CHINA ZHENGTONG AUTO SERVICES HOLDINGS LIMITED
中國正通汽車服務控股有限公司

Stock Code 股份代號：1728

2017 ANNUAL REPORT 年報

A LEADING LUXURY
BRANDS DEALER
CONGLOMERATE

CONTENTS

COMPANY PROFILE

China ZhengTong Auto Services Holdings Limited

China ZhengTong Auto Services Holdings Limited (the "Company" or "ZhengTong" or "ZhengTong Auto", and together with its subsidiaries the "Group") is the leading 4S dealership group in China focusing on dealership of luxury and ultra-luxury branded automobiles such as Porsche, Mercedes-Benz, BMW, Audi, Jaguar and Land Rover, Volvo, Infiniti and Cadillac. The Group also operates dealership stores of middle market brands, such as FAW Volkswagen, Buick, Nissan, Toyota, Honda and Hyundai.

The Group has developed a forward-looking strategic network covering developed regions and fast growing provinces in China so as to lay down a solid foundation for rapid growth of the Group in the future. As at 31 December 2017, we operated 134 dealership outlets in 40 cities across 16 provinces and municipalities nationwide not only covering the developed automobile market of some of the affluent first-tier and capital cities, but also effectively expanding to second and third-tier cities and regions with rapid growth and low automobile penetration.

The Group has endeavored to provide our customers with the most superior automobile sales and after-sale services. The provision of comprehensive automobile solutions and the adoption of customer-oriented business model allow the Group to facilitate its long-term relationship with customers. To address growing demand in automobile market, the Group has also strengthened its after-sale services with an aim to deliver its customers high quality services in a rapid manner. The Group's supply chain business has been complementary to its automobile dealership and after-sale services business. Meanwhile, the Group has been exerting efforts in the development of its automobile financial services, financial leasing, insurance brokerage and other financial business, in order to complete the strategic transformation of the Group's business operation for achieving its goal of sustainable healthy growth.

FIVE YEARS' FINANCIAL SUMMARY

RESULTS

	2013	2014	2015	2016	**2017**
(RMB'000)					
Revenue	29,840,269	30,910,087	29,361,499	31,519,255	**35,474,325**
Profit before taxation	1,206,330	1,175,055	921,779	790,798	**1,753,791**
Income tax	(352,132)	(351,517)	(293,117)	(282,439)	**(542,329)**
Profit for the year	854,198	823,538	628,662	508,359	**1,211,462**
Attributable to:					
Equity shareholders of the company	837,390	803,792	618,530	493,282	**1,190,795**
Non-controlling interests	16,808	19,746	10,132	15,077	**20,667**
	854,198	823,538	628,662	508,359	**1,211,462**

ASSETS AND LIABILITIES

	2013	2014	2015	2016	**2017**
(RMB'000)					
Total assets	19,115,791	22,182,690	23,679,650	27,728,910	**36,939,130**
Total liabilities	(11,477,704)	(13,885,582)	(14,990,312)	(18,786,749)	**(26,585,498)**
	7,638,087	8,297,108	8,689,338	8,942,161	**10,353,632**
Equity attributable to equity shareholders of the company	7,543,262	8,172,075	8,588,632	8,858,331	**10,200,811**
Non-controlling interests	94,825	125,033	100,706	83,830	**152,821**
	7,638,087	8,297,108	8,689,338	8,942,161	**10,353,632**

PERSEVERANCE AND DETERMINATION

Being determined to become the world's top automobile integrated services supplier

SALES

SPARE PARTS


SERVICE


SURVEY

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

In 2017, China recorded a GDP growth of 6.9% as compared to the previous year. The economy of China maintained a steady growth in general. Attributable to the stabilized real economy and recovery of consumption power and sentiment of consumers, total retail sales of consumer goods in China saw an improvement of 10.2% over the previous year.

According to the China Association of Automobile Manufacturers, the sales of passenger vehicles hit a record high in 2017 to 24,719,300 units, representing an increase of 1.40% as compared to the previous year, representing a lower growth rate of 13.53 percentage points as compared to last year. While the overall market of the passenger automobiles saw a steady growth year-on-year, the market of the luxury-branded automobiles experienced growths to a different extent, the competition was also intensified. In respect of the major brands under the Group's dealership, the sales volume of BMW and MINI brands in China was 594,388 units, representing an increase of 15.1% as compared to the corresponding year; the sales volume of Audi brand in China was 597,866 units, representing an increase of 1.1% as compared to the corresponding year; the sales volume of Benz brand in China was 587,868 units, representing an increase of 25.9% as compared to the corresponding year; the sales volume of Jaguar and Land Rover brands in China was 146,399 units, representing an increase of 23.0% as compared to the corresponding year; the sales volume of Volvo brand in China was 114,410 units, representing an increase of 25.8% as compared to the corresponding year; the sales volume of Porsche brand in China was 71,508 units, representing an increase of 9.6% as compared to the corresponding year.

China ZhengTong Auto Services Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") act as a major dealer of various luxury automobile brands in China. Through long-term cooperation with major luxury automobile manufacturers, the Group has promptly grasped the opportunities arising from the latest industry trend and changes in automobile buyers' preference to further improve its existing services and explore innovative services. Leveraging its diversified brand portfolio, reasonable sales network and comprehensive sales and service platform, the Group is able to enhance the service experience of its customers.

CHAIRMAN'S STATEMENT

While strengthening the traditional after-sale services for automobiles such as repair, maintenance and sale of accessories, the Group made full use of its unique characteristics to develop new businesses. In particular, the introduction of financial services business had made a significant progress that financial cooperation with manufacturers was consolidated to provide customers with additional services. The Group offered customers more personalized and competitive auto finance solutions, which were significantly supported by the growth of the sales of new and pre-owned automobiles, financial leasing and customer relationship development.

In 2017, the Group was committed to the establishment of a comprehensive auto finance technology platform in a bid to provide customers with one-stop auto finance and related services. Increasing demand of upgrade of consumption and market penetration of auto finance in China will create a new consumption model for the domestic automobile market. The Group will also expand its business coverage to the Fintech aspect of online automobile finance while further consolidating its differentiated strengths in offline automobile finance. These initiatives will make online and offline purchase of automobile more convenient and facilitate the development of intelligent automobile finance and diversification of automobile consumption, enhancing customer experience throughout the entire life cycle of automobiles.

According to the Traffic Management Bureau of the Ministry of Public Security, as of the end of 2017, the number of vehicles registered in China was 310 million units (national car ownership reached 217 million), and the number of licensed drivers was over 342 million. The number of registered passenger vehicles amounted to 185 million units, including 170 million passenger vehicles registered in the name of individuals (private cars), accounting for 92% of registered passenger vehicles. Judging from the increasing number of registered vehicles and drivers, vehicles have become an integral part of daily lives, creating huge potential for the development of automobile-related markets. In addition, as the auto market in China is becoming more mature, the sales of automobiles face tremendous opportunities with increasingly severe competition. Demand for more professional and personalized services and diversified after-sales services and value-added services for vehicles from consumers continues to increase. Commercial opportunities for vehicles that cater daily needs of users are arising.

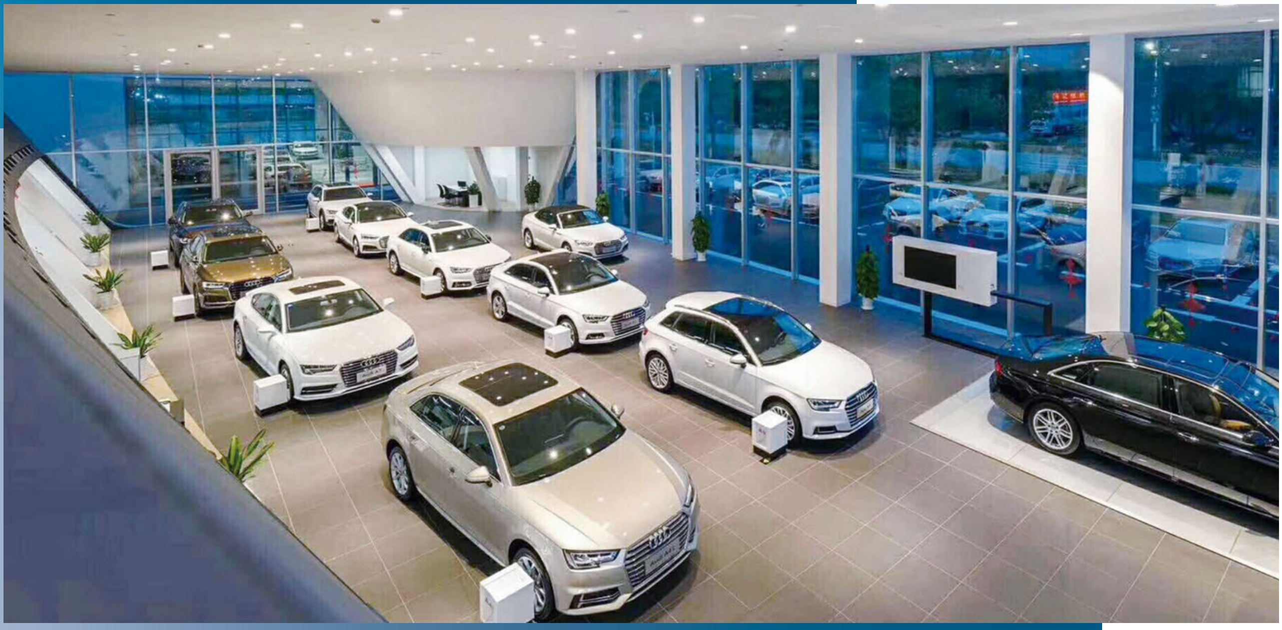
In the future, based on the existing business network, the Group will further expand its business presence and improve the profitability of new outlets. In order to enrich the personalized automobile-related services for customers, the Group will continue to invest in innovation. The Group will also strive to enhance internal management efficiency and service platform and explore customer base and consolidate its competitive strengths. The Group is also committed to providing quality, convenient and comprehensive automobile-related services in order to create greater values for the shareholders and employees of the Group as well as the society.

The Group's remarkable performance in 2017 is attributable to the dedication of employees as well as the trust and support from its business partners and shareholders. On behalf of the Board, I would like to express my sincere gratitude to our shareholders, business partners and customers for their long-term support and trust, as well as our loyal staff for their hard work and valuable contributions to the Group over the year of 2017.

Wang Muqing
Chairman of the Board
21 March 2018

SINCERE SERVICES

Establishing a top class brand by providing every customer with sincere services

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BUSINESS REVIEW

In 2017, the Group was committed to developing luxury and ultra-luxury auto sales and traditional after-sales services. At the same time, it actively explored new business models, formulated industry management standards and management output, expanded its network coverage and enhanced its competitiveness. By leveraging on its distinctive advantages in finance, financial leasing, insurance agency, informationization and supply chain, the Group has actively expanded its automotive aftermarket business based on its market-oriented and customer-centric strategy. For the year ended 31 December 2017, the Group recorded revenue and gross profit of approximately RMB35,474 million and RMB3,768 million, respectively, representing increases of approximately 12.5% and 37.7% as compared to the corresponding year, respectively. Profit attributable to equity shareholders of the Company was approximately RMB1,191 million and the basic earnings per share was approximately RMB53.8 cents, representing increases of approximately 141.6% and 141.3% as compared to the corresponding year, respectively.

I. Sales of new automobiles business

In 2017, the sales of passenger vehicles in the PRC recorded a slight growth in general. Nonetheless, benefiting from the steady growth of household disposable income and upgrade of consumption in the PRC, more consumers shifted to the high-end market. In addition, luxury brands of automobiles expanded the production of various models in the PRC, and launched various entry-level models with more energetic design in order to satisfy the needs of young consumers. The product line was also enriched, and sales of different automobile models including BMW 1 and 2 Series produced in China, Audi A3 and Q3 and Mercedes-Benz GLA recorded rapid growth in 2017. During the year, the Group focused on unlocking its same-store sales and consolidating its existing regional competitive strengths. The Group recorded the sales volume of new automobiles of 109,016 units, representing a year-on-year increase of approximately 12.5%, including 80,012 units luxury and ultra-luxury branded automobiles with a year-on-year increase of approximately 17.7%.

MANAGEMENT DISCUSSION AND ANALYSIS

Benefiting from replacement need of major luxury branded automobile products under the Group's dealership, together with the broadened product portfolio and strengthened competitiveness, the average selling prices continued a stable upward trend. Among which, the brand new BMW 5 Series was launched into the market and the profile of BMW 7 Series was enhanced in 2017; the Mercedes-Benz continued to maintain strong sales performance. In particular, the E-Class long wheelbase vehicles (長軸距E級車) completed a full year of sales in 2017, and its annual domestic sales recorded a year-on-year increase of 108%; Volvo's brand new XC60 was launched into the market, while its XC90 continued to expand their market shares; Jaguar and Land Rover put more efforts in the promotion of localization by particularly offering various models with new engines series (煥「芯」車型), while the new Jaguar XFL and an all-terrain controlled, medium-sized luxury SUV, Land Rover Discovery Sport (路虎發現神行) continued to be strong competitors in their respective market segments. Strengthened product competitiveness of these brands laid a solid foundation for the significant increase in the gross profit of the Group. In 2017, the Group recorded an overall gross profit margin for new auto sales of approximately 4.9%, representing a significant increase of approximately 2 percentage points as compared to the corresponding year, mainly attributable to the following major measures:

Justified and stable network layout

The Group strategically expands its luxury car dealership network with a balanced and rational layout. During the year, 16 authorized dealership stores were opened. At the same time, it actively explored an innovative expansion model Strategic Operation Management Cooperation Scheme ("SOMCS"), in order to set up a high quality of industry management standard. As a result, the brand mix of the Group has become more steady and solid, facilitating the growth of the Group.

Highly efficient operation and management system

The Group is dedicated to sustainable enhancement of its operation quality. Based on data management and flat management (扁平化管理), the Group was able to address operational problems promptly. In addition, the Group also refined its capital sharing and financial sharing, so as to strengthen the efficiency and accuracy of its internal review.

Upgraded Information systems

Through application of Internet and upgrade of information systems, the Group has achieved the sharing of customer information and vehicle resources, as well as data visualization from vehicle purchase to sales, which can enrich customers' experiences and enhance internal efficiency. An efficient utilization of information resources has been achieved with synergy effect and accelerated turnover of new automobiles.

Expansion of sales channels

The Group reorganized its internal structure and established the group customers department (集團大客戶部) in order to fully integrate and share the customer base, brands and resources of the Group and effectively expand the marketing channel for major customers. Adhering to the principle of "going global and brining in", various brands of the Group entered into major agreements with a number of enterprises and organizations, including procurement of government vehicles, automobile purchase of civil servants, industry associations, automobile purchase of employees of different enterprises and organisations, automobile hiring and leasing companies. The expansion in business channels has facilitated the growth of the Group.

Control of gross profit of new automobiles

By collecting and analysing data through information systems, the Group is able to monitor the status of its procurement, sales and inventory on a real time basis and optimize its inventory structure. By inputting relevant business policies into its systems, the unit cost of the vehicle can be visualized and recommendations on sale strategies will be automatically generated according to the prevailing market situation. Based on the strategies in respect of sales, finance, insurance, automotive supplies, warranty extension and value-added services as well as an electronic sales order processing system, an integrated gross profit for each individual vehicle will be automatically generated. By making reference with the gross profit and earning of each individual vehicle, the Group will be well-positioned to grasp every perspective business opportunity to maximizing its gross margins.

II. After-sales services business

In 2017, revenue and gross profit of after-sales services of the Group amounted to approximately RMB3,899 million and approximately RMB1,839 million, representing an increase of 13.9% and 13.4% as compared to the corresponding year, respectively. The gross profit margin was approximately 47.2%. The steady growth of after-sales services business in 2017 was mainly attributable to the rapid growth of car ownership. In 2017, the Group served 1,128,534 units of automobiles in aggregate, representing an increase of approximately 14.3% as compared to the corresponding year. The major initiatives of the Group were as follows:

Based on the car ownership cycle of customers and its business process, the Group refined its customer management information system in order to fulfill the needs of customers. The system supports numerous functions in various business scenario, including early automatic reminder and push function, and allows communication through SMS, WeChat and APP.

In terms of marketing, leveraging on its own advantages, the Group promoted its products based on the characteristics of brands and regions. The Group identified the needs of different customers through big data analysis and providing visualized images to its customers. The Group enhanced the development of customized solutions in maintenance, repairing, warranty renewal and extension, in order to further increase our product penetration rate.

In terms of cost control, the Group further optimized its purchasing channels and reduced its cost effectively through sharing parts and strict inventory control.

In terms of customers' experience, the Group provided instant appointment and express bodywork for customers. Our loaner vehicle services included loaner vehicle insurance and loaner vehicle subsidies for customers. Targeting to provide perfect customer services, the Group has continuously enhanced its efficiency and customer satisfaction level through improving customers' experience. Therefore, the revenue and gross profit of after-sales services increased.

III. Used Car Operating Model

During the year, the Group's used car operating model was gradually improved and formulated a correlated online exhibition and auction platform under Zhengtong Mall and Zhengtong Auction (正通拍). Among them, Zhengtong Auction was officially launched in May 2017 and was recognized by commercial stores in multi-dimensions. Regarding to the offline network layout, Zhengtong formed a co-built retail network under the existing authorized dealers and used car retail centers.

IV. Auto finance technology segment

The auto consumption finance market of China has entered into a rapid growth period. In 2016, auto retail market scale of China exceeded RMB3,800 billion with the average permeability rate of automobile finance of 30%. Among which, the permeability rate of luxury automobiles exceeded 40%. The transaction scale of auto finance market reached RMB1,300 billion and is expected to increase to RMB3,500 billion in 3 years with a compound growth rate exceeding 20%. The data indicates consumers of luxury automobile tend to use auto financial instruments during the automobile transaction process. Driven by finance technology, a new consumption pattern will present in the PRC automobile market in the future. New consumption pattern, including convenient online and offline automobile purchase, intelligent auto finance and diversification of automobile consumption, will popularize.

In 2017, the Group strived to develop a completely closed-loop auto finance technology platform, aiming to provide customers with one-stop auto finance and related services and offer automobile-related financial products covering new automobiles, pre-owned automobiles and automobile mortgage. The platform involved Shanghai Dongzheng Automotive Finance Co., Ltd. ("Dongzheng AFC"), which held an auto financial license granted by the China Banking Regulatory Commission (the "CBRC"), Shenzhen Zhengyuan Automobile Technology Co., Ltd. (深圳正源汽車科技有限公司) ("Zhengyuan Technology"), which was specialized in financial technology and big-data risk control, Xiamen International Financial Asset Exchange Co., Limited ("Xiamen International Financial Asset Exchange"), which provided an online asset transaction platform, Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. ("Dingze Leasing") and Dingze Insurance Agency Co., Ltd. ("Dingze Insurance Agency"), which provided financial leasing, insurance brokerage and other related services. With a focus on the internet auto finance business, the Group developed online and offline channels for customer acquisition. By improving big-data risk control technology and integrating resources of ABS platform, a completely closed-loop ecosystem of auto consumer finance with interconversion of assets and capital has been developed.

Fostering differentiated advantages of offline auto finance

Dongzheng AFC obtained the financial business permit from the CBRC on 6 March 2015 and commenced its operation on 11 March. Dongzheng AFC obtained the approval for capital increase from the CBRC on 1 June 2017. The Group completed the capital injection into Dongzheng AFC during the reporting period. Currently, Dongzheng AFC has a registered capital of RMB1.6 billion and a core capital of over RMB2.0 billion. With the rapid growth of the auto finance market in China, Dongzheng AFC further improved its capital adequacy ratio after the capital increase, which facilitated its future business expansion and profit improvement. In 2017, by further leveraging on the Group's unique competitive strengths in product design, risk control and marketing channels, Dongzheng AFC reported a growth in high quality loan assets across the country.

By further identifying the needs of customers inside and outside the Group, Dongzheng AFC diversified its products offerings and modified the product design, thereby catering to the needs of end customers. Through the cooperation for auto finance with major OEMs and long-term strategic cooperation with dealership groups, Dongzheng AFC continuously broadened the channels for its retail loan business. Furthermore, Dongzheng AFC also developed the outreach business to further explore potential financial needs of automotive logistics commercial vehicles and pre-owned automobiles.

In respect of the establishment of financial service network, benefiting from 134 4S/5S stores and other dealership outlets in 40 cities across 16 provinces and municipalities nationwide, Dongzheng AFC established 400 financial service outlets in major cities with over 1 million population in the PRC, which expanded the existing offline customer acquisition channels.

In respect of risk control, by combining the Credit Reference Center of the Peoples' Bank of China with the big-data financial technology risk control system of Zhengyuan Technology, the Group leveraged its experience in traditional bank credit and internet financial technology to develop a three-in-one risk management structure involving customers, merchants and transactions.

In 2017, interest and service income from the financial services business amounted to approximately RMB522 million, representing a year-on-year increase of approximately RMB124 million. Reportable profit of such segment amounted to approximately RMB378 million, representing a year-on-year increase of 71.0%. Reportable assets amounted to RMB7,236 million, representing a year-on-year increase of 64.0%. The financial services business recorded rapid growth in asset size while ensuring the high quality of assets. In 2017, the non-performing loans ratio of Dongzheng AFC was 0.27%, which was lower than the industry average.

Exploring the Fintech area for online auto finance

Zhengyuan Technology, owned as to 80% by the Group and established in December 2017, explored the Fintech area for online auto finance and was committed to creating a comprehensive financial technology loan support platform. Based on the analysis on actual business scenarios, variations and lines were obtained from effective risk assessment graphs, and a precise risk control model was developed by using big-data, in order to conduct risk assessment and classification on end customers, which will significantly enhance quality and speed of loan approval process, allowing consumers to receive the approval result as soon as possible. The use of financial technology optimized customers' experience in auto transaction and greatly expanded the customer coverage of auto finance.

The effective Fintech risk control technology of Zhengyuan Technology further ensured the quality of loan assets. In the closed-loop system of the Group, high quality loan assets were crucial to rapid transformation into capital, while Xiamen International Financial Asset Exchange also played a significant role as a financial asset transaction platform. Dongzheng AFC and Zhengyuan Technology were able to bundle and sell their high quality loan assets. Through the online transaction platform, the issue costs of ABS were reduced and the efficiency of fundraising was improved.

In respect of the financial leasing business, the Group continued to optimize its product design and diversify its financing channels in 2017. Dingze Leasing engaged in the businesses for large corporate customers and auto-related consumption, so to achieve synergistic benefits with Dongzheng AFC. A series of leading products with higher flexibility were launched, boosting the general competitiveness of the entire internet auto financial technology segment.

Improving the insurance brokerage businesses

For the insurance brokerage business, the Group further increased its penetration rate for insurance renewal in 2017 while sustaining the penetration rate for new insurance policy. Under the reform of auto insurance rate in the PRC, the Group is improving the online platform of the insurance brokerage business. With the cooperation between Dongzheng AFC and Zhengyuan Technology, the Group offered insurance-related products bundled with auto financial products. Through providing insurance, extension and instalment financial products for its customers, the Group improved the service quality and efficiency of the insurance brokerage business, and extended the service cycles of customers in the Group.

V. Supply chain business

The Group's supply chain business segment mainly consists of automobile logistics business and trading of auto maintenance supplies. The automobile logistics business enjoys a cutting-edge and comprehensive proprietary logistics management system with national "5A" logistic enterprise qualifications, and its scope of business covers the full supply chain for automobile logistics from procurement logistics, production logistics, distribution processing, distribution logistics and vehicle logistics to logistics-related consulting services. The trading of auto maintenance supplies mainly includes trading of lubricant oil. Our automobile logistics business provides services primarily to mainstream automobile groups in China through a service network that covers 25 provinces and municipalities in China. As an automobile logistics service platform with leading technologies in China, the segment has enormous potential for future growth, aiming to develop into one of the largest independent third-party automobile logistics service providers in China owned by non-OEMs.

In order to further support the rapid development of the supply chain business, under the strong support from the government of Wuhan City, the Company proposed to establish an automobile supply chain platform with coverage in China's major cities. On 29 June 2017, the Company and Wuhan Economic and Technological Development Zone officially signed a cooperation agreement for Shengze Jietong logistics base project.

The logistics base is geographically advantages, with construction area of total approximately 350,000 square meters. The main construction of the project would include quay berths, multi-storey automobiles warehouse integrated with intelligent logistics platform, spare parts warehouse as well as office and living supporting facilities area. The logistic base will be constructed by leveraging on the current OEMs and major production base, it is strategically positioned as multimodal transport system with truck, railway and vessel, so called "three vertical and four horizontal", and riding on the existing mutual transportation mode between truck transportation and short-distance regional transfer, in order to build the largest regional logistics hub in Central China, to be one of the largest express logistics channel network in China. The project is scheduled to be completed in 2019, and will be fully operated in 2020, it is estimated that the handling capacity can reach 800,000 vehicles per annum.

VI. Network development

Balanced and reasonable deployment of the nationwide dealership network for luxury brands and strategic core brands complemented by ongoing optimization, integrating industry resources through innovative business models such as mergers and acquisitions and strategic business cooperation, to enhance overall sustainable profitability

As a leading dealership group of luxury brands in China, the Group focuses on dealership of luxury and ultra-luxury branded automobiles, such as Porsche, Benz, BMW, Audi, Jaguar and Land Rover, Volvo, Infiniti and Cadillac. The Group also operates dealership stores of middle market brands, such as FAW-Volkswagen, Buick, Nissan, Toyota, Honda and Hyundai.

As of 31 December 2017, the Group operated 134 dealership stores in 40 cities across 16 provinces and municipalities in China.

In 2017, the Group has 16 newly operating dealership stores for luxury automobiles through establishment and acquisition, including:

Brand	Location
Porsche	Guangzhou
Benz	Zhuhai, Yiwu, Yongkang, Suzhou
BMW	Shanghai, Chenzhou, Yichang, Chengdu (used car center)
Audi	Baoding, Foshan, Qingyuan
Jaguar and Land Rover	Shenzhen
Hongqi	Shanghai, Wuhan
Faw-Volkswagen	Qingyuan

In addition, referring to the announcement dated 23 December, 2017, the Group added a total of 10 dealership stores for luxury automobiles through the innovative expansion model Strategic Operation Management Cooperation Scheme ("SOMCS") for ten years since 1 January 2018. The cooperation covers Shenzhen, Guangzhou, Foshan and Jieyang with a total of 6 BMW 4S stores, 1 MINI 4S store, 2 BMW showrooms and one repair center. The Group has set up separate companies ("Operating Entities") to obtain dealership authorizations and conduct the relevant 4S business in the place of incorporation of the above-mentioned dealership stores.

