimation uncertainty

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

*Impairment of 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 December 31, 2017 was RMB57,911,000 (2016: RMB7,892,000). Further details are given in note 16.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

*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.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

**Estimation uncertainty (Continued)**

*Estimated rebate receivables*

The Group receives incentive rebates from suppliers from time to time depending on the policies of the manufacturers. The amount of incentive rebates given by a manufacturer for a given period is generally determined with reference to the Group's purchase volume, sales volume, customer satisfaction and other performance indicators set by the manufacturer with respect to that period. The Group accrues incentive rebates based on management's best estimates and judgements as of the relevant reporting date while the actual amount of the incentive rebates is determined by the manufacturers after the end of the reporting period. These estimates and judgements involve, among other factors, the estimated results of assessment by the manufacturers for the Group's performance in various aspects during the reporting period. When the actual rebates received by the Group differ from the estimated amount, adjustment will be made and recognised in the period in which such event takes place.

*Deferred tax assets*

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets was RMB50,366,000 as at December 31, 2017 (2016: RMB82,530,000). The amount of unrecognised tax losses at December 31, 2017 was RMB108,375,000 (2016: RMB209,760,000). Further details are contained in note 32 to the financial statements.

## 4. OPERATING SEGMENT INFORMATION

The Group's principal business is the sale of automobiles and provision of after-sales services. 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 area

Since all of the Group's revenue was generated from the sale of automobiles and provision of after-sales services in Mainland China and over 90% of the Group's identifiable non-current assets and liabilities were located in Mainland China, no geographical segment information is presented.

### Information about major customers

Since no sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information is presented.

## 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, trade discounts, where applicable.

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Revenue from the sale of automobiles | **9,251,179** | 9,308,962 |
| Provision of after-sales services | **1,366,325** | 1,247,381 |
| Others | **222,907** | 139,529 |
| | **10,840,411** | 10,695,872 |

## 5. REVENUE, OTHER INCOME AND GAINS, NET (CONTINUED)

### (b) Other income and gains, net:

| | Note | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Commission income | | **307,339** | 180,196 |
| Advertisement support received from motor vehicle manufacturers | | **36,317** | 25,169 |
| Bank interest income | | **22,438** | 43,019 |
| Interest income from loans to third parties | | **8,821** | 40,561 |
| Government grants* | | **729** | 2,940 |
| Gain on deemed disposal of subsidiaries | 40 | **27,935** | – |
| Gain on deemed partial disposal of an associate | 20 | **29,765** | – |
| Gain on disposal of shares in an associate | 20 | **29,304** | – |
| Gain on transferring the investment in an associate to available-for-sale investment | 20 | **815,700** | – |
| Others | | **42,851** | 34,342 |
| Total | | **1,321,199** | 326,227 |

* Government grants include various subsidies received by the Company's subsidiaries from relevant government bodies. There are no unfulfilled conditions or contingencies related to these grants.

## 6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) 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 | **307,392** | 324,370 |
| Equity-settled share award expense | **–** | 5,251 |
| Equity-settled share option expense | **7,719** | 17,580 |
| Other welfare | **48,297** | 51,572 |
| | **363,408** | 398,773 |

**(b) Cost of sales and services:**

| | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| Cost of sales of automobiles* | **8,908,856** | 9,107,562 |
| Cost of after-sales services** | **791,689** | 746,491 |
| Others | **122,021** | 71,737 |
| | **9,822,566** | 9,925,790 |

* As of December 31, 2017, the impairment provision for inventories amounted to RMB388,000 (2016: RMB2,159,000). The reversal of impairment provision for inventories amounted to RMB1,771,000 (2016: RMB8,960,000) was included in "Cost of sales of automobiles" in the consolidated statement of profit or loss during the year.

** There were employee benefit expenses of RMB84,474,000 (2016: RMB81,335,000) included in the cost of after-sales services.

## 6. PROFIT/(LOSS) BEFORE TAX (CONTINUED)

### (c) Other items:

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Depreciation of items of property, plant and equipment | 13 | **232,405** | 184,280 |
| Amortisation of prepaid land lease payments | 14 | **400** | 400 |
| Amortisation of intangible assets | 15 | **2,998** | 2,034 |
| Auditor's remuneration | | **4,000** | 4,000 |
| Loss on disposal of a subsidiary | 39 | **1,727** | – |
| Advertisement and business promotion expenses | | **48,036** | 64,554 |
| Bank charges | | **8,069** | 8,161 |
| Minimum lease payments under operating leases | | **123,674** | 122,505 |
| Loss on disposal of items of property, plant and equipment, net | | **9,497** | 26,829 |
| Impairment of property, plant and equipment* | 13 | **–** | 73,709 |
| Foreign exchange differences, net | | **5,854** | (1,973) |

* The impairment of property, plant and equipment is included in "Other expenses" in the consolidated statement of profit or loss.

## 7. FINANCE COSTS

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Interest on bank loans and other loans | **69,483** | 113,266 |
| Less: Interest capitalised | **(6,046)** | (18,226) |
| | **63,437** | 95,040 |

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Fees | Salaries, allowances and other benefits | Equity-settled share award expense | Equity-settled share option expense | Pension scheme contributions | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Executive director and chief executive: | | | | | | |
| – Mr. Liu Fenglei[(i)] | – | 540 | – | 1,301 | 54 | 1,895 |
| | – | 540 | – | 1,301 | 54 | 1,895 |
| Executive directors: | | | | | | |
| – Mr. Feng Changge | – | 2,352 | – | 1,301 | – | 3,653 |
| – Mr. Yang Lei[(ii)] | – | 420 | – | 1,379 | 54 | 1,853 |
| – Ms. Ma Lintao | – | 1,170 | – | – | – | 1,170 |
| – Mr. Qian Yewen[(iii)] | – | 1,947 | – | 3,331 | – | 5,278 |
| – Ms. Fengguo[(iv)] | – | 586 | – | 208 | 54 | 848 |
| | – | 6,475 | – | 6,219 | 108 | 12,802 |
| Non-executive director: | | | | | | |
| – Mr. Fan Qihui | – | – | – | – | – | – |
| Independent non-executive directors: | | | | | | |
| – Mr. Xiao Changnian | 243 | – | – | – | – | 243 |
| – Mr. Liu Zhangmin | 247 | – | – | – | – | 247 |
| – Mr. Xue Guoping | 243 | – | – | – | – | 243 |
| | 733 | – | – | – | – | 733 |
| | 733 | 7,015 | – | 7,520 | 162 | 15,430 |

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

| | Year ended December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Fees<br>*RMB'000* | Salaries, allowances and other benefits<br>*RMB'000* | Equity-settled share award expense<br>*RMB'000* | Equity-settled share option expense<br>*RMB'000* | Pension scheme contributions<br>*RMB'000* | Total<br>*RMB'000* |
| Executive director and chief executive: | | | | | | |
| – Mr. Liu Fenglei | – | 540 | 229 | – | 34 | 803 |
| | – | 540 | 229 | – | 34 | 803 |
| Executive directors: | | | | | | |
| – Mr. Feng Changge | – | – | – | – | – | – |
| – Mr. Yang Lei | – | 420 | 894 | 1,579 | 34 | 2,927 |
| – Ms. Ma Lintao | – | – | – | – | – | – |
| – Mr. Qian Yewen | – | 2,080 | – | 3,898 | – | 5,978 |
| | – | 2,500 | 894 | 5,477 | 34 | 8,905 |
| Non-executive director: | | | | | | |
| – Mr. Fan Qihui | – | – | – | – | – | – |
| Independent non-executive directors: | | | | | | |
| – Mr. Xiao Changnian | 240 | – | – | – | – | 240 |
| – Mr. Liu Zhangmin | 240 | – | – | – | – | 240 |
| – Mr. Xue Guoping | 240 | – | – | – | – | 240 |
| | 720 | – | – | – | – | 720 |
| | 720 | 3,040 | 1,123 | 5,477 | 68 | 10,428 |

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(i) Mr. Liu Fenglei was appointed as an authorised representative of the Company with effect from December 29, 2017.

(ii) Mr. Yang Lei resigned as an executive director and an authorised representative of the Company with effect from December 29, 2017.

(iii) Mr. Qian Yewen no longer served as an executive director and the chief financial officer of the Company with effect from August 31, 2017.

(iv) Ms. Feng Guo was appointed as an executive director and the vice-president of the Company with effect from August 31, 2017.

In the year 2013, 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 34 to the financial statements. The fair value of these 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.