In January 2018, Mr. Li Wangxing and Mr. Lin Yihao had officially entrusted the Group with 10 dealership stores in Shenzhen, Guangzhou, Foshan and Jieyang. The management team of the Group's operations and finance has already settled and all businesses have been conducted smoothly via the Operating Entities.

The Group believes that the 10-year SOMCS will further enhance the Group's coverage of the automobile operation network of the BMW brand in China and integrate the Company's advantages in automobile finance and services platform to enhance the profitability of the BMW brand.

Since the Operating entities are controlled by the Group, their results will be consolidated into the Group and they will be entitled to the future earnings of the Operating Entities. It is expected that profits will be distributed to the Group on a regular basis according to operating conditions. At the completion of the ten-year cooperation period, the Operating Entities will be transferred to the counterparty at zero consideration and at the time of transfer, the net equity value of the Operating entities is expected to be close to zero. Based on the above, the Directors believe that the SOMCS and transfer at zero consideration are in the interest of the Company.

In the future, the Group will continue to explore strategic business cooperation with its peers which will become one of the core ways for the Company's network development. The Company's business scale would expand rapidly at low cost while the operating quality and profitability of those stores of partners' can be improved by cooperation, thus initiating an industrial standard for future management outsourcing, as well as optimizing our capital deployment and capital structure, thereby effectively increasing the return on shareholders' funds.

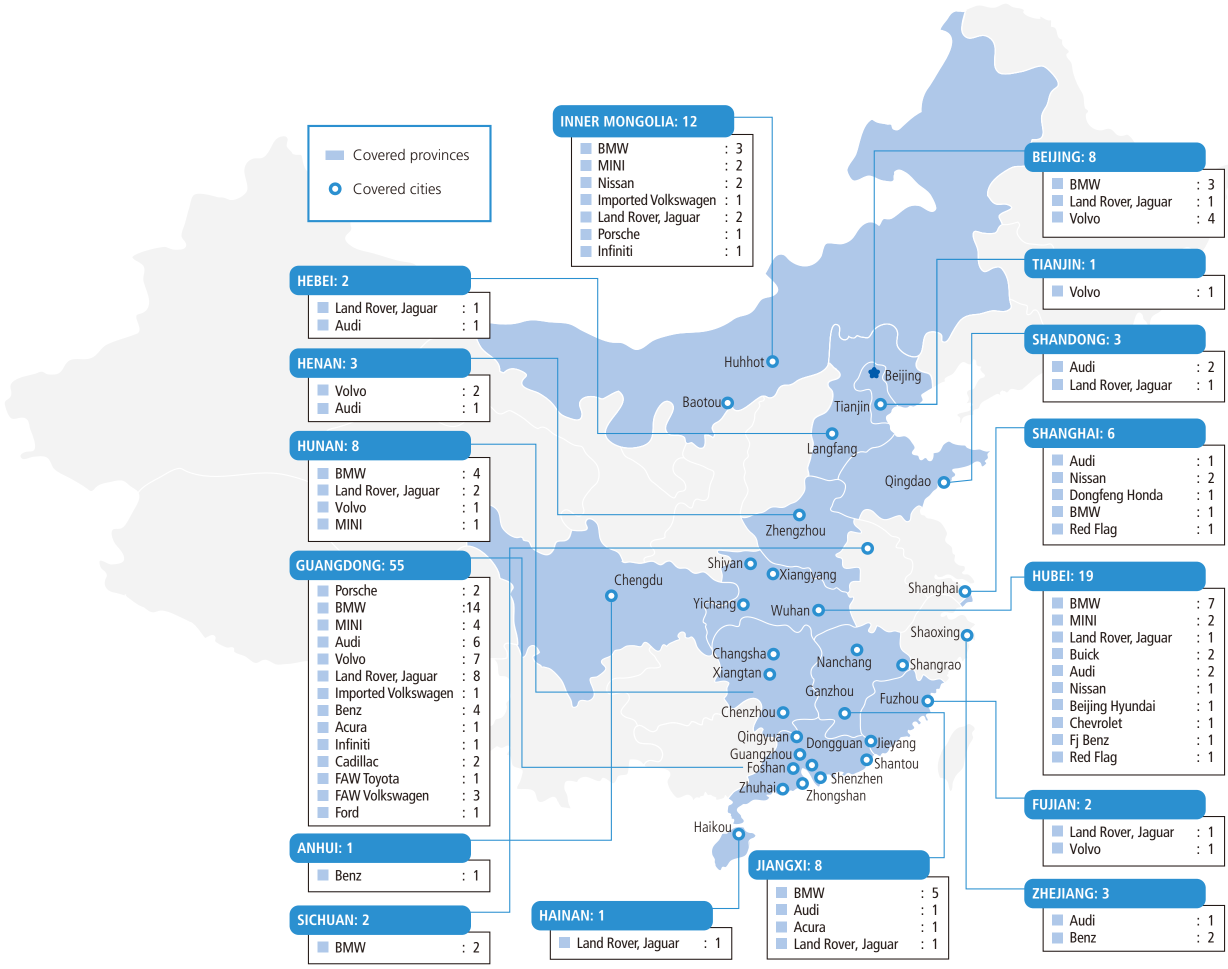
As of the date of this report, the Group has authorization for 16 dealership stores for core luxury brands, including Porsche, Mercedes-Benz, Audi, BMW, Jaguar and Land Rover and Volvo, under construction or to be constructed. The newly authorized projects will further enhance the Group's competitive advantages in traditional provinces and cities such as Beijing, Shanghai, Guangdong, Hubei and Hunan, and will open up new development areas with high potentials such as Chongqing, Yunnan and Jiangsu. The scale and channels of the Group will be further expanded.

The following table sets forth the details of dealership stores of the Group:

	Dealership stores in operation	Authorized dealership stores to be opened	Total
5S/4S store for luxury and ultra-luxury brands	96	16	112
4S store for mid – to high-end brands	14	0	14
Urban showroom for luxury brands	16	0	16
Authorized repair service centre for luxury brands	7	0	7
Pre-owned automobile centre	1	0	1
Total	134	16	150

As a leading strategic partner of manufacturers of luxury and ultra-luxury brands in the PRC, the Group will continue its network expansion strategies with its focus on a balanced layout of dealership stores of core luxury brands and a refined brand structure in its pursuit of prudent development. Meanwhile, the Group will seek appropriate merger opportunities and integrate industry resources through innovation strategic cooperation to rapidly enlarge its business scale and enhance its profitability.

BALANCED NATIONWIDE DEALERSHIP NETWORK



FINANCIAL REVIEW

Revenue

For the year ended 31 December 2017, the revenue of the Group increased by approximately 12.5% to approximately RMB35,474 million from approximately RMB31,519 million in 2016, of which the revenue of automobile financial services increased by approximately 31.2% to approximately RMB522 million from approximately RMB398 million in 2016. The growth in revenue was mainly benefited from a steady growth in sales of new automobiles and after-sales services as well as a rapid increase in automobile financing revenue.

The Group generated revenue from sales of new automobiles, after-sales services and other businesses. In 2017, the revenue from sales of new automobiles increased by approximately 12.0% to approximately RMB30,289 million from approximately RMB27,042 million in 2016. Revenue from luxury and ultra-luxury branded automobiles increased by approximately 13.8% to approximately RMB26,774 million in 2017 from approximately RMB23,522 million in 2016, representing approximately 88.4% of sales revenue from new automobiles. Revenue from after-sales services increased by approximately 13.9% to approximately RMB3,899 million from approximately RMB3,422 million in 2016. In 2017, revenue from sales of new automobiles and revenue from after-sales services accounted for 85.4% and 11.0% of the total revenue, respectively.

Cost of sales

For the year ended 31 December 2017, the cost of sales of the Group increased by approximately 10.2% to approximately RMB31,706 million from approximately RMB28,783 million in 2016, which was 2.3 percentage points lower than the increase in revenue. The cost of sales for new automobiles increased by approximately 9.7% to approximately RMB28,815 million in 2017 from approximately RMB26,260 million in 2016. The increase was 2.3 percentage points lower than the increase in the revenue from sales of new automobiles. The cost of sales for after-sales services increased by approximately 14.3% to approximately RMB2,059 million from approximately RMB1,801 million in 2016.

Gross profit and gross profit margin

For the year ended 31 December 2017, the gross profit of the Group substantially increased by approximately 37.7% to approximately RMB3,768 million from approximately RMB2,736 million in 2016 while the gross profit margin improved by approximately 1.9 percentage points to approximately 10.6% from approximately 8.7% in 2016.

The Group recorded gross profit mainly from after-sales services, sales of new automobiles and automobile financial services. In 2017, gross profit from sales of new automobiles amounted to approximately RMB1,474 million, representing an increase of approximately 88.5% as compared to the corresponding year. Gross profit margin from sales of new automobiles amounted to 4.9%, representing a significant increase as compared to that of 2016. Gross profit from sales of luxury and ultra-luxury branded automobiles amounted to approximately RMB1,398 million, representing an increase of approximately 93.4% as compared to the corresponding year. Gross profit margin from sales of luxury and ultra-luxury branded automobiles improved significantly to 5.2% from 3.1% in 2016, which was mainly due to new product life cycles of certain brands and effective margin control through implementing information system. In 2017, gross profit from after-sales services of the Group amounted to approximately RMB1,839 million, representing an increase of approximately 13.4% as compared to the corresponding year. Gross profit margin from after-sales services decreased slightly by approximately 0.2 percentage point to approximately 47.2% from approximately 47.4% in 2016. Dongzheng AFC recorded gross profit of approximately RMB410 million in 2017 and its gross profit margin amounted to approximately 65.7%.

Selling and distribution expenses

For the year ended 31 December 2017, the selling and distribution expenses of the Group increased by approximately 8.4% to approximately RMB1,028 million from approximately RMB948 million in 2016, such increase is relatively lower than the increase in revenue. The increase was mainly due to an increase in leasing charges, staff costs and depreciation costs as a result of an increase in the number of dealership stores.

Administrative expenses

For the year ended 31 December 2017, the administrative expenses of the Group decreased by approximately 31.6% to approximately RMB733 million from approximately RMB1,072 million in 2016, which was mainly due to an exchange gain incurred from the appreciation of Renminbi during the period under review as compared to the beginning of the year.

Profit from operations

For the year ended 31 December 2017, the profit from operations of the Group significantly increased by approximately 94.4% to approximately RMB2,426 million from approximately RMB1,248 million in 2016. The operating profit margin increased by approximately 2.8 percentage points to approximately 6.8% from approximately 4.0% in 2016.

Income tax expenses

For the year ended 31 December 2017, the income tax expenses of the Group amounted to approximately RMB542 million. The effective tax rate was approximately 30.9%.

Profit during the period

For the year ended 31 December 2017, the profit during the period of the Group significantly increased by approximately 138.4% to approximately RMB1,211 million from approximately RMB508 million in 2016. During the period, the profit margin increased by approximately 1.8 percentage points to approximately 3.4% from approximately 1.6% in 2016.

Contingent liabilities

As at 31 December 2017, the Group had no material contingent liabilities or guarantees save as those assets pledged to banks.

Current assets and current liabilities

As at 31 December 2017, the current assets of the Group increased by approximately RMB7,962 million to approximately RMB22,555 million from approximately RMB14,593 million as at 31 December 2016, which was mainly due to an increase in the cash and cash equivalents, pledged bank deposits and balances with the central bank, receivables from financial services due to the growth of business and increase in inventories arising from strategic purchase based on market demand.

As at 31 December 2017, the current liabilities of the Group increased by approximately RMB5,561 million to approximately RMB20,939 million from approximately RMB15,378 million as at 31 December 2016, which was mainly due to an expansion of the automobile financing business of the Group.

Cash flow

As at 31 December 2017, the cash and cash equivalents of the Group increased by approximately RMB1,091 million to approximately RMB2,716 million from approximately RMB1,625 million as at 31 December 2016. The transactions and monetary assets of the Group are denominated in Renminbi. The funds of the Group are mainly used for the purchase of new automobiles, spare parts, automobile accessories and automobile lubricant oil, the settlement of loans, borrowings and other indebtedness, the appropriation to working capital and normal recurring expenses, the establishment of new dealership stores or the acquisition of dealership stores or other businesses. The Group finances its liquidity requirement with a combination of cash flow generated from operating activities, bank loans and other funds. For the year ended 31 December 2017, the Group had net cash outflow generated from operating activities of approximately RMB866 million (for the year ended 31 December 2016, the Group had net cash inflow generated from operating activities of approximately RMB647 million).

Capital expenditure and investment

For the year ended 31 December 2017, the capital expenditure and investment of the Group amounted to approximately RMB1,284 million (2016: approximately RMB1,049 million), which was mainly applied to the renovation, upgrades of equipment and purchase of automobiles for test drive.

Inventory

Inventories of the Group primarily include automobiles and automobile spare parts. Generally, each dealership store of the Group independently manages its quotas and orders for new automobiles, automobile spare parts and other inventories. In addition, the Group manages inventories with its information technology systems. It also monitors the inventories within its whole dealership network and coordinates all dealership stores to balance their automobile inventory levels. As of 31 December 2017, the inventories of the Group amounted to approximately RMB4,084 million, representing an increase of approximately RMB1,065 million as compared to RMB3,019 million as of 31 December 2016, mainly attributable to the inventory increase of new automobiles by the Group based on the market demand. The average inventory turnover days of the Group for 2017 increased by 1.6 days to 41.1 days from 39.5 days for 2016. The following table sets forth its average inventory turnover days for the years indicated:

	For the year ended 31 December	
	2017	2016
Average inventory turnover days	**41.1**	39.5

Risks of Foreign Exchange

The Group conducts its business primarily in Renminbi. Certain bank deposits, bank loans and credit enhanced bonds were denominated in foreign currencies. However, the Group's operating cash flow and liquidity have not been subject to significant influence from fluctuations in exchange rate. The Group hedges its bank loans in US dollars and HK dollars by adopting cross currency swap. As at 31 December 2017, a financial liability of approximately RMB134 million at fair value (as at 31 December 2016: a financial asset of RMB143 million) was recognised by the Group in respect of the cross currency swap.

Liquidity and Capital Resources

Working capital and capital expenditures of the Group were primarily funded through cash generated from internal operation and borrowings provided by principal banks. As at 31 December 2017, cash and bank deposits of the Group were approximately RMB7,239 million (including pledged bank deposits and balances with the central bank of approximately RMB3,686 million, and time deposits of approximately RMB837 million and cash and cash equivalents of RMB2,716 million), representing an increase of approximately RMB3,782 million as compared to approximately RMB3,457 million as at 31 December 2016. As at 31 December 2017, loans and borrowings, obligations under finance leases and bonds payable of the Group amounted to approximately RMB17,824 million (as at 31 December 2016: approximately RMB11,286 million). As at 31 December 2017, save as loans and borrowings, obligations under finance leases and bonds payable of approximately RMB11,231 million that bore interest at fixed rates, other loans and borrowings bore interest at floating rates. As at 31 December 2017, net gearing ratio of the Group was approximately 102.2% (as at 31 December 2016: approximately 87.5%). Net gearing ratio was calculated as loans and borrowings, obligations under finance leases and bonds payable less cash and bank deposits divided by owner's equity. The increase in the ratio was mainly attributable to the growth in the scale of the auto finance business of the Group.

Pledged assets of the Group

The Group has pledged its group assets as the security for loans and borrowings as well as bank financing which would be used as working capital for daily operations. As at 31 December 2017, the pledged assets of the Group amounted to approximately RMB5,926 million (as at 31 December 2016: approximately RMB3,748 million).

Material acquisition and disposal of subsidiaries and associates

On 31 March 2017, the Group acquired Yiwu Xinhui Auto Trading Company Limited and Yongkang Guobang Auto Trading Company Limited as subsidiaries, with an increase of 2 Benz 4S stores, as a result, the Group's Benz dealership business has successfully entered the strategic market in East China. Save as disclosed above, for the year ended 31 December 2017, there was no material acquisition or disposal of subsidiaries and associates by the Group.

Investments held in foreign currency and hedging

For the year ended 31 December 2017, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group did not encounter any material difficulties or material impacts in respect of its working capital or liquidity as a result of the movement in exchange rate.

Employees and remuneration policies

As at 31 December 2017, the Group had 10,342 employees in China (as at 31 December 2016: 9,120 employees). For the year ended 31 December 2017, the total labour cost of the Group amounted to approximately RMB810 million (for the year ended 31 December 2016: RMB713 million). The Group offers competitive remuneration packages and welfare benefits, including pensions, work-related compensation benefits, maternity insurance, medical and unemployment plans. The Group also provides a good working environment and diversified training programs to its employees. The Group has adopted share option schemes and a restricted share award scheme for granting shares to eligible employees as incentives or rewards for their contribution to the Group.

FUTURE OUTLOOK AND STRATEGIES

China's automobile market becomes increasingly mature. Due to the steady growth of household disposable income, sales of automobiles and consumption of relevant services, automobile consumption will escalate gradually. Meanwhile, there will be higher requirements for product and service quality. Due to the increasing consumption of luxury automobiles, customers will require more specialized services at various stages of consumption relating to automobiles, and will expect to enjoy one-stop integrated services which are of higher quality and convenience. The Group will take the advantage of its diversified portfolio of luxury brands, mature nationwide networks as well as customized and differentiated auto finance technology platform so as to create excellent customer experience. The Group will also fully exercise its advantage in integrated platform and independent business to cater for customers' changing consumption habits. Efforts will also be made to enrich its services and products and expand its service channels to fully capture opportunities. In addition, the Group will develop traditional sales networks on a more selective basis and continue to optimize internal management and operation efficiency to create greater value to its shareholders, employees and the community.

EVENTS AFTER THE REPORTING PERIOD

(1) Facility Agreement

On 16 January 2018, the Company (as borrower) and two of its Hong Kong incorporated subsidiaries (as guarantors) entered into a facility agreement (the "Facility Agreement") with (among other parties) nineteen financial institutions (as lenders) for a syndicated term loan facility for an initial aggregate amount of US$380 million (with a green shoe option of an amount up to US$600 million (inclusive of the said initial amount)). The final repayment date of the loan facility shall be the date falling 36 months after the first utilization date. The purpose of the loan facility is primarily to improve the structure of indebtedness and for the funding requirements of the Group, including Wuhan port logistics hub and other comprehensive projects. Upon completion, the Group further optimizes its debt structure and effectively reduce its finance costs. For further details of the Facility Agreement, please refer to the announcement of the Company dated 23 January 2018.

(2) Placing of New Shares

On 19 January 2018, the placing of 226 million new shares of the Company at the placing price of HK$7.70 per placing shares under general mandate and the placing agreement dated 11 January 2018 (the "Placing"), was completed. The net proceeds from the placing amounted to HK$1,727 million. The Company intends to apply the proceeds for development of its finance technology platform. For further details of the Placing, please refer to the announcements of the Company dated 11 January 2018 and 19 January 2018.

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Group also acknowledges the vital importance of good corporate governance to the success and sustainability of the Group.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Board is of the view that throughout the year ended 31 December 2017, the Company has complied with the applicable code provisions (the "Code Provisions") of the CG Code.

The Company will periodically review and enhance its corporate governance practices to ensure that it will continue to comply with the requirements of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct (the "Securities Code") regarding the Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the Securities Code and the Model Code during the year ended 31 December 2017.

The Company has also adopted a warning to its employees regarding insider dealings ("Insider Dealings Warning") for their securities transactions. So far as the Company is aware, there was no incident of non-compliance of the Insider Dealings Warning by the employees.

BOARD OF DIRECTORS

Board Composition

The Board consists of nine Directors, including six executive Directors and three independent non-executive Directors.

During the year and up to the date of this report, the Board consists of the following Directors:

Executive Directors:

Mr. Wang Muqing *(Chairman)*
Mr. Wang Kunpeng (re-designated as vice Chairman of the Board on 6 January 2017)
Mr. Koh Tee Choong, Ivan (appointed on 21 March 2017)
Mr. Li Zhubo
Mr. Wan To
Mr. Shao Yong Jun
Mr. Li Yi (resigned on 21 March 2017)

Independent Non-executive Directors:

Dr. Wong Tin Yau, Kelvin
Dr. Cao Tong
Ms. Wong Tan Tan

The Company has listed independent non-executive Directors in all corporate communications pursuant to the Listing Rules. The latest list of Directors (by category) which specifies their roles and functions was also disclosed in the websites of the Company and the Stock Exchange pursuant to the Listing Rules.

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

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

The Company has received written annual confirmation of independence from three independent non-executive Directors, namely Dr. Wong Tin Yau, Kelvin, Dr. Cao Tong and Ms. Wong Tan Tan. Therefore, the Company considers all independent non-executive Directors were independent in accordance with the independence guidelines set out in the Listing Rules.

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

Responsibilities

The Board is collectively responsible for leading and managing the Company and overseeing the businesses, strategic decisions and performance of the Company. The Board has delegated the Chief Executive Officer to assign the authority and responsibility for the daily management and operation of the Group to the senior management. In addition, the Board has established Board committees (the "Committees") and has delegated to these Committees various responsibilities as set out in their respective terms of reference.

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

Delegation by the Board

The Board reserves its rights to make decisions on all major matters of the Company, including the formulation and monitoring of all policies and directions, overall strategies and budgets, internal control and risk management systems, major transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as advices and services of the secretary of the Company ("Company Secretary"), with a view to ensuring that the procedures of the Board and all applicable rules and regulations are followed. Each Director may request the Board to seek independent professional advices in appropriate circumstances at the expense of the Company.

The day-to-day management, administration and operation of the Company are delegated to the Executive Committee (previously known as Operation and Management Committee) which is the management authority of the Group. The members of such committee are the Chief Executive Officer and four Executive Directors. Its delegated functions and responsibilities are periodically reviewed by the Board. Any major transactions of the Group shall be subject to the approval of the Board.

The Company has maintained directors and executives liability and company reimbursement insurances for its directors and executives.

Appointment and Re-election of Directors

The procedures and processes of appointment, re-election and removal of Directors are specified in the articles of association of the Company (the "Articles"). The Nomination Committee is responsible for reviewing the structure, size, board diversity and composition of the Board, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors. Details of the Nomination Committee are set out in the section headed "Board Committees" below.

Each of the Directors has entered into a service contract (for Executive Director) or a letter of appointment (for non-executive Director and independent non-executive Director). No Director proposed for re-election at the forthcoming 2018 annual general meeting of the Company (the "2018 AGM") has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Pursuant to the Articles, at each annual general meeting ("AGM"), one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one-third) is required to retire from office by rotation, provided that every Director shall be subject to retirement at least once every three years. The Director to retire in every year shall be the one who has been longest in office since his/her last election but as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by ballot and shall be eligible to offer themselves for re-election. Any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following general meeting of the Company and shall, being eligible, be subject to re-election at such meeting.

Accordingly, Mr. Li Zhubo, Dr. Wong Tin Yau, Kelvin and Dr. Cao Tong shall retire and being eligible, offer themselves for re-election at the 2018 AGM. A circular to be sent in April 2018 by the Company to the shareholders contains details of the Directors proposed to be re-elected.

The Board recommended the re-appointment of the Directors proposed to be re-elected at the 2018 AGM of the Company.

Board Diversity

The Board has adopted a board diversity policy (the "Board Diversity Policy") in September 2013. In determining the composition of the Board, the Company considers whether a candidate will bring potential complementary benefits to the Board and contribute to the improvement of the overall competence, experience and expertise of the Board. The Company may consider the diversity of the composition of the Board in various aspects, including professional experience and qualifications, gender, age, ethnicity, and cultural and educational background, as well as any other factors that the Board from time to time deems relevant and appropriate. Selection of candidates will be based on a range of diversity perspectives, including but not limited to experience and expertise, professional experience and qualifications, gender, age, ethnicity and cultural and educational background. The Nomination Committee will review the Board Diversity Policy as and when appropriate to ensure its effectiveness.

Induction and Continuing Development of Directors

Every newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Directors' responsibilities and obligations under the Listing Rules, common law and relevant statutory requirements.

The existing Directors are continuously updated with developments in legal and regulatory regime and the business and market environments so as to facilitate the discharge of their responsibilities. The Company irregularly organized seminar for Directors and relevant management shared with them changes in Listing Rules and other regulations.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year under review, the posts of Chairman and Chief Executive Officer are held separately by Mr. Wang Muqing and Mr. Koh Tee Choong, Ivan, Executive Directors of the Company, respectively, neither of whom have any financial, business, family or other relationship with each other. This separation ensures that there is a clear division of responsibilities of the management of the Board and the day-to-day management of business of the Company to ensure a balance of power and authority. The Chief Executive Officer is responsible for leading the day-to-day management of the Company, implementing the strategic plans and business goals of the Company and formulating and recommending business plans and budgets to the Board.

Mr. Wang Kunpeng, was re-designated as vice Chairman of the Board on 6 January 2017 and ceased to be the Chief Executive Office of the Company. He will focus on the development strategies and major investment decision-making functions of the Company. On the same date, Mr. Koh Tee Choong, Ivan was appointed as the Chief Executive Office of the Company. Mr. Koh is also the chairman of the Executive Committee.

ATTENDANCE RECORDS

The attendance of the Directors at the AGM, Board meetings and Committee meetings in 2017 was as follows:

	Meeting Attended during Tenure of Office/Held				
Members of the Board of Directors	2017 AGM	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors:					
Mr. Wang Muqing *(Chairman)*	1/1	4/6	–	2/3	2/2
Mr. Wang Kunpeng	1/1	6/6	–	–	–
Mr. Koh Tee Choong, Ivan (appointed on 21 March 2017)	1/1	5/5	–	–	–
Mr. Li Zhubo	1/1	6/6	–	–	–
Mr. Wan To	1/1	6/6	–	–	–
Mr. Shao Yong Jun	1/1	6/6	–	–	–
Mr. Li Yi (resigned on 21 March 2017)	1/1	2/2	–	–	–
Independent Non-executive Directors:					
Dr. Wong Tin Yau, Kelvin	1/1	4/6	2/2	3/3	–
Dr. Cao Tong	1/1	5/6	2/2	2/3	1/2
Ms. Wong Tan Tan	1/1	6/6	2/2	–	2/2

BOARD AND COMMITTEE MEETINGS

Board Practices and Conduct of Meetings

During the year ended 31 December 2017, the Company held a total of six Board meetings. At the Board meetings, the Board reviewed and approved the final results for the year ended 31 December 2016 and interim results for the half year ended 30 June 2017 and other significant matters of the Company.

The Company has draft agenda of each meeting of the Board and the Committees made available to Directors in advance, and serves notices of regular Board meetings at least 14 days before the date of the meetings. For other Board and Committee meetings, reasonable notices are given.

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

Draft and final versions of minutes are circulated to Directors or relevant Committee members for comments and records respectively within a reasonable time after each meeting. Minutes of Board meetings and Committee meetings are kept by the Company Secretary and are available for inspection by all Directors at all reasonable time.

The Articles contain provisions requiring any Director to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Director or any of his/her associates have a material interest.

BOARD COMMITTEES

The Board has established three committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. The Remuneration Committee, the Nomination Committee and the Audit Committee are established with defined written terms of reference. These terms of reference are posted on the website of the Company and are available for inspection of shareholders upon request. These committees are provided with sufficient resources to discharge their duties and are required to report to the Board on their decisions or recommendations. During the year ended 31 December 2017, two meetings of the Audit Committee were held, and three and two meetings of each of the Remuneration Committee and the Nomination Committee were held respectively.

Remuneration Committee

As at the date of this report, the Remuneration Committee comprises three members, including Chairman of the Board and Executive Director, Mr. Wang Muqing, and independent non-executive Directors, Dr. Cao Tong and Dr. Wong Tin Yau, Kelvin . Dr. Cao Tong is the chairman of the Remuneration Committee.

The Remuneration Committee is primarily responsible for making recommendations to the Board on the remuneration policy and structure of the Company for all Directors and senior management and establishing a formal and transparent procedure of the formulation of the remuneration policy. The responsibilities of the Remuneration Committee also include reviewing and approving the remuneration proposals of the management with reference to the corporate goals and objectives of the Board, and ensuring that no Director or any of his/her associates participates in the determination of his/her own remuneration.

During the year ended 31 December 2017, the Remuneration Committee held three meetings to review the remuneration policies and strategies of the Group, make recommendations to the Board on remuneration of Directors and senior management and provide advices on remuneration of newly appointed Directors to the Board.

Details of the amount of remuneration of Directors and senior management are set out in note 8 and note 9 to the financial statements.

Nomination Committee

As at the date of this report, the Nomination Committee comprises three members, including Chairman of the Board and Executive Director, Mr. Wang Muqing, independent non-executive Directors, Dr. Cao Tong and Ms. Wong Tan Tan. Mr. Wang Muqing is the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board and making recommendations regarding any proposed changes, identifying suitable candidates for appointment as Directors, making recommendations to the Board on the proposed appointment or re-appointment and succession of Directors and assessing the independence of independent non-executive Directors. The Nomination Committee will also review the Board Diversity Policy as and when appropriate to ensure its effectiveness and discuss any revisions that may be required in the light of the corporate strategies of the Company and recommend any such revisions to the Board for consideration and approval.

During the year ended 31 December 2017, the Nomination Committee held two meetings. The Nomination Committee has performed the following works during the year: (1) reviewing the structure, size, board diversity and composition of the Board to ensure the professional knowledge, skills and experience of the Board to meet the business needs of the Company; (2) reviewing the annual confirmation of independence submitted by the independent non-executive Directors and assessing their independence; (3) providing recommendations to the Board on the appointment of new Director; and (4) making recommendations to the Board on re-appointment of Directors retiring and offering themselves for re-election at the 2017 AGM.

Audit Committee

As at the date of this report, the Audit Committee comprises three members, who all are independent non-executive Directors (including one independent non-executive Director with appropriate professional qualifications and accounting expertise), namely Dr. Wong Tin Yau, Kelvin, Dr. Cao Tong and Ms. Wong Tan Tan. Dr. Wong Tin Yau, Kelvin is the chairman of the Audit Committee.

The Audit Committee is primarily responsible for reviewing financial information of the Group, monitoring the independence and objectiveness of the external auditors and the effectiveness of the auditing process and making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and the approval of their remuneration and terms of engagement. The audit committee is also responsible for reviewing the financial reporting process and financial controls, internal controls and risk management systems, including the adequacy of resources, staff qualifications and experience, training programmes and budgets of the internal audit functions as well as arrangements for concerns about possible misconducts in financial reporting, internal controls or other matters raised by employees of the Company ("Whistle-blowing").

The Audit Committee reviews the annual report, accounts and interim report of the Group before submission to the Board for approval.

During the year ended 31 December 2017, the Audit Committee held two meetings. The Audit Committee has performed the following works during the year: (i) reviewing the annual results for the year ended 31 December 2016 and interim results for the six months ended 30 June 2017; (ii) reviewing the financial reporting procedures and compliance procedures, the report of internal audit on internal controls and risk management system; (iii) reviewing the non-exempt continuing connected transactions entered into by the Group and non-competition undertakings made by the controlling shareholders of the Company; and (iv) reviewing the re-appointment of external auditors and providing relevant recommendations to the Board.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

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

The Board is responsible for presenting balanced, clear and understandable annual and interim reports, price-sensitive announcements and other disclosures prepared in accordance with the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the financial statements of the Company, which are put to the Board for approval.

CORPORATE GOVERNANCE FUNCTIONS

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

(a) to develop and review the policies and practices on corporate governance of the Group;

(b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group;

(c) to review and monitor the policies and practices on compliance with any requirements, directions and regulations that may be prescribed by the Board or contained in any constitutional documents of the Group or imposed by the Listing Rules, the applicable laws and other applicable organisational governance standards;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Group; and

(e) to review the Group's compliance with the corporate governance code from time to time adopted by the Group and the disclosure in the corporate governance report to be contained in the Company's annual reports.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditor of the Company in respect of its reporting responsibilities for the financial statements is set out in the section headed "Independent Auditor's Report" on page 68.

The remuneration received by the Company's auditors, KPMG, during the year ended 31 December 2017 is set out below:

Category of Services	Fee Paid/Payable RMB
Audit Services	**7,300,000**
Non-audit Services	**–**
Total	**7,300,000**

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for maintaining sound and effective risk management and internal control systems to safeguard the investments of the shareholders and the assets of the Company.

The Board monitors the risk management and internal control systems principally through the Internal Audit Department of the Group, and is committed to conducting, at least annually, a review of the effectiveness of the risk management and internal control systems of the Group, including adequacy of resources, qualifications and experience of the accounting and financial reporting personnel of the Company, and the training programmes and budget thereof.

The Board, through the Audit Committee, has conducted a review on the risk management and internal control systems of the Company and its subsidiaries for the year ended 31 December 2017. Such review covered the finance, operation, supervision and risk management of the Group. The Board confirmed that the risk management and internal control systems of the Company are sound, effective and sufficient.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective and ongoing communication with shareholders is essential for enhancing investor relations and investors' understanding of the business performance and strategies of the Group. The Company also recognises the importance of transparency and timely disclosure of corporate information, which enables effective evaluation of the performance of the Group by shareholders and investors.

The Company facilitates communication between the Board and its shareholders through general meetings, and it communicates with the shareholders, investors and the general public through annual reports, interim reports and other corporate announcements.

The Company strives to maintain a high level of investor access through a range of investor relations activities, including teleconferences, one-to-one meetings, roadshows, press conferences and site visits. The Company also regularly meets with institutional investors from overseas and Mainland China to keep the investors abreast of the major developments and strategies of the Group.

To facilitate communication, the Company maintains a website at *http://www.zhengtongauto.com*, where updates on the Company's structure, the Board, business developments and operations, financial information, corporate governance practices and other information are posted.

COMPANY SECRETARY

As an employee of the Company, the Company Secretary shall provide assistance to the Board and ensure efficient information circulation within the Board and, in compliance with the policies and procedures of the Board, provide advises on governance matters to the Board, facilitate induction of Directors and monitor their trainings and continuous professional development. The Company Secretary confirmed that she has undertaken no less than 15 hours of relevant professional training during the year under review.

RIGHTS OF SHAREHOLDERS

A summary of certain rights of the shareholders which shall be disclosed by the Company in accordance with the mandatory disclosure requirement under Paragraph O of the CG Code is set out below:

Procedures for shareholders to convene an extraordinary general meeting ("EGM")

1. One or more shareholders ("Requisitionist(s)") holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company carrying voting right at general meetings shall have the right to request the Board to convene an EGM in respect of any business transaction specified in such requisition.

2. Such requisition shall be made in writing and delivered to the Board at the principal place of business of the Company in Hong Kong at Unit 5905, 59/F, The Center, 99 Queen's Road Central, Hong Kong or via email at ir@zhengtongauto.com.

3. The EGM shall be held within two months after the deposit of such requisition.

4. If the Board fails to convene such meeting within twenty-one (21) days of such deposit, the Requisitionist(s) 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.

Procedures for shareholders to submit proposals at general meetings

1. A shareholder of the Company should lodge a written notice of his/her proposal ("Proposal") together with his/her detailed contact information at the principal place of business of the Company in Hong Kong at Unit 5905, 59/F, The Center, 99 Queen's Road Central, Hong Kong.

2. The request will be verified with the Hong Kong branch share registrar of the Company and upon its confirmation that the request is proper and in order, the Board will be required to include the Proposal in the agenda of the general meeting.

3. The notice period given to all shareholders of the Company for consideration of the proposal to be raised by the Shareholder concerned at the general meeting varies with the nature of such Proposal:

   (a) At least 14 clear days' and 10 clear business days' notice in writing if the Proposal constitutes an ordinary resolution of the Company;

   (b) At least 21 clear days' and 10 clear business days' notice in writing if the Proposal constitutes a special resolution of the Company in an extraordinary general meeting of the Company or an ordinary resolution of the Company in an annual general meeting of the Company.

Procedures for shareholders to make enquiries to the Company

For matters in relation to the Board, the shareholders of the Company may contact the Company at Unit 5905, 59/F., The Center, 99 Queen's Road Central, Hong Kong or via email at ir@zhengtongauto.com.

For matters in relation to the share registration, such as share transfer and registration, change of name or address, loss of share certificates or dividend warrants, the registered shareholders of the Company may contact Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

CONSTITUTIONAL DOCUMENTS

There was no change to the Memorandum of Association of the Company and Articles during the year under review. The latest consolidated version of the Memorandum of Association and Articles is available on the websites of the Company and the Stock Exchange.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT

1 INTRODUCTION

Basis of Preparation

This report ("ESG Report") has been prepared to provide a review of the relevant activities during the period from 1 January 2017 to 31 December 2017 in accordance with the Environmental, Social and Governance Guidelines ("ESG Guidelines") issued by the Hong Kong Stock Exchange.

Business of the Group

In 2017, the Group was committed to developing a one-stop automobile service platform mainly for (i) the sales of luxury and ultra-luxury brand automobiles; (ii) after-sales services (including maintenance, repair and sales of auto parts); (iii) financial services (including auto financing, insurance brokerage, finance leasing and other highly value-added businesses); and (iv) supply chain business, covering automobile logistics and trading of auto supplies. The Group has 134 4S[1]/5S[2] shops.

ESG Strategy of the Group

The Group highly values the harmonious relationship between people, operating results and environment, which is crucial to its stable growth and sustainable development. In the pursuit of business and profit growth, the concept of sustainability is incorporated in every aspect of our operation through the adoption of effective and comprehensive policies and measures for the achievement of our mission in respect of the environment and community. It is our objective to enhance the corporate governance of the Group, to share our results with the suppliers, customers, employees and other stakeholders and to minimize the negative impact of our operation on the environment.

Reporting Period

This 2017 ESG report is the second report after the 2016 ESG report released in April 2017. The next report is expected to be released in April 2019.

Scope of the Report

This report focuses on the operating environment and social policies in relation to the sales, after-sales services, financial service businesses and supply chain businesses of luxury and ultra-luxury brand and other brand vehicles, which are mainly engaged by the Group in the PRC during the reporting period. The social elements of the statistics of major operation results and other factors cover all business segments of the Group. The environmental elements of the statistics cover the business segments having the most significant impacts on the environment, the automobiles sales and after-sales services, or the 4S/5S dealership shops. The Group had conducted the first systematic survey of the environment factors during the year. 29 4S/5S significant shops were selected by taking into account their locations, operation history, automobiles brands and sales. The survey forms a strong basis for future expansion of the survey.

1 4S automobile sales service shop is a four-in-one automobile sales shop providing four different services, including sales of vehicles, sales of spare parts, after-sales services and survey.

2 The fifth "S" denotes sustainability.

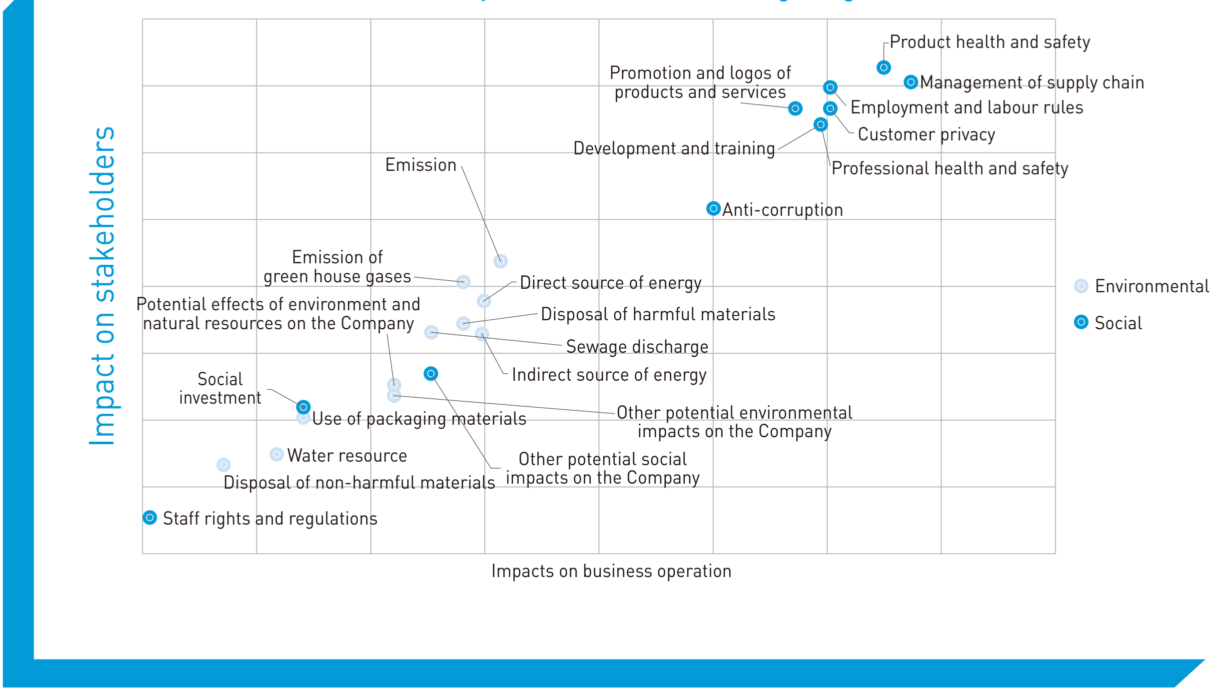
Involvement of Stakeholders

Stakeholders of the Group in respect of environmental, social and governance interests can be classified as internal and external stakeholders, which mainly involve internal staff (from the management to front-line employees), suppliers, customers, shareholders, investors, governments and communities where the businesses are operated. The stakeholders involved included the directors and senior management of the Group as strategic decision makers and designers. In the year, the importance of internal stakeholders was taken into account and the middle management and general staff working in the front line of operation were also involved. In the future, external stakeholders may also be invited when the situation warrants, to review and update the materiality assessment, so as to ensure that the report can fully reflect the latest progress of the Group in sustainable development.

Materiality Assessment

Based on interview with the stakeholders and questionnaire collected, the following materiality matrix has been prepared by the Company.

Materiality assessment of ZhengTong



2 ENVIRONMENTAL PROTECTION

The Group is dedicated to an environmentally friendly operation so as to reduce emissions and minimize the negative impact of operating activities on the environment. The operation of operating premises of the Group, such as maintenance centres and showrooms, and product marketing campaigns held outside its operating premises have complied with all applicable laws and regulations with regard to environmental protection.

Waste disposal

Wastes are generated from after-sales repair and maintenance of vehicles. The Group seeks to manage the wastes by controlling the sources and disposal. To reduce the generation of harmful waste, the Group has used water-based paints from a famous brand in the spray booth for many years, instead of oil-based paints which were commonly used for vehicle painting. The use of water-based paints can improve the quality of maintenance works and are also good for the health of maintenance staff. On the other hand, the Group strictly controls the disposal of wastes. Wastes will only be handled by vendors recognized by local environmental authorities. The qualification of the vendors will be regularly checked on relevant websites to ensure that they are authorized by the government to handle wastes of the Group.

	Emissions in total	Emissions per Unit
Solid waste – batteries	167.05 tonnes	6.19 tonnes/shop
Solid waste – others	118.64 tonnes	4.39 tonnes/shop
Liquid waste	16,336,600 liters	605,000 liters/shop

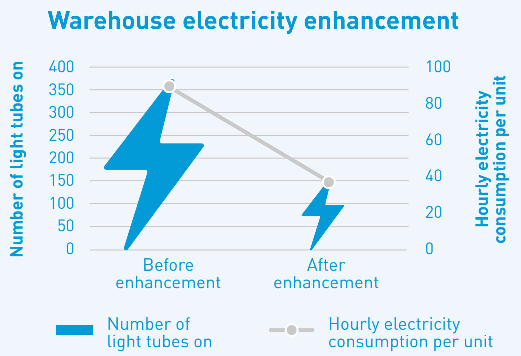
The emissions of nitrogen oxides, sulfides and particulate matter from providing rescue vehicles, test-drive automobiles and scooters to customers and vehicles for daily use of the Group were 1,849.61 kilograms, 4.32 kilograms and 171.60 kilograms, respectively. Greenhouse gas emissions from generating electricity for the above-mentioned vehicles and business premises was 801.99 tonnes of carbon dioxide equivalent.

Use of resources

s4S or 5S shops of the Group are the major uses of energy, including electricity and gas for kitchens and heating in northern China.

	Consumption in total	Consumption per Unit
Electricity	14,464,000 kWh	There is no proper denominator. Taking into account the economic benefits, the Group has not calculated the consumption per unit of these resources as the calculation is not meaningful.
Natural gas (For canteen)	62,100 cubic meters	
Natural gas (For heating)	513,500 cubic meters	
Liquefied gas	173,700 liters	
Gasoline	414,400 liters	8.07 liters/100 km
Diesel oil	13,400 liters	20.02 liters/100 km

Case study:
One of the subsidiaries of the Group completed an electricity enhancement plan. The warehouse is divided into various lighting zones so that certain light tubes can be turned off when not required to save energy and extend the useful life of light tubes.



The case is only one of many environmental protection practices of the Group. It is our belief that "natural resources are valuable" (青山綠水，就是金山銀山). The subsidiaries of the Group will continue to gain and exchange experience of environmental protection so as to make contribution to our country no matter how small our efforts are.

3 EMPLOYMENT AND LABOUR PRACTICE

Employees have always been our major concern and are regarded as the most powerful and effective driving force behind the sustainable development of the Group.

3.1 Employment

The remunerations and benefit packages for the employees of the Group were determined based on the market condition and their respective responsibilities and performance.

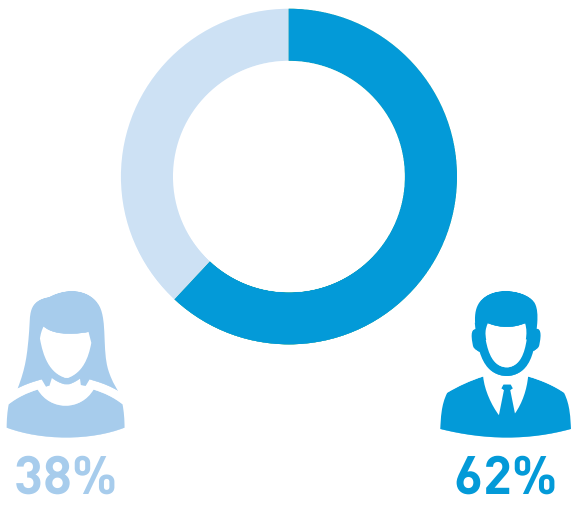
The Group has advocated fair competition. None of our employees were discriminated or harassed due to gender, age, marital status, religion, ethnicity, nationality or health condition.

The principle of equal opportunity has been applicable throughout all stages of employment, in particular recruitment, training, career development and promotion. During the reporting period, the Group has complied with all applicable labour laws and regulations, such as the Labour Law of the People's Republic of China, Labor Contract Law of the People's Republic of China and Social Insurance Law of the People's Republic of China.

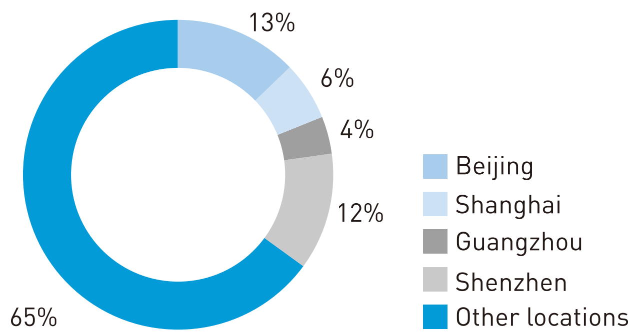
To improve the employment rates of the local markets where the subsidiaries are located, except certain necessary experienced staff seconded from other 4S/5S shops, the Group will hire local employees as far as possible for new 4S/5S shops.

As at the end of the reporting period, the Group had subsidiaries in 40 cities in 16 provinces of the People's Republic of China and had 10,342 employees.

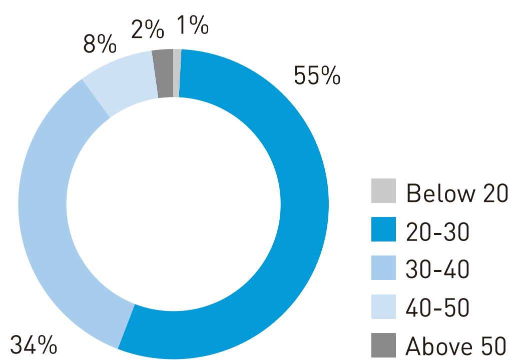
Gender of employees



Location of employees



Age of employees



The career development platform of Zhengtong has been expanding rapidly in line with the growth of Zhengtong, providing opportunities for our young employees. During the year, three out of seven general brand managers were of the post-80s generation. We can also see many post-85s in the middle management. As of 31 December 2017, 56% of the employees have worked in the Group for more than two years.

To build up a human resources management team which can understand the thoughts of youngsters, the Group provide on-job trainings to our staff.

3.2 Health and Safety

Human resources are the most precious thing of the Group and the health and safety of our employees are the most important thing of Zhengtong. We have strived to provide our employees with a healthy and safe workplace.

In the preparation and revision of safety guidelines, the Group has identified the major safety risks in operation and has proposed specific risk control measures. In highly dangerous areas, such as maintenance workshop, professional protection gear is provided to staff of high risk positions. Staff working in dangerous areas are strictly required to put on the protection gear at all time. On the other hand, the Group is in the process to use new materials which are more environmentally friendly, non-harmful or less harmful (e.g. the use of water-based paint for painting) so as to minimize personal damage to the staff.

Safety Drill

Safety drills are carried out twice a year in each shop, all staffs are arranged to participate.

China promote the use of "119" on 9 November 2017, the 27th promotion of emergency call. The Group also promote fire prevention in November. Many shops arranged fire prevention drills by all staff. The fire drills raised safety awareness of our staff and customers.

During the reporting period, the Group organized different types of health and safety educational programmes in order to raise the awareness of our staff in this respect, including trainings, safety knowledge quizzes and competitions. The Group also regularly examined the compliance of safety guidelines of the 4S shops and vehicle maintenance workshops and ensure all certificates required by laws and regulations were obtained or renewed.

The Group has insisted on compliance with the requirements of healthy and safe works. During the reporting period, there was no such incident that had adverse impacts on the health and safety of our employees due to substandard workplaces, nor was there any major safety accidents.

3.3 Development and Trainings

It is a trend of the service industries, including vehicle sales and after sales service of the Group, to have more younger staff. The increase of younger staff provide new driving force for the development of the Group. The Group has also adopted new methods of staff recruitment and training. The human resources department of the Group has introduced a complete series of programs for different business and positions. Vertically, introduction program, promotion training program and advanced training program are developed for new recruits, candidates for promotion and senior management respectively. Horizontally, the training of sales executives and after sales technicians is concentrated on sales skills and maintenance technique respectively. Through training, examination and assessment, the Group has built a quality service team. During the reporting period, the Group had arranged 195 training classes for 2,812 participants. The total training time was 2,340 hours.

Technical trainings on new car models were also arranged by the maintenance centres of different brands of vehicles. The Group organized our staff to participate in such trainings to ensure that our customers are provided with the repair and maintenance services using the latest technologies. During the reporting period, the Group had paid RMB6.83 million for 2,211 external trainings of 2,634 person-time. The total training time was 53,232 hours.

To cope with the growing business, the Group strived to maintain its high quality services by developing its human resources. The Group organized a "senior manager training program" in 2017, the seventh session of such programs since 2009. Members of the middle management from various departments as well as 4S/5S shops are selected to attend lectures given by senior management, department heads, experienced general shop managers and external experts. During the reporting period, training courses of the seventh session of "senior manager training program" were organized in August, September, November and December and were attended by 145 person-time. The total lecture time was 135 hours.

4 ANTI-CORRUPTION

Any misconduct in business operation will definitely jeopardize the proper management and operation of a business and will damage the integrity of a company. The Group is strongly against any misconduct in its operation. The Group has adopted a preventive approach through system building and education. The establishment of anti-corruption system is to eliminate any loophole in our operation. Our legal department also arranges training programs for our staff to promote the prevention of corruption. In addition, the Group strictly complies with Anti-unfair Competition Law and other relevant laws and regulations to strictly prohibit bribery by our staff so as to make contribution to a healthy business environment.

The Group has adopted a zero tolerance policy to strictly prohibit corruption in all aspects of our operation. The Group believes that the strict compliance and implementation of regulatory systems can maintain the proper business management and can safeguard the career of our staff. Our workforce is expanding with more and more youngsters who may be inexperienced and be easily tempted. The Group will repeatedly educate and alert them the importance of compliance and the possible consequences of violation. During the reporting period, the Group did not aware of any corruption incident.

5 SUPPLY CHAIN MANAGEMENT

Supply chain plays an integral role in the automobile sales and after-sales services of the Group. The stable supply of automobiles and spare parts has always been a guarantee that the Group is able to render quality products and services to consumers.