In the years 2015 and 2017, certain directors were granted share options in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair value of such options, 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 four directors (or former directors) for the year (2016: three), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining non-director and non-chief executive highest paid employee for the year is as follow:

| | **2017** **RMB'000** | 2016 *RMB'000* |
|---|---|---|
| Salaries, allowances and other benefits | **1,696** | 531 |
| Equity-settled share award expense | **–** | 773 |
| Equity-settled share option expense | **781** | – |
| Pension scheme contributions | **34** | 55 |
| | **2,511** | 1,359 |

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

| | **Number of employees** | |
|---|---|---|
| | **2017** | 2016 |
| Nil to HK$1,000,000 | **–** | 1 |
| HK$1,000,001 to HK$1,500,000 | **–** | 1 |
| HK$3,000,001 to HK$3,500,000 | **1** | – |
| | **1** | 2 |

In the year 2013, share awards were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 34 to the financial statements. The fair value of these 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 employee's remuneration disclosures.

## 10. INCOME TAX

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

| | **2017** <br> ***RMB'000*** | 2016 <br> *RMB'000* |
|---|---|---|
| Current Mainland China corporate income tax | **203,271** | 74,201 |
| Deferred tax *(note 32)* | **(1,177)** | (26,899) |
| | **202,094** | 47,302 |

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

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. There are no assessable profits arising in Hong Kong during the year (2016: Nil).

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

## 10. INCOME TAX (CONTINUED)

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

A reconciliation of the tax expense applicable to profit/(loss) before tax using the applicable rates for the regions 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/(loss) before tax from continuing operations | **1,223,382** | (320,345) |
| Tax at the statutory tax rate (25%) | **305,846** | (80,086) |
| Profits and losses attributable to joint ventures and associates | **29,431** | 72,940 |
| Income not subject to tax* | **(225,676)** | – |
| Tax effect of non-deductible expenses | **5,150** | 6,996 |
| Tax losses and temporary difference not recognised | **92,943** | 50,712 |
| Tax losses utilised from previous periods | **(5,600)** | (3,260) |
| Tax charge | **202,094** | 47,302 |

Income not subject to tax consists of gain on deemed disposal of subsidiaries, gain on deemed partial disposal of an associate, gain on disposal of shares in an associate and gain on transferring the investment in an associate to available-for-sale investment, as further detailed in note 5(b) to the financial statements.

The share of tax attributable to joint ventures and associates amounting to RMB520,000(2016: RMB2,369,000) is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

## 11. DIVIDENDS

| | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| Proposed final – HK13 cents (2016: Nil) per ordinary share | **160,973** | – |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The calculation of the proposed final dividend for the year ended 31 December 2017 is based on the proposed final dividend per ordinary share and the total number of ordinary shares as at the date of approval of these financial statements.

## 12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year. The number of shares for the current year has been arrived at after eliminating the restricted shares of the Company held under the share award scheme.

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares under the share award scheme and share option scheme.

The calculations of the basic and diluted earnings/(loss) per share are based on:

**Earnings/(loss)**

| | **2017** *RMB'000* | 2016 *RMB'000* |
|---|---|---|
| Profit/(loss) for the year attributable to ordinary equity holders of the parent used in the basic earnings/(loss) per share calculation | **1,009,356** | (370,674) |

**Shares**

| | **Number of shares** | |
|---|---|---|
| | **2017** | 2016 |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **1,536,113,504** | 1,565,782,147 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| – Restricted shares | **2,465,112** | 4,078,799 |
| – Share options | **6,676,267** | – |
| | **1,545,254,883** | 1,569,860,946* |

* After taking restricted shares into account, the restricted shares had an anti-dilutive effect on the basic loss per share for the year and were not included in the calculation of diluted loss per share.

## 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 |
|---|---|---|---|---|---|---|---|
| **December 31, 2017** | | | | | | | |
| At January 1, 2017: | | | | | | | |
| Cost | 1,497,959 | 1,013,291 | 149,683 | 156,935 | 212,939 | 274,846 | 3,305,653 |
| Accumulated depreciation | (150,512) | (146,963) | (54,748) | (71,469) | (50,661) | (73,708) | (548,061) |
| Net carrying amount | 1,347,447 | 866,328 | 94,935 | 85,466 | 162,278 | 201,138 | 2,757,592 |
| At January 1, 2017, net of accumulated depreciation and impairment | 1,347,447 | 866,328 | 94,935 | 85,466 | 162,278 | 201,138 | 2,757,592 |
| Additions | 9,064 | 52,914 | 14,517 | 18,222 | 146,615 | 122,341 | 363,673 |
| Transfer | 74,630 | 114,784 | 329 | 2,771 | - | (192,514) | - |
| Depreciation provided during the year | (37,518) | (119,598) | (16,242) | (29,331) | (29,716) | - | (232,405) |
| Acquisition of a subsidiary *(note 38)* | - | 3,556 | 1,848 | 1,319 | 55 | - | 6,778 |
| Deemed disposal of subsidiaries *(note 40)* | - | (730,386) | (32,174) | (19,866) | (2,239) | (36,573) | (821,238) |
| Disposal of a subsidiary *(note 39)* | - | (2,007) | - | - | - | - | (2,007) |
| Disposals | (5,775) | (9,844) | (2,915) | (3,112) | (74,582) | - | (96,228) |
| At December 31, 2017, net of accumulated depreciation and impairment | 1,387,848 | 175,747 | 60,298 | 55,469 | 202,411 | 94,392 | 1,976,165 |
| At December 31, 2017: | | | | | | | |
| Cost | 1,573,585 | 272,502 | 120,876 | 136,361 | 252,701 | 124,392 | 2,480,417 |
| Accumulated depreciation and impairment | (185,737) | (96,755) | (60,578) | (80,892) | (50,290) | (30,000) | (504,252) |
| Net carrying amount | 1,387,848 | 175,747 | 60,298 | 55,469 | 202,411 | 94,392 | 1,976,165 |

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

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **December 31, 2016** | | | | | | | |
| At January 1, 2016: | | | | | | | |
| Cost | 1,364,359 | 548,304 | 119,439 | 149,568 | 199,627 | 788,345 | 3,169,642 |
| Accumulated depreciation | (116,023) | (72,360) | (40,556) | (50,858) | (47,694) | – | (327,491) |
| Net carrying amount | 1,248,336 | 475,944 | 78,883 | 98,710 | 151,933 | 788,345 | 2,842,151 |
| At January 1, 2016, net of accumulated depreciation | 1,248,336 | 475,944 | 78,883 | 98,710 | 151,933 | 788,345 | 2,842,151 |
| Additions | 3,326 | 46,700 | 22,694 | 10,949 | 120,169 | 24,500 | 228,338 |
| Transfer | 92,199 | 438,698 | 4,967 | 2,134 | – | (537,998) | – |
| Depreciation provided during the year | (34,686) | (75,577) | (15,372) | (24,282) | (34,363) | – | (184,280) |
| Acquisition of a subsidiary | 45,657 | – | 4,850 | 1,527 | 5,388 | – | 57,422 |
| Impairment | – | – | – | – | – | (73,709) | (73,709) |
| Disposals | (7,385) | (19,437) | (1,087) | (3,572) | (80,849) | – | (112,330) |
| At December 31, 2016, net of accumulated depreciation and impairment | 1,347,447 | 866,328 | 94,935 | 85,466 | 162,278 | 201,138 | 2,757,592 |
| At December 31, 2016: | | | | | | | |
| Cost | 1,497,959 | 1,013,291 | 149,683 | 156,935 | 212,939 | 274,846 | 3,305,653 |
| Accumulated depreciation and impairment | (150,512) | (146,963) | (54,748) | (71,469) | (50,661) | (73,708) | (548,061) |
| Net carrying amount | 1,347,447 | 866,328 | 94,935 | 85,466 | 162,278 | 201,138 | 2,757,592 |

At December 31, 2017, certain of the Group's buildings with an aggregate net book value of approximately RMB25,664,000 (2016: RMB28,761,000) were pledged as security for the Group's bank borrowings (note 28(a)).

The Group has yet to obtain property ownership certificates for certain buildings with an aggregate net book value of RMB1,362,184,000 as at December 31, 2017 (2016: RMB1,318,686,000). The directors are of the opinion that the Group is in the process to obtain the relevant certificates and does not expect any legal obstacles.

## 14. PREPAID LAND LEASE PAYMENTS

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Cost:** | | |
| At the beginning and end of the year | **15,981** | 15,981 |
| **Amortisation:** | | |
| At the beginning of the year | **(4,084)** | (3,684) |
| Charge for the year | **(400)** | (400) |
| At the end of the year | **(4,484)** | (4,084) |
| **Net book value:** | | |
| At the end of the year | **11,497** | 11,897 |

All of the Group's prepaid land lease payments were pledged as security for the Group's bank loans and other borrowings as at December 31, 2017 and 2016 (note 28(a)).

## 15. INTANGIBLE ASSETS

| | Dealership agreements RMB'000 | Customer relationships RMB'000 | Software RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At January 1, 2017 | **27,300** | **2,800** | **11,087** | **500** | **41,687** |
| Additions | **–** | **–** | **7,685** | **–** | **7,685** |
| Acquisition of a subsidiary *(note 38)* | **63,200** | **5,700** | **34** | **–** | **68,934** |
| Deemed disposal of subsidiaries *(note 40)* | **–** | **–** | **(1,212)** | **–** | **(1,212)** |
| At December 31, 2017 | **90,500** | **8,500** | **17,594** | **500** | **117,094** |
| **Amortisation:** | | | | | |
| At January 1, 2017 | **(284)** | **(78)** | **(5,762)** | **(145)** | **(6,269)** |
| Charge for the year | **(828)** | **(250)** | **(1,870)** | **(50)** | **(2,998)** |
| Deemed disposal of subsidiaries *(note 40)* | **–** | **–** | **552** | **–** | **552** |
| At December 31, 2017 | **(1,112)** | **(328)** | **(7,080)** | **(195)** | **(8,715)** |
| **Net book value:** | | | | | |
| At December 31, 2017 | **89,388** | **8,172** | **10,514** | **305** | **108,379** |
| **Cost:** | | | | | |
| At January 1, 2016 | – | – | 9,658 | 500 | 10,158 |
| Additions | – | – | 1,018 | – | 1,018 |
| Acquisition of a subsidiary | 27,300 | 2,800 | 411 | – | 30,511 |
| At December 31, 2016 | 27,300 | 2,800 | 11,087 | 500 | 41,687 |
| **Amortisation:** | | | | | |
| At January 1, 2016 | – | – | (4,140) | (95) | (4,235) |
| Charge for the year | (284) | (78) | (1,622) | (50) | (2,034) |
| At December 31, 2016 | (284) | (78) | (5,762) | (145) | (6,269) |
| **Net book value:** | | | | | |
| At December 31, 2016 | 27,016 | 2,722 | 5,325 | 355 | 35,418 |

## 16. GOODWILL

| | *RMB'000* |
|---|---|
| At January 1, 2017: | |
| Cost | **7,892** |
| Accumulated impairment | **–** |
| Net carrying amount | **7,892** |
| Cost at January 1, 2017, net of accumulated impairment | **7,892** |
| Acquisition of a subsidiary *(note 38)* | **50,019** |
| Cost and net carrying amount at December 31, 2017 | **57,911** |
| At December 31, 2017: | |
| Cost | **57,911** |
| Accumulated impairment | **–** |
| Net carrying amount | **57,911** |

**Impairment testing of goodwill**

The goodwill comprises the fair value of expected business synergies arising from the acquisition, which is not separately recognised.

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. A growth rate of 3% has been projected beyond the ten years. The discount rate applied to the cash flow projections beyond the one-year period is 14% (2016: 14%).

## 16. GOODWILL (CONTINUED)

**Assumptions used in the value in use calculation**

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

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

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

In the opinion of the Company's directors, during 2017, all reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

## 17. PREPAYMENTS

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Prepayments for purchase of items of property, plant and equipment | **389,474** | 447,248 |
| Prepayments for leasing buildings and land | **30,709** | 47,177 |
| | **420,183** | 494,425 |

## 18. FINANCE LEASE RECEIVABLES

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

| | 2017<br>*RMB'000* |
|---|---|
| **Analysed as:** | |
| Current | 6,724 |
| Non-current | 14,512 |
| | 21,236 |

At December 31, 2017, the future minimum lease receivables under finance leases and their present values were as follows:

| | Minimum lease receivables 31 December 2017<br>*RMB'000* | Present value of minimum lease receivables 31 December 2017<br>*RMB'000* |
|---|---|---|
| Finance lease receivables: | | |
| Within one year | 8,781 | 6,724 |
| Later than one year and not later than five years | 16,112 | 14,512 |
| | 24,893 | 21,236 |
| Less: Unearned finance income | 3,657 | |
| Present value of minimum lease payment receivables | 21,236 | |

## 19. INVESTMENTS IN JOINT VENTURES

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Share of net assets | **5,589** | 297,596 |

河南和諧富騰互聯網加智能電動汽車企業管理有限公司 (Henan Harmony Futeng Internet and Intelligent Electric Vehicle Corporate Management Company Limited) ("Futeng Corporate Management Company"), and 河南和諧富騰互聯網加智能電動汽車新能源合夥企業(有限合夥) (Henan Harmony Futeng Internet and Intelligent Electric Vehicle Corporate New Energy Partnership (Limited Partnership)) ("Henan Harmony Futeng LP") are joint ventures of the Group and are considered to be related parties of the Group.

### (a) Particulars of the joint ventures are as follows:

| Name | Place of establishment/ registration | Paid-in/ issued capital | Percentage of Ownership interest | Percentage of Voting power | Percentage of Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| Futeng Corporate Management Company | Zhengzhou, the PRC | RMB20,000,000 | 40 | 40 | 40 | Technological development and sale of electric vehicles; corporate management consulting |
| Henan Harmony Futeng LP | Zhengzhou, the PRC | RMB302,500,000 | 39.2 | 39.2 | 39.2 | Technological development and sale of electric vehicles; corporate management consulting |

The above investments are indirectly held by the Company.

The Group has discontinued the recognition of its share of losses of a joint venture, Henan Harmony Futeng LP, because the share of losses of the joint venture exceeded the Group's interest in the joint venture and the Group has no obligation to take up further losses. The amount of the Group's unrecognised share of losses of this joint venture for the current year was RMB38,153,000 (2016: Nil).

## 19. INVESTMENTS IN JOINT VENTURES (CONTINUED)

**(b) Henan Harmony Futeng LP, which is considered a material joint venture of the Group, is accounted for using the equity method.**

The following table illustrates the summarised financial information in respect of Henan Harmony Futeng LP reconciled to the carrying amount in the consolidated financial statements:

| | **2017** *RMB'000* | 2016 *RMB'000* |
|---|---|---|
| Current assets | **205,498** | 816,448 |
| Non-current assets, excluding goodwill | **339,167** | 494,536 |
| Current liabilities | **(366,171)** | (371,961) |
| Non-current liabilities | **(356,090)** | (356,371) |
| Non-controlling interests | **80,267** | (20,293) |
| Net (liabilities)/assets | **(97,329)** | 562,359 |
| Capital receivables from the joint venture partner | **–** | 177,100 |
| | **(97,329)** | 739,459 |
| Reconciliation to the Group's interest in the joint venture | | |
| Proportion of the Group's ownership | **39.2%** | 39.2% |
| Carrying amount of the investment | **–** | 289,868 |
| Revenue | **–** | 1,168 |
| Expense | **(139,288)** | (260,862) |
| Loss and total comprehensive loss for the year | **(139,288)** | (259,694) |

During 2017, the issued capital of Henan Harmony Futeng LP amounting to RMB520,400,000, among which the Group's share amounted to RMB273,420,000, was reduced according to the board resolution.

**(c)** The financial information of Futeng Corporate Management Company is not individually material to the Group and the carrying amount of the Group's investment in Futeng Corporate Management Company is RMB5,589,000 (2016: RMB7,728,000) and the loss for the current year attributable to the Group is RMB2,139,000 (2016: RMB17,000).

## 20. INVESTMENTS IN ASSOCIATES

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Share of net assets | **399,041** | 228,506 |
| Loan to an associate* | **390,000** | – |
| | **789,041** | 228,506 |

鄭州永達和諧汽車銷售服務有限公司 (Zhengzhou Yongda Hexie Automobile Sales & Services Co., Ltd.) ("Yongda Hexie"), 浙江愛車互聯網智能電動車有限公司 (Zhejiang Aiche Internet Intelligent Electric Vehicle Company Limited) ("Aiche Company"), and 河南和諧汽車維修服務有限公司 (Henan Hexie Automobile Aftersales Services Co., Ltd. (the "Independent Aftersales Company") are associates of the Group and are considered to be related parties of the Group.

### (a) Particulars of the associates are as follows:

| Name | Place of establishment/ registration | Paid-in/ issued capital | Percentage of Ownership interest | Percentage of Voting power | Percentage of Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| Yongda Hexie | Zhengzhou, the PRC | RMB20,000,000 | 30 | 30 | 30 | Sale and service of motor vehicles |
| Aiche Company | Shangyu, the PRC | RMB456,500,000 | 33.7 | 33.7 | 33.7 | Technological development and sale of electric vehicles |
| Independent Aftersales Company | Zhengzhou, the PRC | RMB276,000,000 | 49.28 | 49.28 | 49.28 | Provision of after-sales services |

The Group has discontinued the recognition of its share of losses of an associate, Aiche Company because the share of losses of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amount of the Group's unrecognised share of losses of this associate for the current year was RMB52,702,000 (2016: Nil).