The business relationship between automobile suppliers and the Group was established through mutual selection. Due to our long history of reputation in providing quality products and services, offering efficient sales channels and methods for automobiles suppliers and focusing on employee interests and environmental protection, our Group is able to acquire the dealership of many renowned automobile brands. We understand that automobile suppliers have their specific environmental protection requirements and we have adequate research and development capability to ensure that their products are in compliance with various environmental standards. With respect to procurement of new vehicles, we conduct detailed visual inspections to ascertain that we can provide consumers with flawless vehicles. Regarding after-sales service, the Group collaborates closely with service providers and arrange regular meetings to enhance communication. Our Group also regularly undertakes evaluations on our suppliers' performance in environmental and social responsibility aspects.

For the provision of spare parts and other items, our Group has stringent criteria for selection of suppliers, including requirements of environmental and social responsibilities regarding "Prohibition of Child Labour", "Health and Safety" and "Environmental Protection". Suppliers who do not comply with such requirements will have unfavourable assessment. We perform our environmental and social responsibilities by imposing relevant requirements on suppliers during the procurement process. It is our common goal to achieve sustainable development.

6 PRODUCT LIABILITIES

Dealership in stores

"Offering supreme driving experience to our customers" is the mission and principle of all employees of our Group. To offer better experience for customers when purchasing and using their cars, we have further improved the service quality and diversified our offerings to provide more comprehensive services for customers.

The automobile sales of the Group has been growing rapidly. During the reporting period, the Group set up 16 new 4S/5S stores. In particular, at the Porsche 5S Store in Guangzhou, to meet customers' demand for freedom of choice for luxury brands, we have decorated the showroom to demonstrate 18 Porsche branded automobiles at the same time. In addition, a virtual assembly workshop is set up in the showroom. Consumption experience has been refined as customers can look at the car models they have chosen through the screen with the actual products displayed beside them.

Indoor and outdoor charging stations for new energy automobiles

New energy automobile is an important direction for the sustainable development of automobiles. In response to the current national policy, our Group focuses on the sales of new energy automobiles in order to contribute to environmental protection with our own resources. The Group has actively cooperated with various automobile brands and set up charging stations inside and outside our showrooms to promote new-energy automobiles which minimized consumers' concerns regarding the inconvenience of charging. Also, new-energy automobile owners can use our outdoor charging stations free of charge, which offer convenient charging service during their travels. All these efforts have facilitated the promotion of new energy automobiles.

Supporting services

Employees of the Group always uphold the mission of "offering supreme driving experience to our customers" and strive to provide our customers with high quality services. We have spared no effort to fulfil the vision of the Group of "being a world-class automobile services brand".

The Group continues to improve our services with focus on fulfilling customers' needs and requirement. We have created a friendly and convenient consumption environment, and actively responded to the potential demands of customers based on their feedbacks. In recent years, with the increasing concerns on environmental protection, many customers worry if the new cars contain formaldehyde and whether it is harmful to health. In this regard, the Group has prepared air purifiers and activated carbon products of international famous brands to remove formaldehyde in new cars for customers. We aim to eliminate their concerns with our caring one-stop services.

The Group has maintained a clear price list for all outsource auto-related products distributed and all repair and maintenance services provided at all 4S/5S stores. During the reporting period, all stores were equipped with one to two large-scale electronic displays showing the prices and warranty information of all accessories and services offered in the stores. Customers may compare the information shown on the displays with the promotion made by sales representatives, and may provide feedbacks on any inconsistent information. It is ensured that all customers are provided with transparent and fair information of prices.

On 13 November 2017, the Group was elected as the president at the inauguration meeting of the Committee of After-Sale Service Quality of China Automobile Dealers Association (中國汽車流通協會售後服務質量工作委員會) in Suzhou, Jiangsu. It is an acknowledgement and recognition of our Group's services over the years, as well as an urge and supervision for future improvement. We are committed to improve the supervision on the quality of after-sale services, promote standardized after-sale services, establish the "Internet +" model and carry out fundamental research on the quality of after-sale services for automobiles.

As at the end of the reporting period, 11 of the 4S stores under the Group have obtained the ISO 9001 quality management systems certification.

Customer Privacy

Customer privacy is not only concerned with the information security of customers, but also commercial confidentiality of our Company. To ensure the long-term sound and stable development of our Group and to safeguard the personal information of our customers effectively, the Group has implemented strict measures for information management and control:

1. No USB flash drives and external email systems are allowed to be used with the computers in all stores;

2. All mails sent by the company email shall be inspected by the internal checking system;

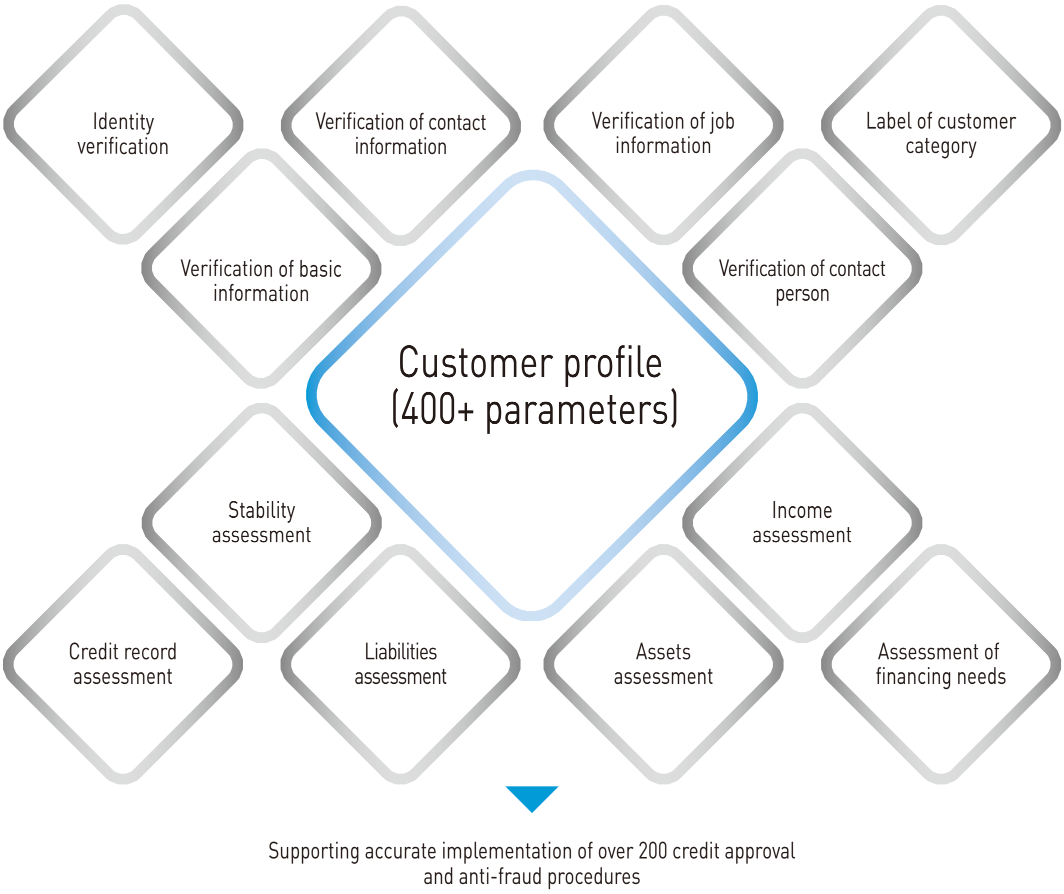
3. All general staff may only input information of the specific customers they served to our system and shall have no authority to access information of other customers;

4. The authority to access customer information is only vested to a limited number of management members, and all of them have entered into confidential agreements with our Group.

These measures have strengthened the confidential awareness of our staff, mitigated the concerns of our customers and potential customers and safeguarded customer privacy effectively. There has been no divulgement of customer privacy during the reporting period.

Financing services

In recent years, the internet finance industry has experienced rapid development. The concept of credit consumption has become popular, offering enormous growth opportunities for the consumer finance sector. In order to provide better services for our automobile customers and use the balance of working capital brought forward from previous years more efficiently to maximize the value of our Shareholders, Dongzheng AFC, founded by the Group in 2015, offers auto financing and credit services for automobile purchasers. Capitalising on the promising growth of the industry over the past two years and with the dedications and diligence of all employees, Dongzheng AFC has further expanded its business scale, and more customers have bought their dream cars using the financing and credit services of our Group.



To improve the efficiency of credit approval while maintaining sound risk control, the Group has adopted modern techniques and established a set of user-profile parameters and strategies based on the credit information system of the People's Bank of China to enhance the efficiency and quality of credit rating. Our Group has also put in place strict procedures of internal credit approval and risk control in order to provide customers with more convenient and quality services and maintain the sustainable development of our Group.

7 COMMUNITY INVESTMENTS

While maintaining steady corporate development with the use of resources from the society, the Group always adheres to the philosophy of "April showers bring May flowers" and takes actual actions to contribute to the society. The Group has proactively participated in local community development, organized and encouraged its employees to take part in a wide range of charity activities.

The Group has paid visits to a primary school in Taiping Village, Hungan County, Huanggang, Hubei Province for three consecutive years and taken care of the material and daily lives of the school-age left-behind children by organizing lectures and offering them with school supplies and daily necessities.

On September 14, the Dingwo 4S shop in Fujian held the "Fluorescent Night Run" (螢光愛心夜跑), and all staff of the 4S shop took part in the event. The event also attracted many customers and residents in the surrounding areas to share the fun of sports, which has increased the stickiness of customers.

The Audi 4S Store in Shanghai held an activity of "Learning about the Society (貼近社會)" jointly with a primary school in Shanghai. Our internal sales trainers introduced the features of an automobile under our dealership and promoted the concepts of safe driving and green driving with simple language, which have enriched the practical knowledge of the children. It is expected that the education of safe and green driving concepts will also have influence on the driving behaviours of their families, which may in turn bring benefits to the society.

The above charity activities are only some examples of the employees of our Group contributing to the society and serving the community. In the future, the Group will explore more channels and methods to participate in the community, and serve the community by making full use of our resources and strengths in pursuit of a harmonious society.

INDEX OF DISCLOSURES

Aspects	Major Category, Aspects, General Disclosure and Key Performance Indicator ("KPI") Descriptions	Index Chapter	Page
A. Environmental			
A1: Emissions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to waste gas and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Note: Air emissions include the emissions of nitrogen oxides, sulfur oxides and other pollutants restricted by the national laws and regulations. Greenhouse gas include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes shall be those defined by the national regulations.	2	34
	KPI A1.1 Types of emissions and respective emission data.		34
	KPI A1.2 Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume and per facility)		34
	KPI A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume and per facility).		34
	KPI A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume and per facility).		note 1
	KPI A1.5 Description of measures to reduce emissions and results achieved.		34
	KPI A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.		34

Aspects	Major Category, Aspects, General Disclosure and Key Performance Indicator ("KPI") Descriptions	Index Chapter	Page
A2: Use of Resources	General Disclosure Policies on the effective use of resources, including energy, water and other raw materials. Note: The resources may be used for/in production, storage, transportation, buildings, and electronic equipment.	2	34
	KPI A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume and per facility).		34
	KPI A2.2 Water consumption in total and intensity (e.g. per unit of production volume and per facility).		note 2
	KPI A2.3 Description of energy use efficiency initiatives and results achieved.		34
	KPI A2.4 Description of whether there are any issues in acquiring suitable water sources, water efficiency initiatives and results achieved.		note 2
	KPI A2.5 Total packaging material used for finished products (in tonnes) and, where appropriate, volume per production unit.		note 3
A3: Emissions	General Disclosure Policies on minimising the issuer's significant impact on environmental and natural resources.	2	34
	KPI A3.1 Description of the significant impacts of business activities on the environment and natural resources and the actions taken to manage them.		note 4

Aspects	Major Category, Aspects, General Disclosure and Key Performance Indicator ("KPI") Descriptions	Index Chapter	Page
B. Social			
B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, leaves, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	3.1	35
	KPI B1.1 Total workforce by gender, employment type, age group and geographical region.		35
	KPI B1.2 Employee turnover rate by gender, age group and geographical region.		note 5
B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	3.2	36
	KPI B2.1 Number and rate of work-related fatalities.		note 5
	KPI B2.2 Number of working days lost due to work-related injuries.		note 5
	KPI B2.3 Description of occupational health and safety measures adopted, and how they are implemented and monitored.		36

Aspects	Major Category, Aspects, General Disclosure and Key Performance Indicator ("KPI") Descriptions	Index Chapter	Page
B3: Development and Training	General Disclosure	3.3	36
	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		
	Note: Training refers to the occupational training, including internal and external programs at the expenses of the employers.		
	KPI B3.1 The percentage of employees trained by gender and employee category (e.g. senior management and middle management).		note 6
	KPI B3.2 The average training hours completed per employee by gender and employee category.		note 6
B4: Labor Standards	General Disclosure	3.1	note 7
	Information on:		
	(a) the policies; and		
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer		
	relating to prevention of child and forced labor.		
	KPI B4.1 Description of measures to review employment practices to avoid child and forced labor.		note 7
	KPI B4.2 Description of steps taken to eliminate the irregular practices when discovered.		note 7
B5: Supply Chain Management	General Disclosure	5	37
	Policies on managing environmental and social risks of the supply chain.		
	KPI B5.1 Number of suppliers by geographical region.		note 5
	KPI B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.		35

Aspects	Major Category, Aspects, General Disclosure and Key Performance Indicator ("KPI") Descriptions	Index Chapter	Page
B6: Product Liabilities	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	6	38-40
	KPI B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons.		note 5
	KPI B6.2 Number of complaints on products and services and the follow-up measures.		38
	KPI B6.3 Description of practices relating to observing and protecting intellectual property rights.		note 5
	KPI B6.4 Description of quality assurance process and recall procedures.		37
	KPI B6.5 Description of consumer data protection and privacy policies, and how they are implemented and monitored.		39
B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	4	37
	KPI B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.		37
	KPI B7.2 Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.		37

Aspects	Major Category, Aspects, General Disclosure and Key Performance Indicator ("KPI") Descriptions	Index Chapter	Page
B8: Community Investments	General Disclosure	7	40
	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take the communities' interests into consideration.		
	KPI B8.1 Key areas of contribution (e.g. education, environmental concerns, labor needs, health, culture and sport).		40
	KPI B8.2 Resources contributed (e.g. money or time) to the key areas.		40

Note 1: The Group mainly focuses on providing services, emission of non-hazardous waste is not important to the Group.

Note 2 The Group's car washing business is relatively small comparing with our major business, in which the use of water resources at 4S/5S shops are insignificant, it is also encouraged the water saving and use of recycled water.

Note 3: The Group has no control over its packaging of automobiles sold , as these are directly supplied by the manufacturer.

Note 4: The Group's business activities are involved less natural resources, so it is not applicable.

Note 5: The Group has not yet disclosed the key performance indicators in these social areas.

Note 6: The Group disclosed other quantitative training data, please refer to page 34.

Note 7: The Group opposes the use of child labor and forced labor, does not employ any child labor and shall comply with the applicable regulation.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

DIRECTORS

Executive Director

Mr. WANG Muqing (王木清先生), aged 67, is the founder of the Group and has served as a non-executive Director of the Company since 9 July 2010 and was re-designated as an executive Director on 30 March 2015. Mr. Wang was appointed as the chairman of the Board on 28 August 2013. He was appointed as a member of the Nomination Committee and a member of the Remuneration Committee on 8 April 2016, and was appointed as the chairman of the Nomination Committee on 13 December 2016. He is also the controlling shareholder of the Company. He started his automobile trading business in 1996 and engaged in automobile dealership business. Mr. Wang founded the Group in 1999. Mr. Wang holds directorships in numerous major subsidiaries of the Group, including (but not limited to) Wuhan Zhengtong United Industrial Investment Group Co., Ltd. (previously known as Wuhan Shengze Jietong Logistics Co., Ltd.), ZhengTong Automobile Investment Holding (Wuhan) Co., Ltd., Beijing Baozehang Automobile Sales Services Co., Ltd., and Shenzhen SCAS Investment Group Co., Ltd.

Mr. WANG Kunpeng (王昆鵬先生), aged 46, obtained a bachelor's degree in professional vehicle engineering from Jilin University of Technology, the PRC. Mr. Wang Kunpeng has been an executive Director since 20 July 2010 and served as a member of the Remuneration Committee from 20 July 2010 to 8 April 2016. He has held several senior management positions with the Group and its major subsidiaries after joining the Group in 2006, including the chief executive officer of the Group. Mr. Wang was re-designated as the vice chairman of the Board on 6 January 2017 and ceased to serve as the chief executive officer. He is currently responsible for the strategic planning of the Group. Before joining the Group, Mr. Wang worked for FAW-Volkswagen Sales Company Ltd., a company engaged in distribution-related activities with respect of Volkswagen automobiles, from 1997 to 2006, responsible for the management of the sale, after-sales services and logistics services relating to Audi and Volkswagen branded automobiles.

Mr. KOH Tee Choong, Ivan (許智俊先生), aged 59, obtained a master's degree in business administration from Durham University in the United Kingdom. Mr. Koh has been an executive Director of the Company since 21 March 2017. He joined the Company on 6 January 2017 and was appointed as the chief executive officer. He is responsible for the strategic planning and overall business management of the Group. Prior to joining the Group, he worked for BMW China in 2006 and had served as the vice president sales and president. From 1989 to 1996, Mr. Koh held senior management positions in several international companies. Mr. Koh served as the regional manager of BMW Group China from 1997 to 2004 and was responsible for business in Mainland China, Hong Kong and Macau regions. Mr. Koh served as the managing director of BMW Concessionaires (HK) Ltd., a member of Sime Darby Group, from 2004 to 2006 and was responsible for businesses in Hong Kong and Macau regions.

Mr. LI Zhubo (李著波先生), aged 48, obtained an executive master of business administration degree from Wuhan University, the PRC. Mr. Li has been an executive Director of the Company since 20 July 2010. He joined the Group in 1999 and is currently the chief financial officer of the Group, responsible for financial planning and financial management of the Company. Before joining the Group, Mr. Li has engaged in financial management in automobile dealership industry with nearly 24 years of experience in financial management in automobile dealership industry.

Mr. WAN To (尹濤先生), aged 46, obtained a master's degree in business administration from the University of Leeds in the United Kingdom. He has been an executive Director of the Company since 16 November 2015. Mr. Wan had been assistant to chief executive officer and general manager of the network development department of the Company since joining the Group in January 2008. Since April 2013, he has been vice president of the Company and is currently in charge of the investments and development of the Company. Since December 2013, Mr. Wan has also been serving as executive director of Shenzhen SCAS Investment Group Co., Ltd, a wholly-owned subsidiary of the Company. Prior to joining the Group, Mr. Wan worked with BMW Brilliance Automotive Ltd. from 2003 to 2006. Mr. Wan has nearly 17 years' experience in marketing and investment for Chinese and foreign-invested auto dealers.

Mr. SHAO Yong Jun (邵永駿先生), aged 43, obtained an executive master of business administration degree from Shanghai Jiao Tong University, the PRC. Mr. Shao has been an executive Director of the Company since 18 August 2011 and was a member of the Nomination Committee of the Company from 1 June 2012 to 8 April 2016. He has been the vice president of the Company since July 2011 and is currently in charge of the investor relations. Before joining the Group, Mr. Shao engaged in management of logistics services business in relation to automobile industry between 2004 and 2011, and was an auditor of KPMG China between 1997 and 2003.

Independent Non-executive Directors

Dr. WONG Tin Yau, Kelvin (黃天祐博士), JP, aged 57, has served as an independent non-executive Director since 17 November 2010. Dr. Wong also serves as the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He is also an executive director and a deputy managing director of COSCO SHIPPING Ports Limited (previously known as COSCO Pacific Limited) (stock code: 1199), responsible for the strategic planning, management of capital markets and investor relations. Dr. Wong held various senior positions in several listed companies in Hong Kong before he joined COSCO SHIPPING Ports in July 1996. In addition, Dr. Wong is the outgoing chairman and was the chairman of The Hong Kong Institute of Directors (2009-2014), a non-executive director of the Securities and Futures Commission, a chairman of Investor Education Center, a member of Financial Reporting Council, a member of the Corruption Prevention Advisory Committee of Independent Commission Against Corruption. Dr. Wong obtained his master's degree in business administration from Andrews University in Michigan, the United States in 1992 and a Ph.D. in business administration from The Hong Kong Polytechnic University in 2007. Dr. Wong is currently an independent non-executive director of I.T Limited (stock code: 0999), Bank of Qingdao Co., Ltd. (stock code: 3866) and Huarong International Financial Holdings Limited (stock code: 0993). Dr. Wong served as an independent non-executive director of CIG Yangtze Ports PLC 中國基建港口有限公司 (former stock code: 8233, current stock code: 1719) from September 2005 to October 2015, an independent non-executive director of AAG Energy Holdings Limited (stock code: 2686) from June 2015 to April 2016 and an independent non-executive director of Asia Investment Finance Group Limited (stock code: 0033) from October 2016 to February 2018. All the aforementioned companies are listed on the Stock Exchange. Dr. Wong is also an independent non-executive director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd., a company listed in Hong Kong and Shanghai (stock code: 2196 and 600196). Moreover, Dr. Wong has also served as an independent non-executive director of Xinjiang Goldwind Science & Technology Co., Ltd., a company listed in Hong Kong and Shenzhen (stock code: 2208 and 002202) for the period from June 2011 to June 2016 and he was re-appointed as an independent non-executive director of the same company on 22 October 2016.

Dr. CAO Tong (曹彤先生), aged 50, has been appointed as an independent non-executive Director since 8 April 2016. Dr. Cao is also the chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee of the Company. Dr. Cao is currently the chairman of Xiamen International Financial Technology Co.,Ltd. (廈門國際金融技術有限公司) and Shenzhen Han De Chuang Ke Financial Investment Co., Ltd. (深圳瀚德創客金融投資有限公司) respectively. Dr. Cao is also an independent non-executive director of Bank of Dalian Co., Ltd. Dr. Cao worked with the planning and treasury department of the Beijing Branch of the People's Bank of China from July 1990 to January 1994. He had also been the deputy general manager of the planning and treasury department, the general manager of business department, the assistant to the president and the vice president of the Beijing Branch, the general manager of the personal banking department of the head office and deputy head of the Shenzhen management department of China Merchants Bank from January 1994 to December 2004. He had also been the assistant to the president and the vice president of China CITIC Bank Corporation Limited, a company listed on the Stock Exchange (stock code: 998) from December 2004 to August 2013 and had been an executive director from December 2011 to September 2013. He also served as the president of WeBank Co., Ltd. in Qianhai, Shenzhen from November 2014 to September 2015. He has nearly 28 years' experience in finance industry. Dr. Cao obtained his master's degree in economics from Renmin University of China in July 1999. He further obtained a Ph.D. in finance from Dongbei University of Finance and Economics in June 2011 and a Ph.D. in business administration from Arizona State University, the United States in July 2015.

Ms. WONG Tan Tan (王丹丹女士), aged 41, has served as an independent non-executive Director since 13 December 2016. Ms. Wong also serves as a member of the Audit Committee and Nomination Committee of the Company. Ms. Wong had served as a financial commissioner of the financial department and a senior manager of the marketing department at UTStarcom (USA) from March 2001 to February 2005, and served as an assistant to the chief executive officer at the Beijing headquarters of UTStarcom from February 2005 to April 2006. From May 2006 to September 2016, she was a chief representative and an executive director of the Beijing Office of J.P. Morgan Chase & Co. Ms. Wong studied business administration at Vanguard University in Costa Mesa, California, the United States from 1997 to 1998. From 1998 to 2000, she studied at the University of Southern California, Gordon S. Marshall School of Business, the United States, where she obtained a bachelor's degree in business administration, majoring in finance.

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL PLACE OF BUSINESS

The Company is a company incorporated in Cayman Islands with limited liability where its registered office is located in Cayman Islands and its operating headquarters is located in Beijing, the PRC.

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 16 to the consolidated financial statements.

BUSINESS MODEL AND STRATEGIES

The principal business of the Group comprises 4S dealership business, supply chain business and financial services business. The Group has concentrated on luxury and ultra-luxury branded automobile sales in China, and has made significant effort to its traditional after-sales services and post-market businesses in sectors of financing, insurance brokerage, pre-owned automobiles and beyond. The operations strategies implemented by the Group in the year under review were set out in the "Business Review" of the section headed "Management Discussion and Analysis" on Pages 10 to 17 of this annual report.

SUBSIDIARIES

Please refer to note 16 to the consolidated financial statements.

RESULTS

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

BUSINESS REVIEW

Business performance, financial review, business review as well as prospects and strategies of the Group are set out in the section "Management Discussion and Analysis" in this report. Certain key financial indicators are provided in the section "Five Years' Financial Summary" in this report. Since the end of the financial year under review, save as disclosed in this annual report, there is no significant events that have an impact on the Group.

PROPOSED FINAL DIVIDEND

The Board resolved to propose to the shareholders of the Company on the forthcoming annual general meeting to be held on 18 May 2018 (the "2018 AGM") for the distribution of a final dividend of HK$0.14 per share for the year ended 31 December 2017 payable to the shareholders of the Company whose names are listed in the register of members of the Company on 29 May 2018. The proposal for the distribution of the final dividend is subject to the consideration and approval by the shareholders of the Company at the 2018 AGM. Subject to the said approval, the final dividend will be paid in cash to the shareholders of the Company on or around Monday, 4 June 2017.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 15 May 2018 to Friday, 18 May 2018 (both days inclusive) and from Friday, 25 May 2018 to Tuesday, 29 May 2018 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for attending and voting at the 2018 AGM, unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration before 4:30 p.m. on Monday, 14 May 2018. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the 2018 AGM), unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above mentioned address for registration before 4:30 p.m. on Thursday, 24 May 2018.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The single largest customer and the top five customers in aggregate of the Group accounted for 1.20% and 4.73% of the Group's total sales for the year ended 31 December 2017 respectively. The single largest supplier and the top five suppliers in aggregate of the Group accounted for 17.32% and 74.00% of the Group's total purchases for the year respectively.

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

RETIREMENT BENEFIT SCHEMES

Details of retirement schemes of the Group are set out in note 27 to the consolidated financial statements in the annual report. In addition to contributing into retirement benefit schemes organised by the PRC municipal government, the Group also make contributions into mandatory provident fund ("MPF") schemes set up under the Mandatory Provident Fund Schemes Ordinance for all the Group's qualifying employees in Hong Kong. Contributions into MPF Scheme are made based on a percentage of the employee's basic salary with a cap of HK$1,500.

RESERVES

Details of the movements in the reserve of the Group and the Company during the year ended 31 December 2017 are set out in the Consolidated Statement of Changes in Equity on page 78 and note 30(d) to the consolidated financial statements.