## 20. INVESTMENTS IN ASSOCIATES (CONTINUED)

**(b) The following table illustrates the summarised financial information in respect of Yongda Hexie reconciled to the carrying amount in the consolidated financial statements:**

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Non-current assets | **59,357** | 62,467 |
| Current assets | **198,401** | 168,270 |
| Non-current liabilities | **–** | (36,688) |
| Current liabilities | **(208,548)** | (149,730) |
| Net assets | **49,210** | 44,319 |
| Reconciliation to the Group's interest in the associate | | |
| Proportion of the Group's ownership | **30%** | 30% |
| Carrying amount of the investment | **14,763** | 13,296 |
| Revenue | **520,025** | 608,978 |
| Expenses | **(513,086)** | (577,384) |
| Tax | **(2,048)** | (7,898) |
| Profit and total comprehensive income for the year | **4,891** | 23,696 |
| Dividend paid | **–** | 5,617 |

## 20. INVESTMENTS IN ASSOCIATES (CONTINUED)

**(c) The following table illustrates the summarised financial information in respect of Aiche Company reconciled to the carrying amount in the consolidated financial statements:**

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Current assets | **199,168** | 290,468 |
| Non-current assets, excluding goodwill | **339,167** | 494,536 |
| Non-current liabilities | **(356,090)** | (356,371) |
| Current liabilities | **(366,171)** | (366,042) |
| Non-controlling interests | **27,541** | 492 |
| Net (liabilities)/assets | **(156,385)** | 63,083 |
| Reconciliation to the Group's interest in the associate | | |
| Proportion of the Group's ownership | **33.7%** | 33.7% |
| Carrying amount of the investment | **–** | 21,259 |
| Revenue | **–** | 1,763 |
| Expenses | **(219,468)** | (395,654) |
| Profit and total comprehensive loss for the year | **(219,468)** | (393,891) |

**(d) Independent Aftersales Company, which is considered a material associate of the Group, is accounted for using the equity method.**

Given the Independent Aftersales Company became an associate company of the Company on 28 December 2017 which is close to 31 December 2017, the directors of the Company are of the opinion that the operating results of the Independent Aftersales Company from 28 December 2017 to 31 December 2017 were not material to the Group. The profit or loss attributed to the Independent Aftersales Company was included in the consolidated statement of profit or loss of the Group for the year ended 31 December 2017 as a subsidiary up to 27 December 2017.

## 20. INVESTMENTS IN ASSOCIATES (CONTINUED)

### (d) Independent Aftersales Company, which is considered a material associate of the Group, is accounted for using the equity method. (CONTINUED)

The following table illustrates the summarised financial information in respect of the Independent Aftersales Company reconciled to the carrying amount in the consolidated financial statements:

| | 2017 RMB'000 |
|---|---|
| Current assets *(note 1)* | 1,519,824 |
| Non-current assets *(note 2)* | 855,460 |
| Goodwill on acquisition of the associate | 194,442 |
| Current liabilities *(note 3)* | (1,789,464) |
| Non-controlling interests | (477) |
| Net assets | 779,785 |
| Reconciliation to the Group's interest in the associate | |
| Proportion of the Group's ownership | 49.28% |
| Carrying amount of the investment | 384,278 |

* On 28 December 2017, Henan Hexie Automobile Trading Co., Ltd. ("Hexie Automobile Trading", an indirectly wholly-owned subsidiary of the Company), Henan Hexie Automobile Aftersales Services Co., Ltd. (the "Independent Aftersales Company", an indirectly wholly-owned subsidiary of the Company), the management and employee stock ownership platforms and certain external investors entered into a capital injection agreement (the "Agreement") to make further investments in the Independent Aftersales Company. As at 31 December 2017, the equity interest held by Hexie Automobile Trading in the Independent Aftersales Company is 49.28% and the Independent Aftersales Company has become an associate of the Group, which is also considered a related party of the Group

As at 31 December 2017, the loan due from the Independent Aftersales Company to the Group is RMB390,000,000. The amount is unsecured and bears interest in accordance with the benchmark loan interest rate stipulated by the People's Bank of China for the corresponding period and has a fixed repayment term of five years.

*Note 1:*

The current assets mainly consist of inventories of RMB44 million, trade receivables of RMB9 million, cash and bank balances of RMB94 million and prepayments, deposits and other receivables of RMB1,372 million. Included in prepayments, deposits and other receivables, advances of RMB1,021 million were made to 河南和諧實業集團有限公司(Henan Hexie Industrial Group Co., Ltd. ("Hexie Industrial Group", which is under control of Mr. Feng Changge ("the Chairman and a director of the Company, the "Controlling Shareholder")) by Independent Aftersales Company.

*Note 2:*

The non-current assets mainly consist of property, plant and equipment of RMB821 million and deferred tax assets of RMB33 million.

## 20. INVESTMENTS IN ASSOCIATES (CONTINUED)

### (d) Independent Aftersales Company, which is considered a material associate of the Group, is accounted for using the equity method. (CONTINUED)

*Note 3:*

The current liabilities mainly consist of trade and bills payables of RMB48 million, others payables and accruals of RMB1,685 million and tax payable of RMB56 million.

During 2017, the Group made advances to Independent Aftersales Company with an amount of RMB1,021,716,000 to support its business expansion in aftersales operation before Independent Aftersales Company became an associate company of the Group. The advances bear interest in accordance with the benchmark loan interest rate stipulated by the People's Bank of China for the corresponding period and have no fixed repayment terms and guaranteed by a shareholder of the Company. The advances from the Group was included in current liabilities of Independent Aftersales Company.

**(e)** FMC, which was considered a material associate of the Group until it was transferred to available-for-sale investment on June 30, 2017. As a result, the Group recognised the share of loss amounted to RMB79,345,000 in the consolidated statement of profit or loss contributed by FMC during 2017.

During 2017, due to the further capital injection of RMB171,875,000 in FMC from other investors, the Group recognised a gain on deemed partial disposal of an associate of RMB29,765,000. In addition, the Group sold 1,250,000 shares in FMC to the controlling shareholder of the Company for a consideration of RMB58,853,000 and recognised a gain of RMB29,304,000. The Group assigned its voting rights in the board of directors in FMC to the controlling shareholder and FMC ceased to be an associate of the Group. A gain on transferring the investment in the associate to available-for-sale investment of RMB815,700,000 was recognised.

## 21. INVENTORIES

| | **2017**<br>***RMB'000*** | 2016<br>*RMB'000* |
|---|---|---|
| Automobiles | **1,146,651** | 731,315 |
| Spare parts and accessories | **124,725** | 153,821 |
| | **1,271,376** | 885,136 |

At December 31, 2017, certain of the Group's inventories with an aggregate carrying amount of approximately RMB718,430,000 (2016: RMB382,823,000) were pledged as security for the Group's bank loans and other borrowings (note 28(a)).

At December 31, 2017, certain of the Group's inventories with an aggregate carrying amount of approximately RMB78,852,000 (2016: RMB57,995,000) were pledged as security for the Group's bills payable (note 29).

## 22. TRADE RECEIVABLES

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **106,190** | 247,471 |

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** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **90,432** | 237,550 |
| More than 3 months but less than 1 year | **15,758** | 9,921 |
| | **106,190** | 247,471 |

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Neither past due nor impaired | **106,190** | 247,471 |

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.

## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Prepayments to suppliers | **536,980** | 515,034 |
| Rebate receivables | **553,665** | 480,607 |
| Loans to third parties *(i)* | **200,000** | 200,000 |
| Insurance commission receivable | **22,650** | 21,247 |
| Due from related parties *(ii)* | **1,022,626** | 910 |
| Others | **217,147** | 165,890 |
| | **2,553,068** | 1,383,688 |

*Notes:*

(i) As of December 31, 2017, the Group granted entrusted loans to third parties with an amount of RMB200,000,000 (31 December 2016: RMB200,000,000). The entrusted loans bore interest at 4.35% per annum (31 December 2016: 4.35% per annum) and was subsequently repaid in March 2018.

(ii) As of December 31, 2017, the Group had a balance with its associate, Yongda Hexie with an amount of RMB910,000. The balance is unsecured and non-interest-bearing and has no fixed repayment terms.

As of December 31, 2017, the Group had advances balance due from to its associated company, Independent Aftersales Company, with an amount of RMB1,021,716,000 (note 20(d)).

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.

## 24. AVAILABLE-FOR-SALE INVESTMENTS

| | **2017** **RMB'000** | 2016 *RMB'000* |
|---|---|---|
| **Non-current** | | |
| Unlisted equity investment, at cost | **887,023** | – |

| | **2017** **RMB'000** | 2016 *RMB'000* |
|---|---|---|
| **Current** | | |
| Unlisted private fund in the PRC | **83,577** | – |
| Available-for-sale investments | **37,000** | 38,000 |
| | **120,577** | 38,000 |

The unlisted private fund represented a fund managed by a private fund manager registered and approved by the Asset Management Association of China and is measured at cost.

The available-for-sale investments at December 31, 2017 and December 31, 2016 were wealth management products issued by banks in the PRC and are redeemable on demand.

## 25. PLEDGED AND RESTRICTED BANK DEPOSITS

| | **2017** **RMB'000** | 2016 *RMB'000* |
|---|---|---|
| Deposits pledged | **81,043** | 131,817 |
| Restricted bank deposits | **–** | 2,300 |
| | **81,043** | 134,117 |

The pledged bank deposits were denominated in RMB.

## 26. CASH IN TRANSIT

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Cash in transit | **37,085** | 26,323 |

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

## 27. CASH AND BANK BALANCES

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Cash at banks and on hand | **1,475,378** | 1,586,710 |
| Time deposits | **105,000** | 1,382,388 |
| Cash and bank balances | **1,580,378** | 2,969,098 |

The Group's cash and bank balances at each reporting date are denominated in the following currencies:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| RMB | **1,242,495** | 1,698,291 |
| US$ | **4,268** | 11,091 |
| HK$ | **333,615** | 1,259,716 |
| | **1,580,378** | 2,969,098 |

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for the period of one year, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

## 28. BANK LOANS AND OTHER BORROWINGS

| | 2017 Effective interest rate (%) | 2017 RMB'000 | 2016 Effective interest rate (%) | 2016 RMB'000 |
|---|---|---|---|---|
| CURRENT: | | | | |
| Bank loans | **4.4–8.7** | **732,800** | 4.4–8.7 | 1,087,696 |
| Other borrowings | **4.0–8.7** | **1,067,556** | 4.0–8.7 | 736,721 |
| | | **1,800,356** | | 1,824,417 |
| NON-CURRENT: | | | | |
| Bank loans | **7.5** | **15,980** | 7.5–8.7 | 38,942 |
| | | **1,816,336** | | 1,863,359 |

| | | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Bank loans and other borrowings representing: | | | |
| – secured | (a) | **353,762** | 148,884 |
| – guaranteed | (b) | **609,347** | 720,461 |
| – secured and guaranteed | (a)(b) | **853,227** | 994,014 |
| | | **1,816,336** | 1,863,359 |
| **Analysed into:** | | | |
| Bank loans repayable: | | | |
| Within one year | | **732,800** | 1,087,696 |
| In the second year | | **15,980** | 21,332 |
| In the third to fifth years, inclusive | | **–** | 17,610 |
| | | **748,780** | 1,126,638 |
| Other borrowings repayable: | | | |
| Within one year | | **1,067,556** | 736,721 |
| | | **1,816,336** | 1,863,359 |

## 28. BANK LOANS AND OTHER BORROWINGS (CONTINUED)

(a) Certain of the Group's bank loans and other borrowings are secured by:

(i) mortgages over the Group's prepaid land lease payments situated in Mainland China, which had an aggregate carrying value of approximately RMB11,497,000 as at December 31, 2017 (2016: RMB11,897,000);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB25,664,000 as at December 31, 2017 (2016: RMB28,761,000); and

(iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB718,430,000 as at December 31, 2017 (2016: RMB382,823,000).

(b) Certain of the Group's bank loans and other borrowings are guaranteed by:

(i) certain of the Group's bank loans and other borrowings amounting to RMB785,205,000 were guaranteed by the Chairman of the Company as at December 31, 2017 (2016: RMB1,394,014,000);

(ii) certain of the Group's bank loans and other borrowings amounting to RMB18,914,000 were guaranteed by the Chairman of the Company and Hexie Industrial Group as at December 31, 2016;

(iii) certain of the Group's bank loans and other borrowings amounting to RMB377,369,000 were guaranteed by the Group's subsidiaries as at December 31, 2017 (2016: RMB301,547,000);

(iv) certain of the Group's bank loans amounting to RMB300,000,000 were guaranteed by the Chairman of the Company, and secured by certain land of 河南和諧置業有限公司 (Henan Hexie Property Co., Ltd., of which the Chairman of the Company is an equity holder) at December 31, 2017.

(c) All the Group's bank loans and other borrowings are denominated in RMB.

## 29. TRADE AND BILLS PAYABLES

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **82,750** | 87,399 |
| Bills payable | **123,457** | 201,989 |
| Trade and bills payables | **206,207** | 289,388 |

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **200,725** | 266,303 |
| 3 to 6 months | **2,248** | 15,999 |
| 6 to 12 months | **1,057** | 4,300 |
| Over 12 months | **2,177** | 2,786 |
| | **206,207** | 289,388 |

The trade and bills payables are non-interest-bearing.

Certain of the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB78,852,000 as at December 31, 2017 (2016: RMB57,995,000).

## 30. OTHER PAYABLES AND ACCRUALS

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Payables for purchase of items of property, plant and equipment | **47,942** | 78,500 |
| Advances and deposits from distributors | **3,433** | 1,627 |
| Advances from customers | **252,763** | 296,759 |
| Taxes payable (other than corporate income tax) | **463,892** | 575,588 |
| Lease payables | **17,550** | 38,479 |
| Staff payroll and welfare payables | **45,232** | 53,592 |
| Payable for acquisition of a subsidiary | **350** | 49,909 |
| Capital contribution payable to an associate | **–** | 46,917 |
| Due to a related party[(i)] | **–** | 534 |
| Others | **87,209** | 89,973 |
| | **918,371** | 1,231,878 |

(i) As at December 31, 2016, the Group had a balance with its related party, Hexie Industrial Group, which is unsecured, interest free and has no fixed term of repayment.

Other payables are unsecured, non-interest-bearing and repayable on demand.

## 31. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries in Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 14% to 20% of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

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

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 5% to 12% of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for these contributions to the accommodation fund.

As at December 31, 2017, the Group had no significant obligation apart from the contributions as stated above.

## 32. 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 offsetting against future taxable profits | Accruals | Deferred rental expenses | Others | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At January 1, 2016 | 16,924 | 12,212 | 8,285 | 14,609 | 52,030 |
| Deferred tax credited/(charged) to the statement of profit or loss during the year | 25,426 | (226) | (5,402) | 10,702 | 30,500 |
| At December 31, 2016 and January 1, 2017 | 42,350 | 11,986 | 2,883 | 25,311 | 82,530 |
| Deferred tax credited/(charged) to the statement of profit or loss during the year | (3,952) | (378) | 947 | 4,781 | 1,398 |
| Deemed disposal of subsidiaries | (15,956) | (1,311) | (1,685) | (14,610) | (33,562) |
| At December 31, 2017 | 22,442 | 10,297 | 2,145 | 15,482 | 50,366 |

As at December 31, 2017, deferred tax assets have not been recognised in respect of tax losses arising in Mainland China of RMB108,375,000 (2016: RMB209,760,000) that will expire in one to five years for offsetting against future taxable profits 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.

## 32. DEFERRED TAX (CONTINUED)

### Deferred tax liabilities

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

| | Fair value adjustments arising from acquisition of a subsidiary *RMB'000* | Capitalised interest expense *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| At January 1, 2016 | – | 21,196 | 21,196 |
| Acquisition of a subsidiary | 7,883 | – | 7,883 |
| Deferred tax (credited)/charged to the statement of profit or loss during the year | (94) | 3,695 | 3,601 |
| At December 31, 2016 and January 1, 2017 | 7,789 | 24,891 | 32,680 |
| Acquisition of a subsidiary *(note 38)* | 17,606 | – | 17,606 |
| Deferred tax (credited)/charged to the statement of profit or loss during the year | (283) | 504 | 221 |
| At December 31, 2017 | 25,112 | 25,395 | 50,507 |

Deferred tax assets have not been recognised in respect of the following items:

| | **2017** ***RMB'000*** | 2016 *RMB'000* |
|---|---|---|
| Tax losses | **108,375** | 209,760 |
| Deductible temporary differences | **2,402** | 32,596 |
| | **110,777** | 242,356 |

The above tax losses are available within five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

## 32. DEFERRED TAX (CONTINUED)

### Deferred tax liabilities (Continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 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. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008.

At December 31, 2017, 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 RMB2,229,105,000 at December 31, 2017 (2016: RMB1,760,946,000).