At 31 December 2017, distributable reserves of the Company amounted to RMB3,077 million (31 December 2016: RMB3,270 million). After the end of the reporting period, the directors proposed a final dividend of HK$0.14 (approximately RMB0.11) per ordinary share (2016: HK$0.10 (approximately RMB0.09) per share), amounting to RMB281 million (2016: RMB198 million). This dividend has not been recognised as a liability at the end of reporting date.

DIRECTORS

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

Executive Directors:

Mr. Wang Muqing *(Chairman)*
Mr. Wang Kunpeng (re-designed as vice Chairman of the Board on 6 January 2017)
Mr. Koh Tee Choong, Ivan (appointed on 21 March 2017)
Mr. Li Zhubo
Mr. Wan To
Mr. Shao Yong Jun
Mr. Li Yi (resigned on 21 March 2017)

Independent Non-executive Directors:

Dr. Wong Tin Yau, Kelvin
Dr. Cao Tong
Ms. Wong Tan Tan

During the year under review, Mr. Wang Kunpeng was re-designated as the vice Chairman of the Board on 6 January 2017. Mr. Koh Tee Choong, Ivan was appointed as an executive Director on 21 March 2017, and on the same day, Mr. Li Yi resigned as an executive Director in order to be committed to the expansion and management of automobile financial business of the Company.

The biographical information of the newly appointed Directors are set out in the section headed "Directors' and Senior Management's Profiles" of this annual report.

Mr. Li Zhubo, Dr. Wong Tin Yau, Kelvin and Dr. Cao Tong shall retire and being eligible, offer themselves for re-election at the 2018 AGM. The Board proposes to re-appoint the Directors standing for re-election at the 2018 AGM of the Company.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the 2018 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.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Other than disclosed in the section "Continuing Connected Transactions" in this report, no contracts of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section "Continuing Connected Transactions" in this report, no contract of significance had been entered into between the Company or any of its subsidiaries, and any controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed under the section "Continuing Connected Transactions" in this report, none of the Directors or their respective associates has any interests in a business, which competes or may compete with the business of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

CONTINUING CONNECTED TRANSACTIONS

During 2017, the Group has entered into the following Lease Agreements and Property Management Agreement which constituted non-exempt continuing connected transactions subject only to the announcement, reporting and annual review requirements under Chapter 14A of the Listing Rules.

(1) Relationship between the Group and its connected persons

The relevant connected persons as lessor, with whom some of the Group's PRC operating entities or Wuhan Shengze Jietong Logistics Co., Ltd. (currently known as Wuhan Zhengtong United Industrial Investment Group Co., Ltd ("Wuhan Zhengtong")) have entered into the lease agreements (collectively, the "Lease Agreements" and each a "Lease Agreement") and/or property management agreement as lessee, are as follows:

1. 北京廣澤房地產開發有限公司 (Beijing Guangze Real Estate Development Co., Ltd.) ("Beijing Guangze") which is wholly owned by Mr. Wang Muqing's family members, thus a connected person of the Company under Chapter 14A of the Listing Rules;

2. 內蒙古聖澤鼎傑汽車貿易有限公司 (Inner Mongolia Shengze Dingjie Automobile Trading Co., Ltd.) ("Inner Mongolia Dingjie Automobile Trading"), being a wholly owned by Beijing Guangze, thus a connected person of the Company under Chapter 14A of the Listing Rules;

3. 長沙聖澤瑞寶電子產品貿易有限公司 (Changsha Shengze Ruibao Electronics Trading Co., Ltd.) ("Changsha Shengze"), being a company wholly owned by Beijing Guangze, thus a connected person of the Company under Chapter 14A of the Listing Rules;

4. 武漢聖澤捷運貿易有限公司 (Wuhan Shengze Jieyun Trading Co., Ltd.) ("Wuhan Shengze Jieyun"), being a company wholly owned by Beijing Guangze, thus a connected person of the Company under Chapter 14A of the Listing Rules;

5. 武漢聖澤捷眾物流有限公司 (Wuhan Shengze Jiezhong Logistics Co., Ltd.) ("Wuhan Shengze Jiezhong"), being a company wholly owned by Beijing Guangze, thus a connected person of the Company under Chapter 14A of the Listing Rules;

6. 北京寶澤汽車科技發展有限公司 (Beijing Baoze Automobile Technology Development Co., Ltd.) ("Beijing Development"), being a company held as to 5% by Beijing Guangze, thus not a connected person of the Company under Rule Chapter 14A of the Listing Rules;

7. 武漢江融投資有限公司 (Wuhan Jiangrong Investment Co., Ltd.) ("Wuhan Investment"), being a company wholly owned by Beijing Guangze, thus a connected person of the Company under Rule Chapter 14A of the Listing Rules; and

8. 湖北熙可實業有限公司 (Hubei Xike Industry Co., Ltd.) ("Hubei Xike"), which is wholly owned by Mr. Wang Muqing's family members, thus a connected person of the Company under Chapter 14A of the Listing Rules. From 1 October 2017, the payment to Hubei Shengze is changed to Hubei Xike instead, all terms would be remained unchanged.

Note: upto 1 December 2017, the companies in point 2-7 are wholly owned by Hubei Shengze Industry Co., Ltd. ("Hubei Shengze"), which is 100% owned by Mr. Wang Muqing, thus a connected person of the Company under Chapter 14A of the Listing Rules.

Under the Listing Rules, for so long as the above lessors remain as connected persons of the Company, the following transactions between the Group and the above lessors would constitute continuing connected transactions for the Company.

(2) The Lease Agreements

Referred to the prospectus of the Company dated 29 November 2010, the Group entered into eight lease agreements (the "Original Lease Agreements") with respective lessors for leasing of the premises necessary for the business operation of the Group in the PRC for an initial term of three years starting from the period between June and September 2010 and expiring during the period between May and September 2013. Following expiry of the Original Lease Agreements, eight renewed leased agreements (the "Renewed Lease Agreements") were entered into to renew the Original Lease Agreements. Five of the Renewed Lease Agreements expired on 31 May 2014 and were renewed again (the "2014 Lease Agreements") with the expiring date on 31 December 2015. The remaining three of the Renewed Lease Agreements together with four new lease agreements dated 30 September 2013 were entered into with respective lessors for a term from 30 September 2013 to 31 December 2015 (the "2013 Lease Agreements"). In order to ensure the continual use of the leased premises by the Group for relevant purposes after the expiry of the 2013 Lease Agreements and the 2014 Lease Agreements, the Group entered into an aggregate of eleven 2016 Lease Agreements with the respective Connected Lessors on 31 December 2015.

The table below sets out the details of the 2016 Lease Agreements, the date of each of these agreements is 31 December 2015 and the term of all such agreements are from 1 January 2016 to 31 December 2018:

	Location	Gross floor area (sq.m)	Use	Lessor	Lessee	Quarterly rental (RMB)
1.	4S shop, the basement and levels 1, 2, 3 and 5 on No. 59 West Third Ring South Road, Feng Tai District, Beijing, the PRC	22,502.92	The Group's head office, operation of 4S businesses and garage	Beijing Development	Beijing Baozehang Automobile Sales Services Co., Ltd. ("Beijing Baozehang")	6,599,457.50
2.	4S Store, No. 40, Xingan North Road Yi, New District, Hohhot, Inner Mongolia Autonomous Region, the PRC[2]	4,662.00	Operation of 4S businesses	Inner Mongolia Dingjie Automobile Trading	Huhhot Yingfei Automobile Sales Services Co., Ltd. ("Huhhot Yingfei")	51,049.00
3.	4S Store, No. 42, Xingan North Road, New District, Hohhot, Inner Mongolia Autonomous Region, the PRC	4,615.29	Operation of 4S businesses	Inner Mongolia Dingjie Automobile Trading	Inner Mongolia Dingjie Automobile Trading Co., Ltd.	463,260.00
4.	4S Store, No. 40, Xingan North Road Yi, New District, Hohhot, Inner Mongolia Autonomous Region, the PRC	10,199.00	Operation of 4S businesses	Inner Mongolia Dingjie Automobile Trading	Huhhot Qibao Automobile Sales Services Co., Ltd.	2,419,713.00
5.	4S Store, No. 40, Xingan North Road Jia, New District, Hohhot, Inner Mongolia Autonomous Region, PRC	7,439.00	Operation of 4S businesses	Inner Mongolia Dingjie Automobile Trading	Huhhot Jieyunhang Automobile Sales Services Co., Ltd.	2,850,997.00
6.	4S Store, No. 688, Changsha Avenue, Yuhua District, Changsha, Hunan, the PRC	4,498.26	Operation of 4S businesses	Changsha Shengze	Changsha Ruibao Automobile Sales Services Co., Ltd.	621,951.00
7.	No. Te 6 Huangpu Technological Park, Jiangan District, Wuhan City, Hubei Province, the PRC	4,661.59	Operation of 4S businesses	Hubei Shengze[3] /Hubei Xike	Hubei Bocheng Automobile Sales Services Co., Ltd.	579,162.00
8.	No. Te 6 Huangpu Technological Park, Jiangan District, Wuhan City, Hubei Province, the PRC	6,541.52	Operation of 4S businesses	Hubei Shengze[3] /Hubei Xike	Wuhan Kaitai Automobile Sales Services Co., Ltd.	819,476.00
9.	Shiqiao Village, Houhu County, Jiangan District, Wuhan City, Hubei, the PRC	21,156.00	Operation of 4S businesses	Wuhan Investment	Hubei Aoze Automobile Sales Services Co., Ltd.	4,086,357.00[4]
10.	Lot 6C2 Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	58,051.22	Operation of logistics and storage businesses	Wuhan Shengze Jieyun	Wuhan Zhengtong/ Shengze Jietong Supply Chain Co., Ltd.	3,543,560.00
11.	Lot 5C2 Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	10,422.59	Operation of logistics and storage businesses	Wuhan Shengze Jiezhong	Wuhan Zhengtong/ Shengze Jietong Supply Chain Co., Ltd.	636,215.00

1 The lessors have undertaken to grant the lessees options to renew the leases up to 2020 under the same conditions.

2 The land located at No. 40, Xingan North Road, New District, Hohhot is owned by Inner Mongolia Dingjie Automobile Trading, one of the Connected Lessors, and the buildings erected there on are owned by Huhhot Yingfei, the lessee of the Group.

3 From 1 October 2017, the lessors are changed to Hubei Xike.

4 From 1 April 2017, the quarterly rental was changed to RMB3,592,657.00.

The rental amounts of the 2016 Lease Agreements are determined after arm's length negotiations between the Group subsidiaries and the relevant Connected Lessors with reference to the prevailing market rate determined by a valuer engaged by the Group subsidiaries.

(3) Property Management Agreement

As set out in the table under the section headed "The Lease Agreements" above, Beijing Development, as lessor, and Beijing Baozehang, as lessee, has entered into an lease agreement to renew the lease of the 4S shop, basement, levels 1, 2, 3 and 5 on No. 59 West Third Ring South Road, Feng Tai District, Beijing, the PRC with an aggregate gross floor area of 22,502.92 sq.m.. In order to ensure the continual use of the property management services of Beijing Development by the Group, the Group entered into the Property Management Agreement with Beijing Development on 31 December 2015 for a period of 3 years from 1 January 2016 to 31 December 2018 (the "2016 Property Management Agreement"). Pursuant to the 2016 Property Management Agreement, Beijing Baozehang shall pay the property management monthly fee of RMB283,537.80 to Beijing Development from 1 January 2016. In addition, Beijing Development shall charge Beijing Baozehang the air-conditioning annual fee of RMB2,373,049 under the 2016 Property Management Agreement payable semiannually. The management fee under the 2016 Property Management Agreement was determined with reference to the market rate determined by a valuer engaged by Beijing Baozehang.

(4) Proposed Annual Caps

Pursuant to the 2016 Lease Agreements and the 2016 Property Management Agreement, the proposed annual caps of the continuing connected transactions for each of the three years ending 31 December 2018 were RMB96.5 million. The proposed annual caps are determined with reference to the rent payable by the Group to the lessors during the effective term of the lease pursuant to the 2016 Lease Agreements, and the management fee and the air-conditioning fee payable to Beijing Development pursuant to the 2016 Property Management Agreement.

(5) Purpose of the transactions

The premises leased by the Group under the above lease agreements nos. 1, 2, 3, 4, 5, 6, 7 and 9 are for the purpose of the Group's operation of 4S businesses and the headoffice of the Group. The land leased by the Group under the above lease agreement no. 8 is also for the purpose of the Group's operation of 4S businesses. The premises leased by the Group under the above lease agreements nos. 10 and 11 are for the purpose of the Group's operation of logistics and storage businesses.

REVIEW OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged KPMG, its independent external auditor, to perform certain procedures in respect of the continuing connected transactions undertaken by the Group for the year ended 31 December 2017 which has reported to the board of Directors in a letter dated 21 March 2018. KPMG has confirmed the matters stated in Rule 14A.56 of the Listing Rules.

The independent non-executive Directors of the Company have reviewed the non-exempt continuing connected transactions and the report of KPMG and are of the opinion that the transactions were entered into by the Group:

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

(b) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and

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

RELATED PARTY TRANSACTIONS

Save as disclosed in the section headed "Continuing connected transactions" of this report, the Group had not entered into any related party transaction during the year under review.

SHARE OPTION SCHEMES

(A) Share Option Scheme

The Company has adopted a share option scheme ("Share Option Scheme") pursuant to a resolution in writing passed by the Shareholders on 17 November 2010, which enables the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. The Share Option Scheme became effective on 10 December 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from the date of its adoption.

Eligible participants of the Share Option Scheme include the following:

(i) any employee ("Eligible Employee(s)") (whether full-time or part-time including any executive Director but excluding any non-executive Director) of the Company, any of the Company's subsidiaries or any entity (the "Invested Entity") in which the Group holds an equity interest;

(ii) any non-executive Directors (including independent non-executive Directors) of the Company, any of the Company's subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any member of any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group, and for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants.

As of the date of this report, the total number of shares of the Company available for issue under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue on the day on which trading of the shares commence on the Stock Exchange (the "General Scheme Limit"), i.e. 200,000,000 shares, representing 8.03% of the issued share capital of the Company as at the date of this report.

No option has been granted under the Share Option Scheme as at the date of this report.

The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder, chief executive or Director as explained below) in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of share options in excess of the Individual Limit is subject to Shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules) ("Connected Persons"), are subject to approval in advance by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, in the 12-month period up to and including the date of grant, are subject to shareholders' approval in general meeting.

The offer of a grant of share options may be accepted by a participant within 21 days from the date of offer upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the options subject to the provisions for early termination under the Share Option Scheme.

The subscription price for shares under the Share Option Scheme shall be a price determined by the Board, but shall not be less than the highest of (i) the closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of the offer of the grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant; and (iii) the nominal value of the shares of the Company.

Subject to the early termination of the Share Option Scheme in accordance with the Share Option Scheme rules, the Share Option Scheme will expire on 16 November 2020.

(B) Pre-IPO Share Option Scheme

The Company has, based on a framework plan formulated on 9 August 2010, formally adopted a pre-initial public offering share option scheme ("Pre-IPO Share Option Scheme") pursuant to a resolution in writing passed by the shareholders on 17 November 2010, which enables the Company to recognise and reward the contribution of certain Directors, senior management and employees of the Group to the growth and development of the Group and the Listing.

Pursuant to the Pre-IPO Share Option Scheme, the Company has granted options for the subscription of 23,435,900 shares to certain Directors, senior management, employees and former employees of the Group on 10 August 2010, 20 August 2010 and 10 November 2010 respectively.

Details of the movements in the Pre-IPO Share Option Scheme for the year ended 31 December 2017 are as follows:

Grantees	Date of grant	Exercise price per share (RMB)	Exercise period	Outstanding as at 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 31 December 2017
Directors								
Wang Kunpeng	10/8/2010	1.50	01/01/2012-10/08/2017	205,000	0	205,000	0	0
	10/8/2010	1.50	01/01/2013-10/08/2017	512,500	0	512,500	0	0
	10/8/2010	1.50	01/01/2014-10/08/2017	512,500	0	512,500	0	0
				1,230,000	0	1,230,000	0	0
Li Zhubo	10/8/2010	1.50	01/01/2012-10/08/2017	205,000	0	205,000	0	0
	10/8/2010	1.50	01/01/2013-10/08/2017	512,500	0	512,500	0	0
	10/8/2010	1.50	01/01/2014-10/08/2017	512,500	0	512,500	0	0
				1,230,000	0	1,230,000	0	0
Sub-total				2,460,000	0	2,460,000	0	0
Employees and former employees	10/8/2010	1.50	01/01/2012-10/08/2017	195,130	0	189,930	5,200	0
	10/8/2010	1.50	01/01/2013-10/08/2017	945,825	0	547,825	398,000	0
	10/8/2010	1.50	01/01/2014-10/08/2017	2,100,825	0	1,702,825	398,000	0
				3,241,780	0	2,440,580	801,200	0
	10/8/2010	2.00	01/04/2012-10/08/2017	66,200	0	66,200	0	0
	10/8/2010	2.00	01/04/2013-10/08/2017	170,500	0	170,500	0	0
	10/8/2010	2.00	01/04/2014-10/08/2017	170,500	0	170,500	0	0
				407,200	0	407,200	0	0
	10/8/2010	2.50	01/07/2012-10/08/2017	0	0	0	0	0
	10/8/2010	2.50	01/07/2013-10/08/2017	0	0	0	0	0
	10/8/2010	2.50	01/07/2014-10/08/2017	0	0	0	0	0
				0	0	0	0	0
	20/8/2010	2.50	01/07/2012-10/08/2017	0	0	0	0	0
	20/8/2010	2.50	01/07/2013-10/08/2017	0	0	0	0	0
	20/8/2010	2.50	01/07/2014-10/08/2017	0	0	0	0	0
				0	0	0	0	0
	17/11/2010	2.50	01/07/2012-17/11/2017	26,000	0	5,200	20,800	0
	17/11/2010	2.50	01/07/2013-17/11/2017	13,000	0	13,000	0	0
	17/11/2010	2.50	01/07/2014-17/11/2017	13,000	0	13,000	0	0
				52,000	0	31,200	20,800	0
Sub-total				3,700,980	0	2,878,980	822,000	0
Total				6,160,980	0	5,338,980	822,000	0

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

As at 31 December 2017, the interests of the Directors and their associates in the shares and underlying shares 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 maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

(i) Long positions in the shares and underlying shares of the Company:

Name of Director	Capacity/nature of interest	Number of Shares/ underlying Shares	Approximate percentage of shareholding
Wang Muqing	Founder of trusts	1,381,516,820 (Note 1)	60.98%
Wang Kunpeng	Beneficial Owner	1,230,000 (Note 2)	0.054%
Li Zhubo	Beneficial Owner	1,550,000 (Note 3)	0.068%

Notes:

1. These shares are directly held by Joy Capital Holdings Limited ("Joy Capital"). Mr. Wang, Muqing and Mr. Wang, Weize were the founders of the family trusts that own all the issued shares of Joy Capital, and Credit Suisse Trust Limited in Guernsey is the trustee of these family trusts. The Wang family members are discretionary beneficiaries of these trusts.

2. During the year, Wang Kunpeng exercised the options under the Pre-IPO Share Option Scheme granted to him, these represent the number of shares which are allotted and issued.

3. Mr. Li Zhubo has a total of 1,550,000 shares, among which 320,000 shares were purchased in the market, and the remaining 1,230,000 shares represented the number of shares which during the year, Mr. Li exericsed the options under the Pre-IPO Share Option Scheme granted to him, are allotted and issued.

Save as disclosed above, as at 31 December 2017, none of the Directors or any of their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the interests or short positions of the substantial shareholders (other than the Directors) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Long positions in the Shares of the Company:

Name of Shareholders	Capacity/ nature of interest	Number of Shares	Approximate percentage of shareholding
Joy Capital	Beneficial owner (Note 1)	1,381,516,820	60.98%
Wang Weize	Founder of trusts (Note 1)	1,381,516,820	60.98%

Note:

1. These shares are directly held by Joy Capital. Mr. Wang, Muqing and Mr. Wang, Weize were the founders of the family trusts that own all the issued shares of Joy Capital, and Credit Suisse Trust Limited in Guernsey is the trustee of these family trusts. The Wang family members are discretionary beneficiaries of these trusts.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the share option schemes, at no time during the year ended 31 December 2017 was the Company, or any of its holding company, 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, or debentures of, the Company or any other body corporate.

NON-COMPETE UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

In accordance with the non-compete undertakings ("Non-Compete Undertakings") contained in the share purchase agreement dated 17 November 2010 between the Company, Mr. Wang Muqing, Grand Glory Enterprises Limited ("Grand Glory") and Joy Capital, each of Mr. Wang, Grand Glory and Joy Capital (collectively, the "Covenantors") has undertaken to the Company that during the period in which he and his associates, individually or taken as a whole, remains a controlling shareholder (as defined under the Listing Rules) of the Company, they would comply with the terms of the Non-Compete Undertakings.

In addition, under the Non-Compete Undertakings, each of the Covenantors has undertaken to the Company that he shall provide to the Company and/or the Directors (including the independent non-executive Directors) from time to time all information necessary for annual review by the independent non-executive Directors with regard to compliance with the terms of the Non-Compete Undertakings. Each of the Covenantors has also undertaken to issue an annual confirmation to the Company on compliance with the terms of the Non-Compete Undertaking, their interests in any projects or business opportunities, if any, and consenting to the disclosure of such confirmation in the annual reports of the Company, thereby enabling the Company to keep monitoring the relevant compliance by the Covenantors.

The Company has received an annual confirmation from the Covenantors in respect of their compliance with the terms of the Non-Compete Undertakings and that they have not engaged, nor been interested, in any business which directly or indirectly, competes or may compete with the business of the Group during the year ended 31 December 2017.

The independent non-executive Directors have reviewed the said undertakings and are of the view that the Covenantors have complied with the Non-Compete Undertakings during the year ended 31 December 2017.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2017 are set out in notes 23 and 26 to the consolidated financial statements.

DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

On 12 January 2017, the Company (as borrower) entered into a facility agreement with fifteen financial institutions (as lenders) for a syndicated term loan facility for an initial aggregate amount of US$409 million (with a green shoe option of an amount up to US$600 million (inclusive of the said initial amount)). The final repayment date of the loan facility shall be the date falling 36 months after the first utilization date. Pursuant to the facility agreement, Mr. Wang Muqing (王木清先生), and his close relatives or any trust of which Mr. Wang and his close relatives are beneficiaries (whether directly or indirectly) are required to hold no less than 50% of the total issued share capital of the Company. For details, please refer to the announcement of the Company dated 18 January 2017.

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 senior management of the Company are set out in notes 8 and 9 to the consolidated financial statements.

RELATIONSHIPS WITH MAJOR STAKEHOLDERS

We fully understand that employees, customers and suppliers are the key to our sustainable and stable development. We are committed to establishing a close relationship with our employees, enhancing cooperation with our suppliers and providing high-quality products and services to our customers so as to ensure our sustainable development.

The Group has placed high emphasis on human resources. Hence, the Group offer its employees a competitive remuneration package and various trainings, including internal trainings and refresher courses offered by professional organisations, so as to keep them abreast of the latest development in the market, industry and various businesses.

The Group has enhanced communications with customers via various channels so as to provide excellent and quality customer services, with a focus on the customers' need and thus enhance customer satisfaction and loyalty. We value the feedback from customers and always try to understand their thoughts through daily communication, after-sale return visit and customer satisfaction surveys. In addition, we also assign designated personnel to maintain customers relationship, responding to the feedback and complaints from customers.

The Group has established strong cooperation relationship with a number of manufacturers of luxury and ultra-luxury branded automobiles and entered standing cooperative agreements, including dealership agreements and other licensing agreements. With the development of prevailing trend in the automobile industry, the Group will continue to facilitate exchange and cooperation with manufacturers of automobiles for the purpose of creating win-win situation. For the management of other suppliers, the Group has been more prudent in selecting suppliers and established long-term cooperation with them. The Group places emphasis on ongoing assessment and monitoring on the suppliers selection in order to ensure compliance with our commitment to quality and ethical conduct.

COMPLIANCE OF LAWS AND REGULATIONS

The Company is aware of the importance of complying with the relevant laws and regulations, and has allocated systems and human resources to guarantee our constant compliance to provisions and codes, and build good relationship with supervision authorities through effective communication.

During the year under review, to the knowledge of Directors, the Company is in compliance with the laws and regulations relating to its business, including those relating to automobile dealership, auto financing and insurance brokerage. In addition, the Group maintains compliance with laws and regulations relating to employees' rights and benefits, and provides them a healthy and safe working environment and condition. Meanwhile, the Group is committed to achieving high standards of corporate governance by observing laws and regulations on taxation, financial issues and listing compliance.

MAJOR RISKS AND UNCERTAINTIES

The results and business operations of the Group are subject to the impact of a number of factors, including those arising from the macro-economic environment as well as those inherent in the auto retail sector. The major risks are summarised as follows:

(i) Macro-economic environment

As a pillar industry of the national economy, the auto sector is considerably correlated to the volatile periods of the macro-economy in terms of timing and extent. Currently, China's auto 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, auto sales 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.

(ii) Industry policies

The Group's business operations must comply with policies and regulations announced by the PRC government for the administration of the auto industry. Changes in such industry policies may result in decreased market demand for products, lower prices for products and services and escalated market competition, which will in turn result in the decrease in revenue and profit. As such, 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.

(iii) Manufacturers' policies

As an auto dealer group, we have maintained sound cooperation with branded automobile manufacturers. 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 result in 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.

(iv) Intense competition

We compete not only with other auto dealers, but also players in the general express auto 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.

(v) Supply chain

The Group does not own or operate any production facilities, and is dependent on branded automakers and suppliers of auto accessories for the supply of all of our products. Any disruption in the supply of products by our suppliers might result in problems for our supply chain. Nevertheless, we have fostered long-term, stable partnerships with a number of branded automakers and suppliers of parts and components, and such partnerships have been highly valued by the suppliers. Hence, we have endeavoured to minimise the impact of any disruption in supply on a best-effort basis and ensure we are able to locate other suppliers of similar quality for reasonable prices at any time.

(vi) Information systems

The Group's business is dependent on information technology systems and networks in connection with sales, procurement, sales and distribution at all retail outlets, inventory management, customer relations management, digitalized marketing, financial reporting and auto finance. Any serious disruption to or slowdown of our information technology systems as a result of, among others, our inability to successfully upgrade our systems, system breakdowns or virus or cyber attacks might result in the loss of data and disruption in operations. Hence, the Group will invest in information technology and ERP systems on an ongoing basis to ensure the technological security, accessibility and completeness of important operational data.

(vii) Market risks

The Group is subject 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 32 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.

INDEMNITY TO DIRECTORS

The articles of association of the Company contain provisions that provide indemnity to, among other persons, our Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty. In accordance with the service agreement, each of our executive Director is entitled to be indemnified by the Company in all respects under laws, except to the extent of the willful default or gross negligence of a director. The Company maintained directors' and chief executives' liability insurance and corporate compensation insurance during the year.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We recognise the importance of environmental protection and have adopted stringent measures for environmental protection in order to ensure the compliance by the Group of the prevailing environmental protection laws and regulations.

The Group has been advocating the concept of green office in its daily operation by fully committing to environmental protection, energy saving and discharge reduction, reasonable allocation and utilisation of resources. In addition, the Group has implemented resources recycling with an aim to minimise energy consumption and waste. In future, the Group will firmly employ its sustainable development strategy to strongly promote environmental protection and carry out measures for environmental protection.

MANAGEMENT CONTRACTS

Except for the service contracts of the directors and senior management of the Company or otherwise disclosed in this report, no contracts were entered into between the Company and any individuals, companies or legal corporations, for the management of all or any material part of the Company's business.

CORPORATE GOVERNANCE

Throughout the year ended 31 December 2017, the Company had complied with the code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules except for the deviations set out in the Corporate Governance Report contained in this annual report.

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.

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

During the year, on 26 April 2017 the Company redeemed the US$335,000,000 4.5% credit enhanced bonds due 2018 ("Bonds") in whole, and the early redemption bond prices (being early redemption bond together with the interest accrued to and unpaid on the redemption date) amounting to US$351,632,628.59.

Subsequent to the completion of the redemption, the Bonds were cancelled and the listing of the Bonds was withdrawn from the Stock Exchange of Hong Kong Limited.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 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.

AUDITORS

KPMG will retire and, being eligible, offer themselves for re-appointment at the 2018 AGM of the Company. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the 2018 AGM of the Company.

On behalf of the Board

Wang Muqing
Chairman
21 March 2018

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of
China ZhengTong Auto Services Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China ZhengTong Auto Services Holdings Limited ("the company") and its subsidiaries ("the group") set out on pages 75 to 155, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

KEY AUDIT MATTERS (continued)

Impairment of goodwill and intangible assets – car dealerships

Refer to note 14 & note 15 to the consolidated financial statements and the accounting policies on page 85.

The Key Audit Matter	How the matter was addressed in our audit
As a result of acquisitions by the group of 4S dealership stores, the group recognised goodwill and intangible assets – car dealerships, which totalled RMB2.0 billion and RMB3.3 billion, respectively, as at 31 December 2017. Goodwill has been allocated to each of the relevant individual 4S dealership stores, which are considered to represent individual cash-generating units ("CGUs"). The 4S dealership business in China operates in an increasingly competitive market and commercial factors, such as car restriction policies, changes in market share of different brands or changes in the frequency with which customers replace their cars, increases the risk of sales volatility of the 4S dealership stores. Consequently, there are uncertainties as to whether the acquired 4S dealership stores can meet forecast growth projections. Annually, management assesses goodwill and intangible assets – car dealerships for potential impairment by determining the recoverable amount for each CGU to which the goodwill and intangible assets – car dealerships have been allocated. The recoverable amount of each CGU is determined by management using the post-tax discounted cash flow method based on a post-tax discount rate. The preparation of discounted cash flow forecasts involved the exercise of significant management judgement, particularly in estimating sales growth rates, corresponding gross margin rates and working capital changes, which are based on past performance and management's expectation of market developments. We identified impairment of goodwill and intangible assets – car dealerships as a key audit matter because these assets are material to the consolidated financial statements and because the impairment assessments prepared by management are complex and contain certain judgements and assumptions which are inherently uncertain and could be subject to management bias.	Our audit procedures to assess impairment of goodwill and intangible assets – car dealerships included the following: • evaluating the appropriateness of management's identification of CGUs and the amounts of goodwill and intangible assets – car dealerships allocated to each CGU; • with the assistance of our internal valuation specialists, evaluating the methodology adopted by management in the preparation of the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards and assessing whether the discount rate applied were within the range adopted by other companies in the same industry; • comparing data in the discounted cash flow forecast of each individual CGU with relevant data, including forecast revenue, forecast cost of sales, forecast other operating expenses and forecast working capital, in the financial budget which was approved by the directors and comparing forecast revenue growth trends with sales forecasts issued by industry research institutions; • comparing forecast revenue, forecast cost of sales, forecast other operating expenses and forecasts working capital included in the discounted cash flow forecasts prepared in the prior year with the current year's performance to assess how accurate the prior year's discounted cash flow forecasts were and making enquiries of management as to the reasons for any significant variations identified; • obtaining from management sensitivity analyses of the key assumptions adopted in the discounted cash flow forecasts and assessing the impact of changes in the key assumptions to the conclusions reached in the impairment assessments and whether there were any indicators of management bias; and • considering the disclosures in the consolidated financial statements of the assumptions in the impairment assessments of goodwill and intangible assets – car dealerships with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (continued)

Recognition of vendor rebates

Refer to note 19 to the consolidated financial statements and the accounting policies on page 92.

The Key Audit Matter	How the matter was addressed in our audit
The group earns vendor rebates under various and differing arrangements with automobile manufacturers. Rebate arrangements, which can vary in different fiscal years and between automobile manufacturers, include volume based purchase rebates, sales rebates for certain specific car models, performance rebates and other specific rebates. Volume based purchase rebates and sales rebates are granted by vendors if certain purchase or sales targets are met. Performance rebates are granted by vendors in accordance with the vendors' comprehensive assessment of the group's business performance. In addition, other specific rebates are granted to the group, including, but not limited to, compensation for automobile mortgage sales, new store one-off compensation, regional annual awards and car demonstration compensation. Volume based purchase rebates are recognised as a deduction from the costs of purchase of motor vehicles when the performance conditions associated with them are met. Sales based rebates, performance based rebates and other specific rebates are recognised as a deduction from cost of sales when the respective conditions associated with them are met. The group manually calculates rebates and recognises them when the associated conditions for recognition are met. We identified recognition of vendor rebates as a key audit matter because there are many different kinds of rebate arrangements in place and because the manual calculation of the group's entitlement to such rebates increases the risk that vendor rebates could be recognised before the entitlement conditions have been met.	Our audit procedures to assess the recognition of vendor rebates included the following: • obtaining an understanding of the design and implementation of management's key internal controls in relation to the recognition of vendor rebates; • assessing the group's accounting policies in respect of the recognition of vendor rebates by inspecting the terms and conditions set out in each type of rebate arrangement communicated by the respective automobile manufacturers with reference to the requirements of the prevailing accounting standards; • selecting a sample of vendor rebates recognised and settled during the year and comparing the recognised rebate amount with credit notes issued by the vendors or underlying bank payment slips; • for vendor rebate receivables at the reporting date, performing recalculations of the amounts receivable, on a sample basis, based on the terms of the underlying vendor rebate policies and relevant inputs, including sales and purchase volume data, rebate rates and other specific criteria as set out in the respective vendor rebate polices; • evaluating, on a sample basis, the above relevant inputs used to calculate vendor rebates by comparing the inputs with relevant underlying documentation; and • assessing, on a sample basis, whether vendor rebates accrued at the previous financial reporting date were subsequently settled in the current year.

KEY AUDIT MATTERS (continued)

Impairment of receivables from financial services operations

Refer to note 20 to the consolidated financial statements and the accounting policies on page 85.

The Key Audit Matter	How the matter was addressed in our audit
The group's financial services operations mainly comprise automobile consumer financing services; i.e. providing loans and advances to individual car buyers, which are recorded as receivables from financial services in the consolidated financial statements. A material portion of the impairment provisions for receivables from financial services operations is calculated by management on a modelled basis for portfolios of loans and advances to individual car buyers. From the group's perspective, the portfolios which gave rise to the greatest uncertainty in determining impairment of receivables from financial services operations were those where impairments were derived from collective assessment models. Estimations and judgements are applied by management in determining the impairment calculation, including: • the external economic environment and the group's internal credit risk management strategy, which are significant factors in the determination of the collective impairment provisions; • the group's historical losses for receivables from financial services operations, the loss emergence period (i.e. the time lapse between the occurrence of the event causing eventual default to the actual recording of a loss); and • economic factors such as market rate variance, the supply and demand of the automobile consumer market and the operation of the whole automobile finance industry, which are key in calculating adjustment factors. We identified impairment of receivables from financial services operations as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results of the group.	Our audit procedures to assess impairment of receivables from financial services operations included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the approval, recording and monitoring of receivables from financial services operations, the credit grading process and the measurement of impairment provisions for receivables from financial services operations; • evaluating the validity of the models used and assumptions adopted in the group's calculation of collective impairment provisions by critically assessing input parameters involving subjective judgement, seeking collaborative evidence from external sources and comparing the historical losses against the group's other internal records. – as part of these procedures, we challenged the group's revisions to estimates and input parameters, the consistency of judgement applied in the use of economic factors, the loss emergence period and the observation period for historical losses; – we compared the economic factors used in the models to market information to assess whether they were aligned with market and economic development. We also assessed the emergence period by tracing the lifecycle of overdue accounts from the specific credit event to downgrading the accounts to impaired receivables from financial services operations; – having considered the above, we performed re-calculations to assess the amount of collective impairment provisions; and • assessing the disclosures in the consolidated financial statements in relation to impairment of receivables from financial services operations with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

AUDITOR'S RESPONSIBILITY 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The engagement partner on the audit resulting in this independent auditor's report is Au Yat Fo.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
21 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017 (Expressed in RMB'000)

	Note	For the year ended 31 December 2017	2016
Revenue	4	**35,474,325**	31,519,255
Cost of sales		**(31,705,979)**	(28,782,921)
Gross profit		**3,768,346**	2,736,334
Other income	5	**418,216**	531,640
Selling and distribution expenses		**(1,027,736)**	(948,116)
Administrative expenses		**(733,072)**	(1,072,188)
Profit from operations		**2,425,754**	1,247,670
Finance costs	6(a)	**(700,993)**	(482,275)
Share of profit of joint venture and associates		**29,030**	25,403
Profit before taxation	6	**1,753,791**	790,798
Income tax	7(a)	**(542,329)**	(282,439)
Profit for the year		**1,211,462**	508,359
Attributable to:			
Equity shareholders of the company		**1,190,795**	493,282
Non-controlling interests		**20,667**	15,077
Profit for the year		**1,211,462**	508,359
Earnings per share	10		
Basic (RMB cents)		**53.8**	22.3
Diluted (RMB cents)		**53.8**	22.3

The notes on pages 80 to 155 form part of these financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in note 30(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017 (Expressed in RMB'000)

		For the year ended 31 December	
	Note	**2017**	2016
Profit for the year		**1,211,462**	508,359
Other comprehensive income for the year (after tax):			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of:			
– financial statements of entities outside the Mainland China		**20,786**	(15,461)
Other comprehensive income for the year		**20,786**	(15,461)
Total comprehensive income for the year		**1,232,248**	492,898
Attributable to:			
Equity shareholders of the company		**1,211,581**	477,821
Non-controlling interests		**20,667**	15,077
Total comprehensive income for the year		**1,232,248**	492,898

The notes on pages 80 to 155 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017 (Expressed in RMB'000)

	Note	At 31 December 2017	2016
Non-current assets			
Property, plant and equipment	12	**4,477,980**	3,912,899
Lease prepayments	13	**1,290,275**	1,108,570
Intangible assets	14	**3,675,288**	3,691,704
Goodwill	15	**1,998,733**	1,926,551
Interest in a joint venture	17	**275,722**	244,114
Interest in associates		**16,398**	21,803
Receivables from financial services	20	**2,478,202**	1,931,884
Deferred tax assets	29	**171,230**	154,912
Other financial assets		**–**	143,456
		14,383,828	13,135,893
Current assets			
Inventories	18	**4,084,168**	3,018,856
Trade and other receivables	19	**8,307,804**	6,384,103
Receivables from financial services	20	**2,924,012**	1,732,996
Pledged bank deposits and balances with central bank	21	**3,686,098**	1,831,934
Time deposits		**837,000**	–
Cash and cash equivalents	22	**2,716,220**	1,625,128
		22,555,302	14,593,017
Current liabilities			
Loans and borrowings for financial services	23	**4,023,938**	3,252,885
Loans and borrowings for non-financial services	23	**9,072,155**	5,392,584
Obligations under finance leases	24	**84,996**	101,720
Trade and other payables	25	**6,338,004**	5,501,303
Income tax payables	7(c)	**1,419,846**	1,129,926
		20,938,939	15,378,418
Net current assets/(liabilities)		**1,616,363**	(785,401)
Total assets less current liabilities		**16,000,191**	12,350,492
Non-current liabilities			
Loans and borrowings for non-financial services	23	**3,705,990**	224,000
Bonds payable	26	**901,463**	2,314,703
Deferred tax liabilities	29	**869,171**	869,628
Obligations under finance leases	24	**35,582**	–
Other financial liabilities		**134,353**	–
		5,646,559	3,408,331
NET ASSETS		**10,353,632**	8,942,161
CAPITAL AND RESERVES	30		
Share capital		**193,425**	188,788
Reserves		**10,007,386**	8,669,543
Total equity attributable to equity shareholders of the company		**10,200,811**	8,858,331
Non-controlling interests		**152,821**	83,830
TOTAL EQUITY		**10,353,632**	8,942,161

Approved and authorised for issue by the board of directors on 21 March 2018.

Koh Tee Choong
Director, CEO

Li Zhubo
Director, CFO

The notes on pages 80 to 155 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017 (Expressed in RMB'000)

	Attributable to shareholders of the company										
	Share capital (note 30(c))	Share premium	Capital reserve	PRC statutory reserve (note 30(d)(i))	Exchange reserve (note 30(d)(ii))	Discretionary surplus reserve	General reserve (note 30(d)(iii))	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2016	**188,788**	**4,549,233**	**319,553**	**363,806**	**(6,952)**	**4,459**	**5,340**	**3,164,405**	**8,588,632**	**100,706**	**8,689,338**
Profit for the year	–	–	–	–	–	–	–	493,282	493,282	15,077	508,359
Other comprehensive income	–	–	–	–	(15,461)	–	–	–	(15,461)	–	(15,461)
Total comprehensive income for the year	–	–	–	–	(15,461)	–	–	493,282	477,821	15,077	492,898
Acquisition of non-controlling interest	–	–	(20,913)	–	–	–	–	–	(20,913)	(18,085)	(38,998)
Transfer of profits to general reserve	–	–	–	–	–	–	17,824	(17,824)	–	–	–
Dividends (note 30(b))	–	–	–	–	–	–	–	(187,209)	(187,209)	(13,868)	(201,077)
Appropriation to reserves	–	–	–	60,569	–	–	–	(60,569)	–	–	–
Balance at 31 December 2016 and 1 January 2017	**188,788**	**4,549,233**	**298,640**	**424,375**	**(22,413)**	**4,459**	**23,164**	**3,392,085**	**8,858,331**	**83,830**	**8,942,161**
Profit for the year	–	–	–	–	–	–	–	1,190,795	1,190,795	20,667	1,211,462
Other comprehensive income	–	–	–	–	20,786	–	–	–	20,786	–	20,786
Total comprehensive income for the year	–	–	–	–	20,786	–	–	1,190,795	1,211,581	20,667	1,232,248
Capital injection from non-controlling interest	–	–	–	–	–	–	–	–	–	55,000	55,000
Transfer of profits to general reserve	–	–	–	–	–	–	32,535	(32,535)	–	–	–
Dividends (note 30(b))	–	–	–	–	–	–	–	(193,215)	(193,215)	(6,676)	(199,891)
Issue of ordinary shares by placement (note 30(c)(i))	4,180	311,691	–	–	–	–	–	–	315,871	–	315,871
Equity settled share-based transactions	457	14,782	(6,996)	–	–	–	–	–	8,243	–	8,243
Appropriation to reserves	–	–	–	98,252	–	–	–	(98,252)	–	–	–
Balance at 31 December 2017	**193,425**	**4,875,706**	**291,644**	**522,627**	**(1,627)**	**4,459**	**55,699**	**4,258,878**	**10,200,811**	**152,821**	**10,353,632**

The notes on pages 80 to 155 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017 (Expressed in RMB'000)

	Note	For the year ended 31 December	
		2017	2016
Operating activities:			
Cash (used in)/generated from operations		**(578,018)**	832,286
Income tax paid	7(c)	**(288,400)**	(185,100)
Net cash (used in)/generated from operating activities		**(866,418)**	647,186
Investing activities:			
Payment for purchase of property, plant and equipment		**(815,407)**	(949,854)
Proceeds from disposal of property, plant and equipment		**223,575**	238,493
Payment for purchase of lease prepayments		**(209,689)**	(68,420)
Proceeds from disposal of lease prepayments		**–**	5,263
Payment for purchase of intangible assets		**(8,858)**	(3,856)
Investment in an associate		**–**	(20,000)
Proceeds from closure of an associate		**3,074**	–
Net cash used in acquisition of subsidiaries	31	**(232,333)**	–
Increase in time deposits		**(837,000)**	–
Interest received		**22,187**	20,605
Net cash used in investing activities		**(1,854,451)**	(777,769)
Financing activities:			
Proceeds from loans and borrowings	22(c)	**26,202,130**	13,203,276
Repayment of loans and borrowings	22(c)	**(20,258,361)**	(11,973,443)
Proceeds from issue of ordinary shares by placement		**315,871**	–
Proceeds from shares issued under share option scheme		**8,243**	–
Repayment of finance lease liabilities	22(c)	**(224,161)**	(38,038)
Acquisition of non-controlling interests		**–**	(38,998)
Capital injection by non-controlling interests		**55,000**	–
Dividends paid to non-controlling interests	30(b)	**(6,676)**	(13,868)
Dividend paid to equity shareholders of the company	30(b)	**(193,215)**	(187,209)
Other borrowing paid	22(c)	**(785,864)**	(512,730)
Pledged bank deposits for bank loans and standby letter of credit	21	**(1,295,372)**	(291,808)
Net cash generated from financing activities		**3,817,595**	147,182
Net increase in cash and cash equivalents		**1,096,726**	16,599
Cash and cash equivalents at beginning of the year		**1,625,128**	1,599,117
Effect of foreign exchange rate changes		**(5,634)**	9,412
Cash and cash equivalents at end of the year	22	**2,716,220**	1,625,128

The notes on pages 80 to 155 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China ZhengTong Auto Services Holdings Limited (the "Company") was incorporated in the Cayman Islands on 9 July 2010 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The company and its subsidiaries (collectively, the "Group") are principally engaged in 4S dealership business, supply chain business and financial services in the People's Republic of China (the "PRC").

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). Significant accounting policies adopted by the group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group and the company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the company and its subsidiaries (together refer to as the "Group") and the group's interest in a joint venture and an associate.

These consolidated financial statements are presented in Renminbi ("RMB") which is the group's presentation currency, rounded to the nearest thousand, except for earnings per share information.

The measurement basis used in the preparation of the financial statement is the historical cost basis, except that derivative financial instruments are stated at fair value as explained in the accounting policies set out below.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 37.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the group has power, only substantive rights (held by the group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the company. Non-controlling interests in the results of the group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the company.

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

In the company's statement of financial position, an investment in subsidiaries is stated at cost less impairment losses (see note 2(j)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Associates and joint ventures

An associate is an entity in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the group or company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(j)). Any acquisition-date excess over cost, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the group's share of losses exceeds its interest in the associate or the joint venture, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the group's interest is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the group and its associates and joint venture are eliminated to the extent of the group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, which is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(j)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(g) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(v)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

–	Buildings situated on leasehold land	Over the shorter of the unexpired term of lease and their estimated useful lives, being 30–40 years after the date of completion.
–	Leasehold improvements	Over the shorter of the un-expired term of the lease and 5 years
–	Plant and machinery	10 years
–	Motor vehicles	5/10 years
–	Office equipment and furniture	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress is stated at cost less impairment losses (see note 2(j)). Cost comprises direct costs of construction during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets of their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Intangible assets (other than goodwill)

Intangible assets that are acquired by the group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

–	Car dealership	40 years
–	Favourable lease contracts	Over the unexpired term of lease, being 1–10 years

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the group

Assets that are held by the group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases.

(ii) Lease prepayments

Lease prepayments represent the cost of acquiring land use rights paid to the PRC's governmental authorities. Lease prepayments are carried at cost less accumulated amortisation and impairment losses (see note 2(j)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights.

(iii) Operating lease charges

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets (continued)

(iv) Assets acquired under finance leases

Where the group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the group will obtain ownership of the asset, the life of the asset, as set out in note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(j) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(j)(ii).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(i) Impairment of investments in equity securities and other receivables (continued)

For trade, other receivable and receivable from financial services carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the provision account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments;
- intangible assets;
- investments in associate and joint venture;
- investments in subsidiaries; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated on specific identification or weighted average basis as appropriate and comprises all costs of purchase after deducting rebates from suppliers and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expenses in the period in which the reversal occurs.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits

(i) Short-term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plan

Obligation for contributions to defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in the consolidated statement of profit or loss as incurred.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the group or the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of motor vehicles

Revenue arising from the sale of motor vehicles is recognised upon delivery of motor vehicles which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Sales of motor spare parts

Revenue arising from the sale of motor spare parts is recognised when significant risks and rewards of ownership have been transferred to the buyers.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue recognition (continued)

(iii) Maintenance services income

Revenue arising from maintenance services is recognised when the relevant service is rendered without further performance obligations.

(iv) Logistics services income and other related services income

Revenue arising from logistics services and other related services are recognised when the service is rendered to customers.

(v) Sales of lubricant oil

Revenue arising from the sales of lubricant oil is recognised when lubricant oil is delivered at the customers' premises.

(vi) Service income

Service income is recognised at the time when the services concerned are rendered to customers.

(vii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(t) Vendor rebates

Incentive rebates provided by vendors are recognised on an accrual basis based on the expected entitlement earned up to the reporting date pursuant to each relevant supplier contract.

Incentive rebates relating to vehicles purchased and sold are deducted from cost of sales, while incentive rebates relating to vehicle purchased but still held as inventories at the reporting date are deducted from the carrying value of such vehicles so that the cost of inventories is recorded net of applicable rebates.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Related parties

(a) A person, or a close member of that person's family, is related to the group if 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 the group's parent.

(b) An entity is related to the group if any of the following conditions applies:

(i) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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 company 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).

(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 group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the group. None of these impact on the accounting policies of the group. However, additional disclosure has been included in note 22(c) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 REVENUE

The group is mainly engaged in sales of passenger motor vehicles, after-sales services, provision of logistics services, sales of lubricant oil and financial services. Revenue represents the sales of goods, services income rendered to customers, and interest income.

The amount of each significant category of revenue recognised in revenue during the year is as follows:

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Sales of passenger motor vehicles	**30,289,320**	27,042,043
After-sales services	**3,898,520**	3,422,142
Provision of logistics services	**537,724**	411,946
Sales of lubricant oil	**226,498**	245,280
Interest and service income from financial services	**522,263**	397,844
	35,474,325	31,519,255

5 OTHER INCOME

	For the year ended 31 December	
	2017 RMB'000	2016 RMB'000
Service income	**577,027**	377,447
Interest income from bank deposits	**22,187**	20,605
Net gain on disposal of property, plant and equipment	**25,073**	20,860
Net (loss)/gain on derivative financial instruments	**(225,447)**	96,148
Others	**19,376**	16,580
	418,216	531,640

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Note	For the year ended 31 December	
		2017 RMB'000	2016 RMB'000
(a) Finance costs:			
Interest on loans and borrowings for non-financial services and bonds payable		**692,645**	470,519
Other finance costs	(i)	**47,246**	43,818
Less: Interest capitalised*		**(38,898)**	(32,062)
		700,993	482,275

* The borrowing costs have been capitalised at a rate of 4.16–6.99% per annum (2016: 4.35–7.80%).

	Note	**2017 RMB'000**	2016 RMB'000
(b) Staff costs:			
Salaries, wages and other benefits		**750,630**	661,372
Contributions to defined contribution retirement plans	(ii)	**59,050**	51,674
		809,680	713,046

6 PROFIT BEFORE TAXATION (continued)

(i) It mainly represents the interest expenses arising from discounting of bills payables.

(ii) Employees of the group's PRC subsidiaries are required to participate in defined contribution retirement schemes administered and operated by the local municipal governments where the subsidiaries are registered. The group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the respective local municipal government to the schemes to fund the retirement benefits of the employees.

The group has no other material obligation for the payment of retirement benefits other than the annual contributions described above.

		For the year ended 31 December	
		2017	2016
		RMB'000	RMB'000
(c)	**Other items:**		
	Cost of inventories (note 18(b))	**31,052,025**	28,295,264
	Cost of interests*	**154,637**	141,458
	Depreciation	**310,392**	278,158
	Amortisation of lease prepayments	**27,984**	23,860
	Amortisation of intangible assets	**103,607**	101,509
	Operating lease charges	**356,805**	306,170
	Net loss/(gain) on derivative financial instruments	**225,447**	(96,148)
	Net foreign exchange (gain)/loss	**(228,449)**	169,254
	Allowance for doubtful debts of receivables from financial services	**41,099**	30,728
	Auditors' remuneration		
	– audit service	**7,300**	7,300
	– non-audit service	**–**	328

* The cost of interests is the borrowing costs for financial services, and is recognized in the cost of sales.

7 INCOME TAX

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

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Current tax:		
Provision for income tax for the year	**578,320**	342,695
Deferred tax:		
Origination of temporary differences (note 29)	**(35,991)**	(60,256)
	542,329	282,439

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

(ii) No provision for Hong Kong Profits Tax was made for the subsidiaries located in Hong Kong as the subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the year. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(iii) The PRC subsidiaries of the group are subject to PRC Corporate Income Tax rate of 25% (2016:25%).