## 33. SHARE CAPITAL

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Number of shares at HK$0.01 each** | **Equivalent to RMB'000** | Number of shares at HK$0.01 each | Equivalent to RMB'000 |
| Ordinary shares | **1,538,627,177** | **12,176** | 1,565,789,191 | 12,419 |
| Restricted shares *(note (a))* | **–** | **–** | 9,911,486 | 79 |
| | **1,538,627,177** | **12,176** | 1,575,700,677 | 12,498 |

## 33. SHARE CAPITAL (CONTINUED)

| | Number of issued and fully paid shares | Nominal value of shares HK$'000 | Share premium HK$'000 | Equivalent nominal value of shares RMB'000 | Equivalent share premium RMB'000 |
|---|---|---|---|---|---|
| At January 1, 2016 | 1,575,700,677 | 15,757 | 4,557,953 | 12,498 | 3,629,373 |
| Restricted shares exercised *(note (a))* | – | – | 17,161 | – | 13,558 |
| Final 2015 dividend declared | – | – | (188,227) | – | (158,074) |
| At December 31, 2016 and January 1, 2017 | 1,575,700,677 | 15,757 | 4,386,887 | 12,498 | 3,484,857 |
| Restricted shares exercised *(note (a))* | – | – | 28,195 | – | 22,275 |
| Shares repurchased *(note (b))* | (37,663,500) | (377) | (140,393) | (327) | (124,317) |
| Share options exercised *(note (c))* | 590,000 | 6 | 2,049 | 5 | 1,726 |
| At December 31, 2017 | 1,538,627,177 | 15,386 | 4,276,738 | 12,176 | 3,384,541 |

*Notes:*

(a) Pursuant to the resolution of the Board of the Company on May 28, 2013, 19,110,898 restricted shares of HK$0.01 each were allotted and issued and to be converted as fully paid at par on June 13, 2013, by way of capitalisation of the sum of HK$191,000 (equivalent to approximately RMB151,000) standing to the credit of the share premium account. These restricted shares were issued for the purpose of the Company's restricted share unit scheme ("RSU Scheme") and managed by a professional trustee. As at December 31, 2017, 14,355,683 (2016: 9,199,412) restricted shares were exercised and converted to ordinary shares. Further details of the RSU Scheme are set out in note 34 below.

(b) The Company repurchased 37,663,500 of its ordinary shares on the Hong Kong Stock Exchange at a total consideration of HK$140,128,000 before expenses. The repurchased shares were cancelled during the year. The nominal value of the cancelled shares of the HK$377,000 was reduced from share capital and the premium on repurchased and the related costs incurred for share repurchase of HK$140,393,000 in total, were debited to the share premium account of the Company.

(c) During the year 2017, 590,000 share options under the Company's share option scheme were exercised. Accordingly, 590,000 ordinary shares of HK$0.01 each were issued as a result of the exercise of share options. Details of the Company's share option scheme are included in note 35 to the financial statements.

## 34. RSU SCHEME

The Company's RSU Scheme was approved and adopted by the then shareholder on May 20, 2013 for the primary purpose of attracting skilled and experienced personnel, to incentivise them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company. The terms of the RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new shares.

Under the RSU Scheme, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the Group during the respective vesting periods. A participant in the RSU Scheme (the "RSU Participant") does not have any contingent interest in any shares underlying an RSU award unless and until such shares are actually transferred to the RSU Participant. Further, an RSU Participant may not exercise voting rights in respect of the shares underlying their RSU awards and, unless otherwise specified by the board of directors of the Company in its entire discretion in the RSU grant letter to the RSU Participant, nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any shares underlying an RSU award.

On May 28, 2013, RSU awards in respect of an aggregate of 19,110,898 shares, representing approximately 1.75% of the total shares issued on the date of the listing of the Company's shares, had been granted, at nil consideration, to 18 RSU Participants pursuant to the RSU Scheme, of which five of the RSU Participants are directors. All RSU awards granted pursuant to the RSU Scheme to the RSU Participants have a vesting period of four years as follows: 10% on January 2, 2014, 30% on January 2, 2015, 30% on January 2, 2016 and 30% on January 2, 2017. Each RSU award granted pursuant to the RSU Scheme has the same terms and conditions. The grant and vesting of the RSU awards granted pursuant to the RSU Scheme are in compliance with Rule 10.08 of the Listing Rules.

On August 27, 2013, each of the five directors of the RSU Participants agreed to, and as confirmed and approved by the board of directors, reduce the RSU awards granted to them by 62,000 units each. The aggregate amount of the RSU awards so reduced (i.e. 310,000 RSU awards) were granted to an employee of the Company. As a result of the foregoing, the total number of RSU awards granted under the RSU Scheme remained unchanged.

## 34. RSU SCHEME (CONTINUED)

Pursuant to a resolution passed by the board of directors on August 27, 2013 and as confirmed by each of the RSU Participants, the vesting period in respect of the RSU awards granted is extended from four years to five years as follows: 10% on January 2, 2014, 10% on June 30, 2014, 20% on January 2, 2015, 20% on January 2, 2016, 20% on January 2, 2017 and 20% on January 2, 2018. Other than the adjustments in the number of shares underlying the RSU awards granted to certain RSU Participants as described in the previous paragraph and the duration of the vesting period, the terms of the RSU Scheme remained unchanged.

The fair value of the RSU awards granted as at the grant date was RMB82,554,000 (RMB4.32 each), of which the Group did not recognise RSU award expense during the year ended December 31, 2017 (2016: RMB5,251,000) and a total share award reserve with an amount of RMB22,275,000 (2016: RMB13,558,000) was transferred to share premium account upon the conversion into ordinary shares during the year ended December 31, 2017.

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted is measured at the grant date at the market value of the shares, adjusted for the exclusion of expected dividends to be received in the vesting period.

As at December 31, 2017, a total of 4,755,215 RSU awards were forfeited due to the resignation of certain RSU Participants and 14,355,683 RSU awards were exercised. At the end of the year, the Company did not have RSU awards outstanding under the RSU Scheme.

## 35. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include employees of the Company and its subsidiaries. The Scheme became effective on June 26, 2015, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue on June 26, 2015. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

## 35. SHARE OPTION SCHEME (CONTINUED)

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

The offer of a grant of share options may be accepted within 28 days from the date of offer, an amount of HK$1.00 is payable upon acceptance of the grant of options and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period and ends on the expiry date of the Scheme.

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

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

## 35. SHARE OPTION SCHEME (CONTINUED)

The following share options were outstanding under the Scheme during the year:

| | **2017** Weighted average exercise price HK$ per share | **2017** Number of options '000 | 2016 Weighted average exercise price HK$ per share | 2016 Number of options '000 |
|---|---|---|---|---|
| At 1 January | **10.60** | **39,900** | 10.60 | 45,000 |
| Granted during the year | **3.32** | **85,000** | – | – |
| Exercised during the year | **3.00** | **(590)** | – | – |
| Replacement during the year | **10.60** | **(15,400)** | – | – |
| Forfeited during the year | **10.49** | **(24,860)** | 10.60 | (5,100) |
| At 31 December | **3.32** | **84,050** | 10.60 | 39,900 |

On May 9, 2017, the Group granted 70,000,000 share options (the "New Share Options") to its employees, which was a replacement of share options granted on June 29, 2015 and July 2, 2015. As at May 9, 2017, 15,400,000 share options granted in 2015 were replaced by the New Share Options.

On 15 December 2017, the Group granted 15,000,000 share options to its employees.

The weighted average share price at the date of exercise for share options exercised during the year was HK$4.91 per share.

## 35. SHARE OPTION SCHEME (CONTINUED)

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

**December 31, 2017**

| Number of options *'000* | Exercise price* *HK$ per share* | Exercise period |
|---|---|---|
| **69,050** | **3.00** | **1-7-2017 to 28-06-2025** |
| **15,000** | **4.80** | **1-4-2018 to 28-06-2025** |
| **84,050** | | |

**December 31, 2016**

| Number of options *'000* | Exercise price* *HK$ per share* | Exercise period |
|---|---|---|
| 39,900 | 10.60 | 1-1-2019 to 31-12-2020 |

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted on May 9, 2017 and December 15, 2017 was RMB57,250,000 (RMB0.58 each and RMB1.11 each), of which the Group recognised a share option expense of RMB7,719,000 during the year ended December 31, 2017 (2016 : RMB17,580,000).

## 35. SHARE OPTION SCHEME (CONTINUED)

The fair value of equity-settled share options granted during the year 2017 was estimated as at the date of grant, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | 2017/5/9 | **2017/12/15** |
|---|---|---|
| Dividend yield *(%)* | 4.82% | **1.33%** |
| Expected volatility *(%)* | 48.20% | **42.48%** |
| Historical volatility *(%)* | 48.20% | **42.48%** |
| Risk-free interest rate *(%)* | 2.11% | **2.19%** |

No other feature of the options granted was incorporated into the measurement of fair value.