7 INCOME TAX (continued)

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before taxation	**1,753,791**	790,798
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	**438,448**	197,700
Non-deductible expenses	**94,398**	58,884
Unused tax losses not recognised	**16,741**	32,206
Non-taxable income on:		
– Share of profits recognised under the equity method	**(7,258)**	(6,351)
Income tax	**542,329**	282,439

(c) Income tax payables in the consolidated statement of financial position represent:

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Balance at beginning of the year	**1,129,926**	972,331
Provision for current income tax for the year	**578,320**	342,695
Payment during the year	**(288,400)**	(185,100)
Balance at the end of the year	**1,419,846**	1,129,926

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2017

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Total RMB'000
Chairman					
Wang Muqing	–	–	–	–	–
Executive directors					
Wang Kunpeng	–	384	576	46	1,006
Koh Tee Choong, Ivan (note (i))	–	2,483	654	–	3,137
Li Zhubo	–	384	576	72	1,032
Wan To	–	264	396	–	660
Shao Yongjun	–	288	432	72	792
Li Yi (note (i))	–	312	468	63	843
Independent non-executive directors					
Wong Tin Yau, Kelvin	276	–	–	–	276
Cao Tong (note (ii))	276	–	–	–	276
Wong Tan Tan (note (ii))	276	–	–	–	276
	828	4,115	3,102	253	8,298

8 DIRECTORS' REMUNERATION (continued)

Year ended 31 December 2016

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Total RMB'000
Chairman					
Wang Muqing	–	–	–	–	–
Executive directors					
Wang Kunpeng	–	384	576	62	1,022
Li Zhubo	–	384	576	106	1,066
Wan To	–	264	396	–	660
Shao Yongjun	–	288	432	106	826
Li Yi (note (i))	–	312	468	68	848
Independent non-executive directors					
Wong Tin Yau, Kelvin	295	–	–	–	295
Cao Tong (note (ii))	214	–	–	–	214
Wong Tan Tan (note (ii))	16	–	–	–	16
Zhao Chunjun (note (ii))	283	–	–	–	283
Chang Xiuze (note (ii))	79	–	–	–	79
	887	1,632	2,448	342	5,309

Notes:

(i) Mr. Li Yi resigned as executive director of the company on 21 March 2017.

Mr. Koh Tee Choong, Ivan was appointed as chief executive officer of the company on 6 January 2017 and was appointed as executive director of the company on 21 March 2017.

(ii) Mr. Chang Xiuze resigned as independent non-executive director of the company on 8 April 2016. Mr. Zhao Chunjun retired as an independent non-executive director of the company on 13 December 2016.

Dr. Cao Tong was appointed as non-executive director of the company on 8 April 2016. Ms. Wong Tan Tan was appointed as non-executive director of the company on 13 December 2016.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, five (2016: five) are directors whose emoluments are disclosed in note 8.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2017 was based on the profit attributable to equity shareholders of the company of RMB1,190,795,000 (2016: RMB493,282,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2017 of 2,212,717,736 (2016: 2,210,200,440), calculated as follows:

Weighted average number of ordinary shares

	For the year ended 31 December	
	2017	2016
Issued ordinary shares at 1 January	**2,210,200,440**	2,210,200,440
Effect of share options exercised	**2,106,337**	–
Effect of shares issued for placing (note 30(c)(i))	**410,959**	–
Weighted average number of ordinary shares at 31 December	**2,212,717,736**	2,210,200,440

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2017 is based on the profit attributable to equity shareholders of the company of RMB1,190,795,000 (2016: RMB493,282,000) and the weighted average number of ordinary shares of 2,214,936,438 (2016: 2,212,369,686) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's pre-IPO employee share option scheme, calculated as follows:

Weighted average number of shares (diluted)

	For the year ended 31 December	
	2017	2016
Weighted average number of ordinary shares for the year ended 31 December	**2,212,717,736**	2,210,200,440
Effect of deemed issue of shares under the pre-IPO employee share option scheme	**2,218,702**	2,169,246
Weighted average number of ordinary shares (diluted) at 31 December	**2,214,936,438**	2,212,369,686

11 SEGMENT REPORTING

The group manages its businesses by divisions, which are organised by business lines and in a manner consistent with the way in which information is reported internally to the group's most senior executive management for the purposes of resource allocation and performance assessment, the group has identified the following three major operating segments:

1 4S dealership business

4S dealership business mainly includes sales of motor vehicles and after-sales services through the group's network of 4S dealerships in the PRC.

2 Supply chain business

Supply chain business mainly includes provision of motor-related logistics services and trading of lubricant oil.

3 Financial services business

Financial services business mainly includes providing financial services to auto customers and dealers.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

- Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

- The measure used for reporting segment profit is profit before taxation. To arrive at profit before taxation, the group's earnings are adjusted for items not specifically attributed to individual segments, such as head office and corporate administration costs, other revenue, other net income and finance costs.

- Segment assets include all current and non-current assets with the exception of intangible assets, goodwill, deferred tax assets and unallocated head office assets. Segment liabilities include all current and non-current liabilities with the exception of income tax payables, deferred tax liabilities and unallocated head office liabilities.

- In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment sales), loans and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

11 SEGMENT REPORTING (continued)

(a) Segment results, assets and liabilities (continued)

	4S dealership business		Supply chain business		Financial services business		Total	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Revenue from external customers	**34,187,840**	30,464,185	**764,222**	657,226	**522,263**	397,844	**35,474,325**	31,519,255
Inter-segment revenue	**-**	-	**-**	-	**165,428**	58,788	**165,428**	58,788
Reportable segment revenue	**34,187,840**	30,464,185	**764,222**	657,226	**687,691**	456,632	**35,639,753**	31,578,043
Reportable segment profit	**1,490,018**	586,319	**101,457**	119,703	**377,764**	221,431	**1,969,239**	927,453
Depreciation and amortisation for the year	**403,707**	371,409	**14,110**	16,967	**24,166**	15,151	**441,983**	403,527
Reportable segment assets	**18,437,763**	16,175,278	**308,528**	234,729	**7,235,983**	4,413,169	**25,982,274**	20,823,176
Additions to non-current segment assets during the year	**1,194,619**	764,634	**23,004**	10,465	**153,232**	277,799	**1,370,855**	1,052,898
Reportable segment liabilities	**(15,618,286)**	(12,523,755)	**(200,754)**	(144,001)	**(4,478,777)**	(3,531,114)	**(20,297,817)**	(16,198,870)
Investment in a joint venture and associates	**-**	-	**275,722**	247,314	**16,398**	18,603	**292,120**	265,917

(b) Reconciliations of reportable segment

	For the year ended 31 December	
	2017 RMB'000	2016 RMB'000
Revenue:		
Reportable segment revenue	**35,639,753**	31,578,043
Elimination of inter-segment revenue	**(165,428)**	(58,788)
Consolidated revenue	**35,474,325**	31,519,255
Profit before taxation:		
Reportable segment profit	**1,969,239**	927,453
Elimination of inter-segment profits	**(98,795)**	(17,274)
Unallocated head office expenses	**166,124**	(168,746)
Other income	**418,216**	531,640
Finance costs	**(700,993)**	(482,275)
Consolidated profit before taxation	**1,753,791**	790,798

11 SEGMENT REPORTING (continued)

(b) Reconciliations of reportable segment (continued)

	At 31 December 2017 RMB'000	2016 RMB'000
Assets:		
Reportable segment assets	**25,982,274**	20,823,176
Intangible assets	**3,675,288**	3,691,704
Goodwill	**1,998,733**	1,926,551
Deferred tax assets	**171,230**	154,912
Unallocated head office assets	**6,346,423**	2,356,499
Elimination of inter-segment receivables	**(1,234,818)**	(1,223,932)
Consolidated total assets	**36,939,130**	27,728,910
Liabilities:		
Reportable segment liabilities	**(20,297,817)**	(16,198,870)
Income tax payables	**(1,419,846)**	(1,129,926)
Deferred tax liabilities	**(869,171)**	(869,628)
Unallocated head office liabilities	**(5,233,482)**	(1,812,257)
Elimination of inter-segment payables	**1,234,818**	1,223,932
Consolidated total liabilities	**(26,585,498)**	(18,786,749)

(c) Geographic information

As the group solely operates in the PRC, no geographical segment information has been presented.

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2016	2,104,853	86,398	479,926	431,637	283,987	665,441	4,052,242
Additions	39,642	–	63,456	404,381	18,874	454,268	980,621
Transfer	261,546	9,864	3,793	26,914	2,719	(304,836)	–
Disposals	(20,828)	–	(14,523)	(265,787)	(17,309)	–	(318,447)
At 31 December 2016 and 1 January 2017	2,385,213	96,262	532,652	597,145	288,271	814,873	4,714,416
Acquisition of subsidiaries through business combinations (note 31)	12,762	111	5,579	9,130	2,287	–	29,869
Additions	10,961	–	15,878	284,281	37,732	695,254	1,044,106
Transfer	428,418	1,478	154,029	10,047	724	(594,696)	–
Disposals	–	–	(5,402)	(270,422)	(2,817)	–	(278,641)
At 31 December 2017	**2,837,354**	**97,851**	**702,736**	**630,181**	**326,197**	**915,431**	**5,509,750**
Accumulated depreciation:							
At 1 January 2016	163,586	57,139	127,784	141,289	134,375	–	624,173
Charge for the year	86,166	14,227	51,344	78,408	48,013	–	278,158
Written back on disposals	(2,352)	–	(9,848)	(76,526)	(12,088)	–	(100,814)
At 31 December 2016 and 1 January 2017	247,400	71,366	169,280	143,171	170,300	–	801,517
Charge for the year	99,704	9,128	58,267	98,672	44,621	–	310,392
Written back on disposals	–	–	(4,443)	(73,183)	(2,513)	–	(80,139)
At 31 December 2017	**347,104**	**80,494**	**223,104**	**168,660**	**212,408**	**-**	**1,031,770**
Net book value:							
At 31 December 2017	**2,490,250**	**17,357**	**479,632**	**461,521**	**113,789**	**915,431**	**4,477,980**
At 31 December 2016	2,137,813	24,896	363,372	453,974	117,971	814,873	3,912,899

(a) The group's buildings are located in the PRC. The group has yet to obtain property ownership certificates of certain buildings with an aggregate net book value of RMB241,283,844 as at 31 December 2017 (2016: RMB190,040,880). Notwithstanding this, the directors are of the opinion that the group owned the beneficial title to these buildings as at 31 December 2017.

(b) Property, plant and equipment with carrying amount of RMB65,532,000 are pledged against bank loans (see note 23) as at 31 December 2017 (2016: RMB114,871,000 are pledged against a standby letter of credit).

(c) The group leases vehicles under finance leases expiring from one to two years. None of the leases includes contingent rentals.

During the year, additions to vehicles financed by new finance leases were RMB243,019,000 (2016: RMB137,133,000). At the end of the reporting period, the net book value of vehicles held under finance leases was RMB238,568,000 (2016: RMB118,524,000).

13 LEASE PREPAYMENTS

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Cost:		
At 1 January	**1,196,834**	1,132,344
Additions	**209,689**	68,420
Disposals	**–**	(3,930)
At 31 December	**1,406,523**	1,196,834
Accumulated amortisation:		
At 1 January	**(88,264)**	(64,994)
Charge for the year	**(27,984)**	(23,860)
Written back on disposals	**–**	590
At 31 December	**(116,248)**	(88,264)
Net book value:		
At 31 December	**1,290,275**	1,108,570

Lease prepayments represent cost of land use rights in respect of land located in the PRC with a lease period of 23 to 50 years when granted.

Lease prepayments with carrying amount of RMB22,185,990 are pledged against a bank loan (see note 23) as at 31 December 2017 (2016: RMB64,873,000 are pledged against a standby letter of credit).

14 INTANGIBLE ASSETS

	Car dealerships RMB'000	Favourable lease contracts RMB'000	Trademark RMB'000	Software RMB'000	Others RMB'000	Total RMB'000
Cost:						
At 1 January 2016	3,888,752	36,904	362,732	14,878	363	4,303,629
Additions	–	–	–	3,856	–	3,856
At 31 December 2016 and 1 January 2017	3,888,752	36,904	362,732	18,734	363	4,307,485
Additions	78,333	–	–	8,858	–	87,191
At 31 December 2017	**3,967,085**	**36,904**	**362,732**	**27,592**	**363**	**4,394,676**
Accumulated amortisation:						
At 1 January 2016	(493,441)	(18,669)	–	(2,162)	–	(514,272)
Additions	(94,519)	(3,730)	–	(3,260)	–	(101,509)
At 31 December 2016 and 1 January 2017	(587,960)	(22,399)	–	(5,422)	–	(615,781)
Additions	(95,987)	(3,535)	–	(4,085)	–	(103,607)
At 31 December 2017	**(683,947)**	**(25,934)**	**–**	**(9,507)**	**–**	**(719,388)**
Net book Value:						
At 31 December 2017	**3,283,138**	**10,970**	**362,732**	**18,085**	**363**	**3,675,288**
At 31 December 2016	3,300,792	14,505	362,732	13,312	363	3,691,704

The car dealerships arise from relationship with automobile manufacturers, with an estimated useful life of 40 years. The fair value of the car dealerships as at the respective acquisition date was determined by using the multiple excess earning method.

The trademark, arising from the acquisition of Top Globe Limited, has an indefinite useful life because it is expected to contribute net cash inflows to the group indefinitely. The fair value of the trademark as at the acquisition date was determined by using the relief from royalty method.

The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of profit or loss.

15 GOODWILL

	At 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January and at 31 December	**1,998,733**	1,926,551

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the group's cash-generating units ("CGU") identified according to the operating segments as follows:

	At 31 December	
	2017	2016
	RMB'000	RMB'000
4S dealership business	**1,998,733**	1,926,551

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated by using an estimated growth rate of 3% (2016: 3%) which is consistent with the forecasts included in industry reports. The discount rates applied to the cash flow projections beyond the one year period is 11% (2016: 12%).

Key assumptions used for value in use calculations are the growth rates for sales, corresponding gross margin rates and working capital changes, based on past performance and its expectation for market development.

16 INTEREST IN SUBSIDIARIES

As of 31 December 2017, the company has direct and indirect interests in the following subsidiaries, all of which are private companies. The particulars of these subsidiaries are set out below:

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the company Direct	Indirect	Principal activities
Big Glory International Limited (浩榮國際有限公司)		British Virgin Islands ("BVI") 22 June 2006	US$100	100%	–	Investment holding
Top Globe Limited (同方有限公司)		British Virgin Islands ("BVI") 27 August 2007	US$100	100%	–	Investment holding
Acme Joy Group Limited		British Virgin Islands ("BVI") 28 April 2011	US$50,000	–	100%	Investment holding
Chang Jun Limited (昌駿有限公司)		British Virgin Islands ("BVI") 16 June 2011	US$100	–	100%	Investment holding
Silver Journey Global Limited		British Virgin Islands ("BVI") 6 July 2011	US$50,000	–	100%	Investment holding
Rising Wave Development Limited (升濤發展有限公司)		Hong Kong 21 April 2006	HK$100	–	100%	Investment holding
Wealth Fame Holdings Limited (佳名集團有限公司)		Hong Kong 19 July 2007	HK$1	–	100%	Investment holding
Tongda Group (China) Co., Ltd. (通達集團(中國)有限公司)		Hong Kong 10 November 2008	HK$10,000	–	100%	Investment holding
Wuhan Zhengtong United Industrial Investment Group Co., Ltd. (武漢正通聯合實業投資集團有限公司)		The PRC 22 November 2002	RMB1,410,000,000	–	100%	Investment holding
Shanghai Shenxie Automobile Trading Co., Ltd. (上海紳協汽車貿易有限公司)		The PRC 21 April 1999	RMB50,000,000	–	100%	Automobile dealership
Shanghai Yige Science & Technology Trading Co., Ltd. (上海繹格科工貿有限公司)	(ii)	The PRC 25 September 2002	RMB15,000,000	–	50%	Distribution of lubricant oil
Hubei Dingjie Automobile Sales Services Co., Ltd. (湖北鼎傑汽車銷售服務有限公司)		The PRC 12 December 2002	RMB55,000,000	–	100%	Automobile dealership
Inner Mongolia Dingjie Automobile Trading Co., Ltd. (內蒙古鼎傑汽車貿易有限公司)		The PRC 23 January 2003	RMB7,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the company Direct	Indirect	Principal activities
Hubei Bocheng Automobile Sales Services Co., Ltd. (湖北博誠汽車銷售服務有限公司)		The PRC 30 May 2003	RMB20,000,000	–	100%	Automobile dealership
Wuhan Kaitai Automobile Sales Services Co., Ltd. (武漢開泰汽車銷售服務有限公司)		The PRC 20 October 2003	RMB10,000,000	–	100%	Automobile dealership
Hubei Xinrui Automobile Sales Services Co., Ltd. (湖北欣瑞汽車銷售服務有限公司)		The PRC 18 March 2004	RMB10,000,000	–	100%	Automobile dealership
Wuhan Baoze Automobile Sales Services Co., Ltd. (武漢寶澤汽車銷售服務有限公司)		The PRC 26 May 2004	RMB70,000,000	–	100%	Automobile dealership
Shiyan Shenxie Automobile Trading Co., Ltd. (十堰紳協汽車貿易有限公司)		The PRC 18 June 2004	RMB19,000,000	–	100%	Automobile dealership
Shanghai Luda Automobile Sales Services Co., Ltd. (上海陸達汽車銷售服務有限公司)		The PRC 8 November 2004	RMB10,000,000	–	100%	Automobile dealership
Changsha Ruibao Automobile Sales Services Co., Ltd. (長沙瑞寶汽車銷售服務有限公司)		The PRC 21 June 2005	RMB20,000,000	–	100%	Automobile dealership
Hubei Jierui Automobile Sales Services Co., Ltd. (湖北捷瑞汽車銷售服務有限公司)		The PRC 24 June 2005	RMB22,000,000	–	100%	Automobile dealership
Huhhot Qibao Automobile Sales Services Co., Ltd. (呼和浩特市祺寶汽車銷售服務有限公司)		The PRC 23 February 2006	RMB10,000,000	–	100%	Automobile dealership
Yichang Baoze Automobile Sales Services Co., Ltd. (宜昌寶澤汽車銷售服務有限公司)		The PRC 13 June 2006	RMB8,000,000	–	100%	Automobile dealership
Chenzhou Ruibao Automobile Sales Services Co., Ltd. (郴州瑞寶汽車銷售服務有限公司)		The PRC 6 September 2006	RMB6,000,000	–	100%	Automobile dealership
Shanghai Shenxie Shentong Automobile Sales Services Co., Ltd. (上海紳協紳通汽車銷售服務有限公司)		The PRC 31 January 2007	RMB15,000,000	–	100%	Automobile dealership
Nanchang Baoze Automobile Sales Services Co., Ltd. (南昌寶澤汽車銷售服務有限公司)		The PRC 2 June 2008	RMB29,000,000	–	100%	Automobile dealership
Zhuhai Baoze Automobile Sales Services Co., Ltd. (珠海寶澤汽車銷售服務有限公司)		The PRC 27 June 2008	RMB30,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the company		Principal activities
				Direct	Indirect	
Shanghai Aohui Automobile Sales Services Co., Ltd. (上海奧匯汽車銷售服務有限公司)		The PRC 4 December 2008	RMB10,000,000	–	100%	Automobile dealership
Guangzhou Baoze Automobile Sales Services Co., Ltd. (廣州寶澤汽車銷售服務有限公司)		The PRC 20 April 2009	RMB30,000,000	–	100%	Automobile dealership
Dongguan Jieyunhang Automobile Sales Services Co., Ltd. (東莞捷運行汽車銷售服務有限公司)		The PRC 6 July 2009	RMB10,000,000	–	100%	Automobile dealership
Baotou Baoze Automobile Sales Services Co., Ltd. (包頭市寶澤汽車銷售服務有限公司)		The PRC 6 August 2009	RMB26,000,000	–	100%	Automobile dealership
Beijing Baozehang Automobile Sales Services Co., Ltd. (北京寶澤行汽車銷售服務有限公司)		The PRC 16 October 2009	RMB90,000,000	–	100%	Automobile dealership
Inner Mongolia Dingze Automobile Sales Services Co., Ltd. (內蒙古鼎澤汽車銷售服務有限公司)		The PRC 27 October 2009	RMB20,000,000	–	100%	Automobile dealership
Shantou Hongxiang Materials Co., Ltd. (汕頭市宏祥物資有限公司)		The PRC 12 July 2000	RMB5,000,000	–	100%	Automobile dealership
Shangrao Baoze Automobile Sales Services Co., Ltd. (上饒市寶澤汽車銷售服務有限公司)		The PRC 2 November 2010	RMB10,000,000	–	100%	Automobile dealership
Ganzhou Baoze Automobile Sales Services Co., Ltd. (贛州寶澤汽車銷售服務有限公司)		The PRC 3 December 2010	RMB10,000,000	–	100%	Automobile dealership
Xiangyang Baoze Automobile Sales Services Co., Ltd. (襄陽寶澤汽車銷售服務有限公司)		The PRC 1 November 2010	RMB10,000,000	–	100%	Automobile dealership
Xiangtan Baoze Automobile Sales Services Co., Ltd. (湘潭寶澤汽車銷售服務有限公司)		The PRC 9 November 2010	RMB10,000,000	–	100%	Automobile dealership
Wuhan Shengtong Investment Management Co., Ltd. (武漢升通投資管理有限公司)		The PRC 22 April 2011	RMB10,000,000	–	100%	Investment holding
Baotou Luze Automobile Sales Services Co., Ltd. (包頭市路澤汽車銷售服務有限公司)		The PRC 4 May 2011	RMB20,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the company Direct	Indirect	Principal activities
Ganzhou Yizezhiye Co., Ltd. (贛州益澤置業有限公司)		The PRC 19 November 2010	RMB10,000,000	–	100%	Real estate development
Xiangtan Yizezhiye Co., Ltd. (湘潭益澤置業有限公司)		The PRC 18 November 2010	RMB10,000,000	–	100%	Real estate development
Shangrao Yizezhiye Co., Ltd. (上饒市益澤置業有限公司)		The PRC 18 November 2010	RMB10,000,000	–	100%	Real estate development
Hubei Aoze Automobile Sales Services Co., Ltd. (湖北奧澤汽車銷售服務有限公司)		The PRC 25 May 2011	RMB20,000,000	–	100%	Automobile dealership
Lhasa Jinsheng Automobile Sales Co., Ltd. (拉薩金勝汽貿有限公司)		The PRC 13 April 2011	RMB20,000,000	–	100%	Automobile parts sales
Qingdao Huacheng Automobile Services Co., Ltd. (青島華成汽車服務有限公司)		The PRC 8 March 2001	RMB8,800,000	–	100%	Automobile dealership
Shantou Lujie Automobile Sales Services Co., Ltd. (汕頭市路傑汽車銷售服務有限公司)		The PRC 2 September 2011	RMB10,000,000	–	100%	Automobile dealership
Lhasa Hongjin Automobile Sales Co., Ltd. (拉薩弘進汽貿有限公司)		The PRC 12 April 2011	RMB15,000,000	–	100%	Automobile parts sales
Henan Jintangsheng Automobile Co., Ltd. (河南省錦堂盛汽車有限公司)		The PRC 7 May 2008	RMB10,000,000	–	100%	Automobile dealership
Zhengzhou Dingwo Automobile Sales Services Co., Ltd. (鄭州鼎沃汽車銷售服務有限公司)		The PRC 3 June 2010	RMB10,000,000	–	100%	Automobile dealership
ZhengTong Automobile Investment Holding (Wuhan) Co., Ltd. (正通汽車投資控股(武漢)有限公司)	(i)	The PRC 29 March 2011	RMB600,000,000	–	100%	Investment holding
Chengdu Qibao Automobile Sales Services Co., Ltd. (成都祺寶汽車銷售服務有限公司)		The PRC 13 July 2011	RMB50,000,000	–	100%	Automobile dealership
Wuhan ZhengTong Second Hand Automobile Brokerage Co., Ltd. (武漢正通二手車經紀有限公司)		The PRC 27 June 2011	RMB500,000	–	100%	Automobile trading agency