The 590,000 share options exercised during the year resulted in the issue of 590,000 ordinary shares of the Company and new share capital of RMB5,000 (before issue expenses), as further detailed in note 33 to the financial statements.

At the end of the reporting period, the Company had 84,050,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 84,050,000 additional ordinary shares of the Company and additional share capital of HK$840,500 (equivalent to RMB702,490) (before issue expenses).

At the date of approval of these financial statements, the Company had 84,050,000 share options outstanding under the Scheme, which represented approximately 5.5% of the Company's shares in issue as at that date.

## 36. 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.

## 37. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

None of the non-controlling interests is considered individually significant.

## 38. BUSINESS COMBINATION

On November 30, 2017, the Group acquired a 100% interest in Zhengzhou Binchi Automobile Sales and Services Co., Ltd. ("Zhengzhou Binchi") from a third party. Zhengzhou Binchi is engaged in the sale of automobiles and provision of after-sales services for Bentley. The acquisition was made as part of the Group's strategy to expand its motor vehicle sales and service business in Zhengzhou. The purchase consideration for the acquisition was in the form of cash with a total amount of RMB108,000,000 which was paid at the acquisition date.

## 38. BUSINESS COMBINATION (CONTINUED)

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

| | Notes | Fair value recognised on acquisition RMB'000 |
|---|---|---|
| Property, plant and equipment | 13 | 6,778 |
| Inventories | | 16,410 |
| Cash and bank balances | | 6,643 |
| Trade receivables | | 167 |
| Prepayments and other receivables | | 2,821 |
| Intangible assets | 15 | 68,934 |
| Trade and bills payables | | (15,731) |
| Accruals and other payables | | (10,435) |
| Deferred tax liabilities | 32 | (17,606) |
| Total identifiable net assets at fair value | | 57,981 |
| Goodwill on acquisition | 16 | 50,019 |
| Satisfied by: | | |
| Cash | | 108,000 |

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

| | |
|---|---|
| Cash consideration paid | (108,000) |
| Cash and bank balances acquired | 6,643 |
| Net outflow of cash and cash equivalents included in cash flows used in investing activities | (101,357) |

## 38. BUSINESS COMBINATION (CONTINUED)

Since the acquisition, Zhengzhou Binchi contributed RMB14,335,000 to the Group's revenue and RMB1,151,000 to the consolidated profit for the year ended December 31, 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 RMB10,965,317,000 and RMB1,021,975,000, respectively.

## 39. DISPOSAL OF A SUBSIDIARY

| | *Note* | **2017** ***RMB'000*** |
|---|---|---|
| **Assets disposed of:** | | |
| Property, plant and equipment | 13 | **2,007** |
| Assets disposed of | | **2,007** |
| Loss on disposal of a subsidiary | 6(c) | **(1,727)** |
| | | **280** |
| Satisfied by: | | |
| Cash | | **280** |
| | | **280** |

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

| | **2017** ***RMB'000*** |
|---|---|
| Cash consideration | **280** |
| Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary | **280** |

## 40. DEEMED DISPOSAL OF SUBSIDIARIES

| | Note | 2017 RMB'000 |
|---|---|---|
| **Net assets disposed of:** | | |
| Property, plant and equipment | | 821,238 |
| Intangible assets | | 660 |
| Deferred tax assets | | 33,562 |
| Inventories | | 44,083 |
| Trade receivables | | 8,542 |
| Cash and bank balances | | 93,927 |
| Prepayments, deposits and other receivables | | 1,143,447 |
| Cash in transit | | 825 |
| Trade and bills payables | | (47,936) |
| Other payables and accruals | | (1,684,950) |
| Income tax payable | | (56,578) |
| Non-controlling interests | | (477) |
| Net assets disposed of | | 356,343 |
| Gain on deemed disposal of subsidiaries | 5(b) | 27,935 |
| Investment in an associate | | 384,278 |
| Satisfied by: | | |
| Cash | | – |

An analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries is as follows:

| | 2017 RMB'000 |
|---|---|
| Cash consideration | – |
| Cash and bank balances disposed of | (93,927) |
| Net outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries | (93,927) |

## 41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

| | Bank and other loans *RMB'000* |
|---|---|
| At January 1, 2017 | 1,863,359 |
| Change from financing cash flows | (47,023) |
| At December 31, 2017 | 1,816,336 |

## 42. FINANCIAL INSTRUMENTS BY CATEGORY

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

2017

**Financial assets**

| | Loans and receivables *RMB'000* | Available-for-sale financial assets *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| Available-for-sale investments | **–** | **1,007,600** | **1,007,600** |
| Finance lease receivables | **21,236** | **–** | **21,236** |
| Trade receivables | **106,190** | **–** | **106,190** |
| Financial assets included in prepayments, deposits and other receivables | **2,321,150** | **–** | **2,321,150** |
| Pledged bank deposits | **81,043** | **–** | **81,043** |
| Cash in transit | **37,085** | **–** | **37,085** |
| Cash and bank balances | **1,580,378** | **–** | **1,580,378** |
| | **4,147,082** | **1,007,600** | **5,154,682** |

## 42. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

**Financial liabilities**

| | Financial liabilities at amortised cost *RMB'000* |
|---|---|
| Trade and bills payables | **206,207** |
| Financial liabilities included in other payables and accruals | **138,934** |
| Bank loans and other borrowings | **1,816,336** |
| | **2,161,477** |

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

2016

**Financial assets**

| | Loans and receivables *RMB'000* | Available-for-sale financial assets *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| Available-for-sale investments | – | 38,000 | 38,000 |
| Trade receivables | 247,471 | – | 247,471 |
| Financial assets included in prepayments, deposits and other receivables | 791,051 | – | 791,051 |
| Pledged bank deposits | 134,117 | – | 134,117 |
| Cash in transit | 26,323 | – | 26,323 |
| Cash and bank balances | 2,969,098 | – | 2,969,098 |
| | 4,168,060 | 38,000 | 4,206,060 |

## 42. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

**Financial liabilities**

| | Financial liabilities at amortised cost *RMB'000* |
|---|---|
| Trade and bills payables | 289,388 |
| Financial liabilities included in other payables and accruals | 263,460 |
| Bank loans and other borrowings | 1,863,359 |
| | 2,416,207 |

## 43. CONTINGENT LIABILITIES

As at December 31, 2017, the Group had no significant contingent liabilities.

## 44. COMMITMENTS

### (a) Capital commitments

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

| | **2017** ***RMB'000*** | 2016 *RMB'000* |
|---|---|---|
| Contracted, but not provided for: | | |
| Land leases and buildings | **120,730** | 149,610 |

## 44. COMMITMENTS (CONTINUED)

### (b) Operating lease commitments

As lessee

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

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Properties** | **Land use right** | Properties | Land use right |
| | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* |
| Within one year | **49,252** | **20,392** | 90,182 | 18,867 |
| In the second to fifth years, inclusive | **159,147** | **87,040** | 214,968 | 78,915 |
| After five years | **159,676** | **230,286** | 125,914 | 204,336 |
| | **368,075** | **337,718** | 431,064 | 302,118 |

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

## 45. PLEDGE OF ASSETS

Details of the Group's assets pledged for its bank loans and other borrowings and bills payable are disclosed in note 13, note 14, note 21 and note 25, respectively to these financial statements.

## 46. RELATED PARTY TRANSACTIONS AND BALANCES

Mr. Feng Changge is the Chairman and a director of the Company, the Controlling Shareholder and is also considered a related party of the Group.

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

### (a) Transactions with related parties

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| – Advances made to a related party *(note 20(d))* | **1,021,716** | – |
| – Loan to Independent Aftersales Company *(note 20(d))* | **390,000** | – |
| | **1,411,716** | – |

## 46. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

### (b) Balances with related parties

The Group had the following significant balances with its related parties as at each reporting date:

Due from related parties:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Non-trade related: | | |
| – Yongda Hexie | **910** | 910 |
| – Independent Aftersales Company | **1,411,716** | – |
| | **1,412,626** | 910 |

Due to a related party:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Non-trade related: | | |
| – Hexie Industrial Group | **–** | 534 |

Balances with related parties are unsecured and non-interest-bearing and have no fixed repayment terms.

## 46. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

### (c) Compensation of key management personnel of the Group

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Short term employee benefits | **7,965** | 4,951 |
| Equity-settled share award expense | **–** | 1,896 |
| Equity-settled share option expense | **7,520** | 5,477 |
| Post-employee benefits | **300** | 187 |
| Total compensation paid to key management personnel | **15,785** | 12,511 |

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

(d) The Chairman of the Company has guaranteed certain bank loans made to the Group of up to RMB785,205,000 (2016: RMB1,394,014,000) at nil consideration as at the end of the reporting period, as further detailed in note 28(b) to the financial statements.

The Chairman of the Company and Hexie Industrial Group guaranteed certain bank loans and other borrowings made to the Group of up to RMB18,914,000 at nil consideration as at December 31, 2016, as further detailed in note 28(b) to the financial statements.

The Chairman of the Company guaranteed and Henan Hexie Property Co., Ltd pledged certain of its land to secure certain bank loans made to the Group of up to RMB300,000,000 at nil consideration as at December 31, 2017, as further detailed in note 28(b) to the financial statements.

## 47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, cash in transit, pledged and restricted bank deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables and 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, and the fair values also approximate to their carrying amounts. The Group's own non-performance risk for bank loans and other borrowings as at December 31, 2017 was assessed to be insignificant.

At the end of the year, the Group had no financial assets or liabilities measured at fair value (2016:Nil).

## 48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and other borrowings, structured deposits and cash and bank balances. 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, 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 loans to third parties (note 23), pledged and restricted bank deposits (note 25) and cash and bank balances (note 27).

The Group's interest rate risk arises from its bank loans and other borrowings, details of which are set out in note 28. Borrowings at variable rates expose the Group to the risk of changes in market interest rates.

The Group's exposure to the risk of interest rate fluctuation is very limited, as the Group does not have a floating interest rate of bank loans and other borrowings.

## 48. 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$ as disclosed in note 27.

The Group's assets and liabilities denominated in US$ and HK$ were mainly held by certain subsidiaries incorporated outside Mainland China who had US$ and HK$ as their functional currencies, and the Group did not have material foreign currency transactions in Mainland China during the year. Therefore, the Group had no significant foreign currency risk.

### Credit risk

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

As at December 31, 2017, all pledged and restricted bank deposits and cash and cash equivalents were deposited in high quality 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.

## 48. 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 December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | On demand<br>*RMB'000* | Less than 3 months<br>*RMB'000* | 3 to 12 months<br>*RMB'000* | 1 to 5 years<br>*RMB'000* | Over 5 years<br>*RMB'000* | Total<br>*RMB'000* |
| Bank loans and other borrowings | **–** | **610,746** | **1,225,756** | **38,437** | **–** | **1,874,939** |
| Trade and bills payables | **5,482** | **200,725** | **–** | **–** | **–** | **206,207** |
| Other payables and accruals | **138,934** | **–** | **–** | **–** | **–** | **138,934** |
| | **144,416** | **811,471** | **1,225,756** | **38,437** | **–** | **2,220,080** |

| | As at December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | On demand<br>*RMB'000* | Less than 3 months<br>*RMB'000* | 3 to 12 months<br>*RMB'000* | 1 to 5 years<br>*RMB'000* | Over 5 years<br>*RMB'000* | Total<br>*RMB'000* |
| Bank loans and other borrowings | – | 592,204 | 1,286,238 | 46,912 | – | 1,925,354 |
| Trade and bills payables | 11,469 | 266,844 | 11,075 | – | – | 289,388 |
| Other payables and accruals | 263,460 | – | – | – | – | 263,460 |
| | 274,929 | 859,048 | 1,297,313 | 46,912 | – | 2,478,202 |

## 48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Capital management

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

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

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

| | **2017**<br>***RMB'000*** | 2016<br>*RMB'000* |
|---|---|---|
| Bank loans and other borrowings | **1,816,336** | 1,863,359 |
| Trade and bills payables | **206,207** | 289,388 |
| Other payables and accruals | **918,371** | 1,227,878 |
| Less: Cash and bank balances | **(1,580,378)** | (2,969,098) |
| Net debt | **1,360,536** | 411,527 |
| Equity attributable to owners of the parent | **6,287,320** | 5,439,108 |
| Gearing ratio | **21.6%** | 7.6% |

## 49. 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**<br>***RMB'000*** | 2016<br>*RMB'000* |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Interests in subsidiaries | **3,122,137** | 2,621,666 |
| Total non-current assets | **3,122,137** | 2,621,666 |
| CURRENT ASSETS | | |
| Cash and bank balances | **400,418** | 1,238,723 |
| Total current assets | **400,418** | 1,238,723 |
| CURRENT LIABILITIES | | |
| Other payables and accruals | **392** | 3,534 |
| Total current liabilities | **392** | 3,534 |
| NET CURRENT ASSETS | **400,026** | 1,235,189 |
| NET ASSETS | **3,522,163** | 3,856,855 |
| EQUITY | | |
| Share capital | **12,176** | 12,498 |
| Reserves *(note)* | **3,509,987** | 3,844,357 |
| Total equity | **3,522,163** | 3,856,855 |

## 49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

*Note:*

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

| | Share premium | Share award reserve | Share option reserve | Exchange fluctuation reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At January 1, 2016 | 3,629,373 | 30,582 | 10,502 | 172,020 | (51,501) | 3,790,976 |
| Final 2015 dividend declared | (158,074) | – | – | – | – | (158,074) |
| Total comprehensive income for the year | – | – | – | 218,749 | (30,125) | 188,624 |
| Equity-settled share award expense | – | 5,251 | – | – | – | 5,251 |
| Restricted shares exercised | 13,558 | (13,558) | – | – | – | – |
| Equity-settled share option expense | – | – | 17,580 | – | – | 17,580 |
| At December 31, 2016 | 3,484,857 | 22,275 | 28,082 | 390,769 | (81,626) | 3,844,357 |
| Total comprehensive loss for the year | – | – | – | (196,054) | (23,206) | (219,260) |
| Restricted shares exercised | 22,275 | (22,275) | – | – | – | – |
| Share options exercised | 1,726 | – | (238) | – | – | 1,488 |
| Shares repurchased | (124,317) | – | – | – | – | (124,317) |
| Equity-settled share option expense | – | – | 7,719 | – | – | 7,719 |
| At December 31, 2017 | 3,384,541 | – | 35,563 | 194,715 | (104,832) | 3,509,987 |

## 50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on March 26, 2018.

# Financial Summary

*December 31, 2017*

| | 2017 RMB'000 | 2016 RMB'000 | 2015 RMB'000 | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|---|---|
| **RESULTS** | | | | | |
| **REVENUE** | **10,840,411** | 10,695,872 | 10,620,244 | 10,195,890 | 8,332,749 |
| Cost of sales and services | **(9,822,566)** | (9,925,790) | (9,498,495) | (9,106,560) | (7,335,607) |
| **Gross profit** | **1,017,845** | 770,082 | 1,121,749 | 1,089,330 | 997,142 |
| Other income and gains, net | **1,321,199** | 326,227 | 524,781 | 474,072 | 303,160 |
| Selling and distribution costs | **(787,488)** | (775,392) | (592,221) | (515,668) | (426,408) |
| Administrative expenses | **(147,013)** | (180,754) | (134,719) | (124,097) | (117,584) |
| Other expenses | **–** | (73,709) | – | – | – |
| **Profit from operations** | **1,404,543** | 66,454 | 919,590 | 923,637 | 756,310 |
| Finance costs | **(63,437)** | (95,040) | (157,056) | (202,199) | (194,839) |
| Share of profits and losses of: | | | | | |
| Joint ventures | **(18,587)** | (101,817) | (587) | – | – |
| Associates | **(99,137)** | (189,942) | 1,308 | 4,916 | 501 |
| **Profit/(Loss) before tax** | **1,223,382** | (320,345) | 763,255 | 726,354 | 561,972 |
| Income tax expense | **(202,094)** | (47,302) | (194,566) | (180,650) | (154,847) |
| **Profit/(Loss) for the year** | **1,021,288** | (367,647) | 568,689 | 545,704 | 407,125 |
| **Attributable to:** | | | | | |
| Owners of the parent | **1,009,356** | (370,674) | 563,393 | 544,365 | 404,135 |
| Non-controlling interests | **11,932** | 3,027 | 5,296 | 1,339 | 2,990 |
| | **1,021,288** | (367,647) | 568,689 | 545,704 | 407,125 |
| **ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS** | | | | | |
| **TOTAL ASSETS** | **10,077,107** | 9,599,689 | 11,055,264 | 8,218,577 | 7,609,013 |
| **TOTAL LIABILITIES** | **(3,746,642)** | (4,130,231) | (5,168,197) | (5,472,814) | (5,371,893) |
| **NON-CONTROLLING INTERESTS** | **(43,145)** | (30,350) | (31,306) | (19,610) | (16,271) |
| | **6,287,320** | 5,439,108 | 5,855,761 | 2,726,153 | 2,220,849 |