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the company Direct	Indirect	Principal activities
Huhhot Weijie Automobile Sales Services Co., Ltd. (呼和浩特市緯捷汽車銷售服務有限公司)		The PRC 16 June 2011	RMB500,000	–	100%	Automobile trading agency
Foshan Zheng Tong Zhong Rui Automobile Sales Services Co., Ltd. (佛山正通眾鋭汽車銷售服務有限公司)		The PRC 18 April 2011	RMB10,000,000	–	100%	Automobile dealership
Baotou Zhongrui Automobile Sales Service Co., Ltd. (包頭眾鋭汽車銷售服務有限公司)		The PRC 21 September 2010	RMB10,000,000	–	100%	Automobile dealership
ZhengTong Automobile Services Co., Ltd. (正通汽車服務有限公司)		The PRC 1 September 2011	RMB50,000,000	–	100%	Automobile parts sales
Jiangxi Deao Automobile Sales Services Co., Ltd. (江西德奧汽車銷售服務有限公司)		The PRC 17 September 2002	RMB5,000,000	–	100%	Automobile dealership
Huhhot Jieyun Automobile Sales Services Co., Ltd (呼和浩特市捷運行汽車銷售服務有限公司)		The PRC 29 December 2011	RMB60,000,000	–	100%	Automobile dealership
Jieyang Dingjie Automobile Sales Services Co., Ltd. (揭陽鼎傑汽車銷售服務有限公司)		The PRC 19 July 2011	RMB20,000,000	–	100%	Automobile dealership
Shenzhen Roadmate Technology Co., Ltd. (深圳路美特科技有限公司)	(iii)	The PRC 15 March 2004	US$2,100,000	–	100%	Investment holding
Shenzhen SCAS Investment Group Co., Ltd. (深圳市中汽南方投資集團有限公司)		The PRC 21 May 2001	RMB50,000,000	–	100%	Investment holding
Shenzhen Yama Automobile Trading Co., Ltd. (深圳野馬汽車貿易有限公司)		The PRC 15 June 1993	RMB15,000,000	–	100%	Investment holding
Shenzhen SCAS Electric Machinery Co., Ltd. (深圳市中汽南方機電設備有限公司)		The PRC 25 November 1996	RMB50,000,000	–	100%	Automobile dealership
Shenzhen SCAS Automobile Maintenance Co., Ltd. (深圳市中汽南方汽車維修有限公司)		The PRC 14 August 2000	RMB5,000,000	–	100%	Provision of Automobile Maintenance services
Guangdong SCAS Automobile Sales Services Co., Ltd. (廣東中汽南方汽車銷售服務有限公司)		The PRC 21 July 2004	RMB20,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the company Direct	Indirect	Principal activities
Dongguan SCAS Automobile Sales Services Co., Ltd. (東莞中汽南方汽車銷售服務有限公司)		The PRC 30 July 2004	RMB5,000,000	–	100%	Automobile dealership
Zhongshan SCAS Automobile Sales Services Co., Ltd. (中山中汽南方汽車銷售服務有限公司)		The PRC 29 April 2011	RMB5,000,000	–	100%	Automobile dealership
Zhuhai SCAS Automobile Sales Services Co., Ltd. (珠海中汽南方汽車銷售服務有限公司)		The PRC 10 March 2005	RMB5,000,000	–	100%	Automobile dealership
Hunan SCAS Automobile Sales Services Co., Ltd. (湖南中汽南方汽車銷售服務有限公司)		The PRC 26 May 2005	RMB10,000,000	–	90%	Automobile dealership
Hainan SCAS Automobile Sales Services Co., Ltd. (海南中汽南方汽車銷售服務有限公司)		The PRC 23 May 2008	RMB20,000,000	–	100%	Automobile dealership
Fujian SCAS Automobile Sales Services Co., Ltd. (福建中汽南方汽車銷售服務有限公司)		The PRC 29 April 2005	RMB20,000,000	–	100%	Automobile dealership
Beijing SCAS North China Automobile Services Co., Ltd. (北京中汽南方華北汽車服務有限公司)		The PRC 2 July 2001	RMB10,000,000	–	100%	Automobile dealership
Beijing BWWR Automobile Sales Services Co., Ltd. (北京百旺沃瑞汽車銷售服務有限公司)		The PRC 27 March 2008	RMB5,000,000	–	100%	Automobile dealership
Beijing Dewanlong Trading Co., Ltd. (北京德萬隆經貿有限公司)		The PRC 9 September 1999	RMB30,000,000	–	100%	Automobile dealership
Beijing SCAS Zhongguan Automobile Sales Co., Ltd. (北京中汽南方中關汽車銷售有限公司)		The PRC 19 March 2010	RMB5,000,000	–	100%	Automobile dealership
Tianjin SCAS Automobile Sales Services Co., Ltd. (天津中汽南方汽車銷售服務有限公司)		The PRC 21 May 2004	RMB10,000,000	–	100%	Automobile dealership
Tianjin Automobile Industry SCAS Sales Co., Ltd. (天津汽車工業銷售深圳南方有限公司)		The PRC 28 November 1995	RMB20,000,000	–	100%	Automobile dealership
Shenzhen SCAS Tengxing Automobile Sales Services Co., Ltd. (深圳市南方騰星汽車銷售服務有限公司)		The PRC 15 May 2006	RMB50,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the company Direct	Indirect	Principal activities
Shenzhen SCAS Infiniti Automobile Sales Services Co., Ltd. (深圳市南方英菲尼迪汽車銷售服務有限公司)		The PRC 19 October 2006	RMB20,000,000	–	100%	Automobile dealership
Shenzhen SCAS Changfu Automobile Sales Co., Ltd. (深圳市中汽南方長福汽車銷售有限公司)		The PRC 10 December 2004	RMB10,000,000	–	100%	Automobile dealership
Shenzhen SCAS Tengtian Automobile Sales Services Co., Ltd. (深圳市南方騰田汽車銷售服務有限公司)		The PRC 24 March 2006	RMB10,000,000	–	100%	Automobile dealership
Shenzhen SCAS Tenglong Automobile Sales Services Co., Ltd. (深圳市南方騰龍汽車銷售服務有限公司)		The PRC 5 December 2005	RMB5,000,000	–	100%	Automobile dealership
Shenzhen SCAS Toyota Automobile Sales Services Co., Ltd. (深圳南方豐田汽車銷售服務有限公司)		The PRC 9 April 2002	RMB10,000,000	–	100%	Automobile dealership
Qingyuan SCAS Hezhong Automobile Sales Services Co., Ltd. (清遠南方合眾汽車銷售服務有限公司)		The PRC 31 December 2009	RMB10,000,000	–	100%	Automobile dealership
Qingyuan SCAS Heda Automobile Sales Services Co., Ltd. (清遠南方合達汽車銷售服務有限公司)		The PRC 26 October 2010	RMB8,000,000	–	100%	Automobile dealership
Qingyuan SCAS Toyota Automobile Sales Services Co., Ltd. (清遠南方豐田汽車銷售服務有限公司)		The PRC 17 October 2008	RMB10,000,000	–	100%	Automobile dealership
Baotou Lizhongyou Materials Co., Ltd. (包頭市利中友物資有限公司)		The PRC 6 November 2003	RMB1,000,000	–	100%	Automobile parts sales
Changchun Shengze Jietong Transportation Co., Ltd. (長春聖澤捷通物流有限公司)		The PRC 24 October 2008	RMB30,000,000	–	100%	Provision of auto – mobile related logistic services
Wuhan Yuntong Investment Management Co., Ltd. (武漢運通行投資管理有限公司)		The PRC 1 March 2012	RMB10,000,000	–	100%	Investment holding

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the company Direct	Indirect	Principal activities
Dongguan Liaobu SCAS Automobile Sales Services Co., Ltd. (東莞寮步中汽南方汽車銷售服務有限公司)		The PRC 15 May 2012	RMB15,000,000	–	100%	Automobile dealership
Guangdong SCAS Shengwo Automobile Sales Services Co., Ltd. (廣東中汽南方勝沃汽車銷售服務有限公司)		The PRC 11 June 2012	RMB10,000,000	–	100%	Automobile dealership
Wuhan Baozehang Automobile Maintenance Co., Ltd. (武漢寶澤行汽車維修服務有限公司)		The PRC 12 June 2012	RMB10,000,000	–	100%	Provision of Automobile Maintenance Services
Jingdezhen Shengtong Trading Co., Ltd. (景德鎮升通貿易有限公司)		The PRC 20 June 2012	RMB10,000,000	–	100%	Automobile parts sales
Zhuhai SCAS Jielu Automobile Sales Services Co., Ltd. (珠海中汽南方捷路汽車銷售服務有限公司)		The PRC 21 June 2012	RMB10,000,000	–	100%	Automobile dealership
Hunan SCAS Xingsha Automobile Sales Services Co., Ltd. (湖南中汽南方星沙汽車銷售服務有限公司)		The PRC 27 June 2012	RMB20,000,000	–	100%	Automobile dealership
Dongguan Zhengtong Kaidi Automobile Sales Services Co., Ltd. (東莞正通凱迪汽車銷售服務有限公司)		The PRC 29 October 2012	RMB10,000,000	–	100%	Automobile dealership
Jiangxi Zhengtong Zetian Automobile Sales Services Co., Ltd. (江西正通澤田汽車銷售服務公司)		The PRC 19 November 2012	RMB10,000,000	–	100%	Automobile dealership
Shanghai Zhengtong Zhonghui Automobile Sales Services Co., Ltd. (上海正通眾輝汽車銷售服務有限公司)		The PRC 21 December 2012	RMB10,000,000	–	100%	Automobile dealership
Shanghai Qibao Automobile Sales Services Co., Ltd. (上海祺寶汽車銷售服務有限公司)		The PRC 8 June 2013	RMB24,000,000	–	100%	Automobile dealership
Chenzhou Haochi Automobile Sales Services Co., Ltd. (郴州豪馳汽車銷售服務有限公司)		The PRC 21 March 2013	RMB1,000,000	–	100%	Automobile dealership
Zhanjiang Zhengtong Kaidi Automobile Sales Services Co., Ltd. (湛江正通凱迪汽車銷售服務有限公司)		The PRC 15 April 2013	RMB10,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the company Direct	Indirect	Principal activities
Wuhan Zhengtong Yuechi Automobile Sales Services Co., Ltd. (武漢正通悦馳汽車銷售服務有限公司)		The PRC 14 May 2013	RMB10,000,000	–	100%	Automobile dealership
Shantou Baoze Automobile Sales Services Co., Ltd. (汕頭市寶澤汽車銷售服務有限公司)		The PRC 2 September 2013	RMB10,000,000	–	100%	Automobile dealership
Jingmen Baoze Automobile Sales Services Co., Ltd. (荊門寶澤汽車銷售服務有限公司)		The PRC 11 October 2013	RMB10,000,000	–	100%	Automobile dealership
Weihai Luze Automobile Sales Services Co., Ltd. (威海路澤汽車銷售服務有限公司)		The PRC 31 October 2013	RMB10,000,000	–	100%	Automobile dealership
Baotou Baozehang Automobile Maintenance Services Co., Ltd. (包頭寶澤行汽車維修服務有限公司)		The PRC 18 December 2013	RMB10,000,000	–	100%	Provision of automobile maintenance services
Shantoushi Luze Automobile Sales Services Co., Ltd. (汕頭市路澤汽車銷售服務有限公司)		The PRC 20 November 2013	RMB10,000,000	–	100%	Automobile dealership
Shenzhenshi Qianhaizhengtong Logistic Equipment Services Co., Ltd. (深圳市前海正通物流設備服務有限責任公司)	(i)	The PRC 24 May 2013	US$5,000,000	–	100%	Automobile dealership
Changsha Ruize Real Estate Development Co., Ltd. (長沙瑞澤房地產開發有限公司)		The PRC 4 March 2013	RMB20,000,000	–	100%	Property management
Shantoushi Ruize Automobile Sales Services Co., Ltd. (汕頭市瑞澤房地產開發有限公司)		The PRC 14 August 2013	RMB160,000,000	–	100%	Property management
Dingze Insurance Agency Co., Ltd. (鼎澤保險代理有限公司)		The PRC 16 September 2013	RMB50,000,000	–	100%	Insurance agency services
Wuhan Jiewo Advisory Services Limited (武漢捷沃諮詢服務有限公司)		The PRC 8 August 2013	RMB1,000,000	–	100%	Consulting services
Sky Wonder Limited (天悦有限公司)		Hong Kong 14 March 2014	HK$1	–	100%	Investment holding
Shenzhenshi Zhuoruixiang Information Advisory Co., Ltd. (深圳市卓瑞翔信息諮詢有限公司)		The PRC 31 December 2013	RMB32,000,000	–	100%	Consulting services

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the company		Principal activities
				Direct	Indirect	
ChengTong Developments Limited (成通發展有限公司)		British Virgin Islands ("BVI") 1 April 2014	US$1	–	100%	Investment holding
Landtime International Limited (裕泰國際有限公司)		Hong Kong 7 April 2014	US$1	–	100%	Investment holding
Goldrich Holdings Limited (啟富集團有限公司)		Hong Kong 16 January 2014	HK$1	–	100%	Investment holding
Beijing Zhengtong Baozehang Automobile Sales Services Co., Ltd. (北京正通寶澤行汽車銷售有限公司)		The PRC 7 January 2014	RMB10,000,000	–	100%	Automobile dealership
Wuhan Luze Automobile Sales Services Co., Ltd. (武漢路澤汽車銷售服務有限公司)		The PRC 6 January 2014	RMB15,000,000	–	100%	Automobile dealership
Shangraoshi Luze Automobile Sales Services Co., Ltd. (上饒市路澤汽車銷售服務有限公司)		The PRC 17 February 2014	RMB10,000,000	–	100%	Automobile dealership
Langfangshi Luze Automobile Sales Services Co., Ltd. (廊坊市路澤汽車銷售服務有限公司)		The PRC 23 May 2014	RMB10,000,000	–	100%	Automobile dealership
Yichun Baoze Automobile Sales Services Co., Ltd. (宜春寶澤汽車銷售服務有限公司)		The PRC 6 March 2014	RMB10,000,000	–	100%	Automobile dealership
Qingdao Aoze Automobile Sales Services Co., Ltd. (青島奧澤汽車銷售服務有限公司)		The PRC 9 May 2014	RMB10,000,000	–	100%	Automobile dealership
Baotoushi Jieyunhang Automobile Sales Services Co., Ltd. (包頭市捷運行汽車銷售服務有限公司)		The PRC 24 March 2014	RMB65,000,000	–	100%	Automobile dealership
Shengzhou Aoze Automobile Sales Services Co., Ltd. (嵊州奧澤汽車銷售服務有限公司)		The PRC 30 May 2014	RMB10,000,000	–	100%	Automobile dealership
Dongguan Zhengtong Kaize Automobile Sales Services Co., Ltd. (東莞正通凱澤汽車銷售服務有限公司)		The PRC 17 February 2014	RMB5,000,000	–	100%	Automobile dealership
Shanghai Chichang Trading Co., Ltd. (上海馳暢貿易有限公司)	(i)	The PRC 24 July 2014	RMB100,000,000	–	100%	Automobile parts sales

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the company		Principal activities
				Direct	Indirect	
Beijing Zhengtong Baoze Automobile Sales Services Co., Ltd. (北京正通寶澤汽車銷售服務有限公司)		The PRC 14 July 2014	RMB5,000,000	–	100%	Provision of Automobile Maintenance services
Loudi Dingwo Automobile Sales Services Co., Ltd. (婁底鼎沃汽車銷售服務有限公司)		The PRC 10 July 2014	RMB5,000,000	–	100%	Automobile dealership
Shenzhen Aoze Automobile Sales Services Co., Ltd. (深圳奧澤汽車銷售服務有限公司)		The PRC 2 July 2014	RMB10,000,000	–	100%	Automobile dealership
Dongguan Aoze Automobile Sales Services Co., Ltd. (東莞奧澤汽車銷售服務有限公司)		The PRC 21 July 2014	RMB10,000,000	–	100%	Automobile dealership
Foshan Aoze Automobile Sales Services Co., Ltd. (佛山奧澤汽車銷售服務有限公司)		The PRC 5 September 2014	RMB10,000,000	–	100%	Automobile dealership
Zhengzhou Aoze Automobile Sales Services Co., Ltd. (鄭州奧澤汽車銷售服務有限公司)		The PRC 25 July 2014	RMB10,000,000	–	100%	Automobile dealership
Baoding Aoze Automobile Sales Services Co., Ltd. (保定奧澤汽車銷售服務有限公司)		The PRC 18 September 2014	RMB10,000,000	–	100%	Automobile dealership
Fuzhou Dingwo Automobile Sales Services Co., Ltd. (福州鼎沃汽車銷售服務有限公司)		The PRC 19 August 2014	RMB5,000,000	–	100%	Automobile dealership
Shenzhen Dingwo Automobile Sales Services Co., Ltd. (深圳鼎沃汽車銷售服務有限公司)		The PRC 3 September 2014	RMB5,000,000	–	100%	Automobile dealership
Jieyang Luze Automobile Sales Services Co., Ltd. (揭陽路澤汽車銷售服務有限公司)		The PRC 14 August 2014	RMB10,000,000	–	100%	Automobile dealership
ShenzhenLuze Automobile Sales Services Co., Ltd. (深圳路澤汽車銷售服務有限公司)		The PRC 15 August 2014	RMB10,000,000	–	100%	Automobile dealership
Yichang Baozehang Automobile Sales Services Co., Ltd. (宜昌寶澤行汽車銷售服務有限公司)		The PRC 22 August 2014	RMB10,000,000	–	100%	Automobile dealership
Shenzhenshi SCAS Huawo Automobile Sales Services Co., Ltd. (深圳市中汽南方華沃汽車銷售服務有限公司)		The PRC 11 June 2014	RMB5,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the company Direct	Indirect	Principal activities
Shenzhen Hengyiyingtong Investment Management Co., Ltd. (深圳恒毅盈通投資管理有限公司)		The PRC 3 April 2014	RMB100,000,000	–	100%	Investment holding
Shenzhenshi Huianqi Investment Advisory Co., Ltd. (深圳市匯安啟投資諮詢有限公司)		The PRC 13 May 2014	HK$500,000	–	100%	Consulting services
Shenzhen Baoze Automobile Sales Services Co., Ltd. (深圳寶澤汽車銷售服務有限公司)		The PRC 31 March 2015	RMB10,000,000	–	100%	Automobile dealership
Beijing Zhengtong Dingwo Automobile Sales Services Co., Ltd. (北京正通鼎沃汽車銷售服務有限公司)		The PRC 30 January 2015	RMB5,000,000	–	100%	Automobile dealership
Hengyang Luze Automobile Sales Services Co., Ltd. (衡陽路澤汽車銷售服務有限公司)		The PRC 2 July 2014	RMB10,000,000	–	100%	Automobile dealership
Huhhot Yingfei Automobile Sales Services Co., Ltd. (呼和浩特市英菲汽車銷售服務有限公司)		The PRC 27 May 2015	RMB10,000,000	–	100%	Automobile dealership
Shanghai Dongzheng Automobile Finance Co., Ltd. (上海東正汽車金融有限責任公司)		The PRC 11 March 2015	RMB1,600,000,000	95%	–	Financial services
Beijing Hengyiyingtong Advertising Media Co., Ltd. (北京恒毅盈通廣告傳媒有限公司)		The PRC 21 May 2015	RMB5,000,000	–	100%	Consulting services
Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. (上海正通鼎澤融資租賃有限公司)		The PRC 29 July 2014	US$100,000,000	–	100%	Financial services
Shengze Jietong Supply Chain Co., Ltd. (聖澤捷通供應鏈有限公司)		The PRC 15 January 2016	RMB200,000,000	–	100%	Provision of automobile related logistic services
Tianjin Chichang International Trading Co., Ltd. (天津馳暢國際貿易有限公司)		The PRC 11 June 2015	RMB100,000,000	–	100%	Automobile parts sales
Yunnan Chixing Automobile Sales Services Co., Ltd. (雲南馳星汽車銷售服務有限公司)		The PRC 25 May 2016	RMB10,000,000	–	100%	Automobile dealership
Beijing Baoze Exhibition Co., Ltd. (北京寶澤會展有限公司)		The PRC 16 March 2016	RMB10,000,000	–	100%	Consulting services

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the company Direct	Indirect	Principal activities
Suzhou Anzhixing Automobile Sales Services Co., Ltd. (宿州安之星汽車銷售服務有限公司)		The PRC 23 November 2016	RMB20,000,000	–	100%	Automobile dealership
Guangzhoushi Hengyuehang Automobile Sales Services Co., Ltd. (廣州市恒悦行汽車銷售服務有限公司)		The PRC 21 June 2016	RMB50,000,000	–	100%	Automobile dealership
Qingyuan Aoze Automobile Sales Services Co., Ltd. (清遠奧澤汽車銷售服務有限公司)		The PRC 10 August 2016	RMB10,000,000	–	100%	Automobile dealership
Shenzhen Hengshuo Advisory Services Co., Ltd.. (深圳恒爍諮詢服務有限公司)		The PRC 7 September 2016	RMB1,000,000	–	100%	Consulting services
Foshan Tengxing Automobile Sales Services Co., Ltd. (佛山騰星汽車銷售服務有限公司)		The PRC 17 August 2016	RMB10,000,000	–	100%	Automobile dealership
Shantou Hengshuo Services Co.,Ltd. (汕頭市恒爍商務諮詢服務有限公司)		The PRC 7 September 2016	RMB1,000,000	–	100%	Consulting services
Nanjing Qi'ao Automobile Sales Services Co., Ltd. (南京祺奧汽車銷售服務有限公司)		The PRC 3 May 2017	RMB10,000,000	–	100%	Automobile dealership
Zhuhai Zhengtong Tengxing Automobile Sales Services Co., Ltd. (珠海正通騰星汽車銷售服務有限公司)		The PRC 6 March 2017	RMB20,000,000	–	100%	Automobile dealership
Chongqing Qibao Automobile Sales Services Co., Ltd. (重慶祺寶汽車銷售服務有限公司)		The PRC 14 June 2016	RMB10,000,000	–	100%	Automobile dealership
Wuhan Tengxing Automobile Sales Services Co., Ltd. (武漢騰星汽車銷售服務有限公司)		The PRC 1 August 2017	RMB20,000,000	–	100%	Automobile dealership
Hubei Changze Automobile Sales Services Co., Ltd. (湖北長澤汽車銷售服務有限公司)		The PRC 20 September 2017	RMB10,000,000	–	100%	Automobile dealership
Beijing Zhengtong Tengxing Automobile Sales Services Co., Ltd. (北京正通騰星汽車銷售服務有限公司)		The PRC 12 December 2016	RMB20,000,000	–	100%	Automobile dealership
Chengdu Jieyunhang Automobile Sales Services Co., Ltd. (成都捷運行汽車銷售服務有限公司)		The PRC 16 October 2017	RMB50,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/ issued and fully paid up capital	Percentage of equity attributable to the company		Principal activities
				Direct	Indirect	
Chengdu Dingbaohang Second Hand Automobile Sales Services Co., Ltd. (成都鼎寶行二手車銷售服務有限公司)		The PRC 12 June 2016	RMB10,000,000	–	100%	Automobile trading agency
Yongkang Guobang Auto Trading Co., Ltd. (永康市國邦汽車銷售有限公司)		The PRC 8 August 2012	RMB80,000,000	–	100%	Automobile dealership
Yiwu Xinhui Auto Trading Co., Ltd. (義烏市新徽汽車銷售服務有限公司)		The PRC 17 February 2015	RMB60,000,000	–	100%	Automobile dealership
Wuhan Jieyuehang Supply Chain Co., Ltd. (武漢捷悦行供應鏈有限公司)		The PRC 17 July 2017	RMB60,000,000	–	100%	Provision of automobile related logistic services
Shanghai Taishijie Automobile Sales Services Co., Ltd. (上海泰士傑汽車銷售有限公司)		The PRC 23 February 2004	RMB48,800,000	–	100%	Automobile dealership
Yiwu Dongtai Health food Co., Ltd. (義烏東太保健食品有限公司)		The PRC 19 June 2003	RMB5,000,000	–	100%	Automobile trading agency
Shenzhen Zhengyuan Automobile Technology Co., Ltd. (深圳正源汽車科技有限公司)		The PRC 25 December 2017	RMB500,000,000	80%	–	Financial Services

Notes:

(i) These entities are incorporated in the PRC as wholly foreign-owned enterprises by Rising Wave Development Limited.

(ii) This entity is considered a subsidiary of the group because the group has rights to variable returns from its involvement with the entity and has the ability to affect those returns by virtue of an agreement signed with another equity shareholder which holds 50% interest in this entity, that results in the group has the power to appoint the sole director of the entity.

(iii) This entity is incorporated in the PRC as a wholly foreign-owned enterprise by Wealth Fame Holdings Limited.

(iv) Except for Big Glory International Limited, Rising Wave Development Limited, Tongda Group (China) Co., Ltd., Silver Journey Global Limited, Acme Joy Group Limited, Chang Jun Limited, Top Globe Limited and Wealth Fame Holdings limited, the English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

The directors are of the view that the group had no individually material non-controlling interest as at 31 December 2017.

17 INTEREST IN A JOINT VENTURE

	At 31 December 2017 RMB'000	2016 RMB'000
Share of net assets	**275,722**	244,114

Details of the group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of the investee	Place of incorporation/ establishment	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: held by subsidiaries	Principal activities
Fengshen Logistics Co., Ltd.	The PRC	RMB60,000,000	50%	50%	Provision of automobile related logistics services

Fengshen Logistics Co., Ltd ("Guangzhou Fengshen") is an unlisted corporate entity in which the group has joint control and a 50% ownership interest. Guangzhou Fengshen is structured as a separate vehicle and the group has a residual interest in its net assets. Accordingly, the group has classified its interest in Guangzhou Fengshen as a joint venture, which is equity-accounted for.

The following is summarised financial information for Guangzhou Fengshen. For the years presented, no adjustments have been made (or are necessary) to conform the joint venture's accounting policies to those of the group as there are no material differences between the accounting policies adopted by the joint venture and the group.

Gross amounts of Guangzhou Fengshen:

	At 31 December 2017 RMB'000	2016 RMB'000
Current assets	**616,259**	528,088
Non-current assets	**511,873**	514,180
Current liabilities	**(576,688)**	(554,040)
Equity	**551,444**	488,228

17 INTEREST IN A JOINT VENTURE (continued)

Included in the above assets and liabilities:

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Cash and cash equivalents	**3,565**	2,085

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Revenue	**2,213,542**	1,889,784
Profit from continuing operations	**63,218**	53,600
Total comprehensive income	**63,218**	53,600

Included in the above profit:

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Depreciation and amortisation	**(44,720)**	(45,575)
Interest income	**64**	10
Income tax expense	**(20,617)**	(27,397)

Reconciled to the group's interest in Guangzhou Fengshen:

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Gross amounts of Guangzhou Fengshen's net assets	**551,444**	488,228
Group's effective interest	**50%**	50%
Group's share of Guangzhou Fengshen's net assets	**275,722**	244,114
Carrying amount in the consolidated financial statements	**275,722**	244,114

18 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Motor vehicles	**3,796,651**	2,765,645
Automobile spare parts	**258,172**	229,487
Others	**29,345**	23,724
	4,084,168	3,018,856

Inventories with carrying amount of RMB1,672,155,000 have been pledged as security for the bills payable (see note 25) as at 31 December 2017 (2016: RMB1,268,875,000).

Inventories with carrying amount of RMB450,497,000 have been pledged as security for loans and borrowings from banks and other financial institutions (see note 23) as at 31 December 2017 (2016: RMB185,451,000).

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Carrying amount of inventories sold	**31,040,691**	28,275,220
Write down of inventories	**17,843**	20,044
Reversal of write-down of inventories	**(6,509)**	–
	31,052,025	28,295,264

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain motor vehicles as a result of a change in consumer preferences.

19 TRADE AND OTHER RECEIVABLES

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Trade receivables	**952,792**	713,488
Bills receivable	**–**	340
	952,792	713,828
Prepayments	**1,056,881**	1,054,354
Other receivables and deposits	**6,298,131**	4,615,921
Trade and other receivables	**8,307,804**	6,384,103

All of the trade and other receivables are expected to be recovered within one year.

Trade and other receivables with carrying amount of RMB29,892,100 are pledged against bank loans (see note 23) as at 31 December 2017 (2016: RMB32,808,381).

As of the end of the reporting period, the ageing analysis of trade and bills receivables, based on the invoice date, is as follows:

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Within 3 months	**917,015**	676,669
More than 3 months but within 1 year	**29,455**	26,404
Over 1 year	**6,322**	10,755
	952,792	713,828

Details on the group's credit policy are set out in note 32(a).

20 RECEIVABLES FROM FINANCIAL SERVICES

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Current		
Receivable from retail customers	**2,768,794**	1,618,481
Receivable from auto dealers	**200,807**	143,046
Less: Allowance for doubtful debts	**(45,589)**	(28,531)
	2,924,012	1,732,996
Non-current		
Receivable from retail customers	**2,488,003**	1,939,492
Less: Allowance for doubtful debts	**(9,801)**	(7,608)
	2,478,202	1,931,884
Net receivables from financial services	**5,402,214**	3,664,880

Receivable from retail customers are expected to be recovered within one to five years. Receivable from auto dealers are expected to be recovered within one year.

Nil receivables from financial services are pledged against bank loans (see note 23) as at 31 December 2017 (2016: RMB249,504,707).

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of receivables from financial services, based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Within 3 months	**2,218,782**	1,036,040
More than 3 months but within 1 year	**1,447,214**	1,910,937
More than 1 year but within 2 years	**1,736,218**	717,903
	5,402,214	3,664,880

Details on the group's credit policy are set out in note 32(a).

20 RECEIVABLES FROM FINANCIAL SERVICES (continued)

(b) Impairment of receivables from financial services

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**36,139**	11,819
Impairment loss recognised	**41,099**	30,728
Uncollectible amounts written off	**(21,848)**	(6,408)
At 31 December	**55,390**	36,139

At 31 December 2017, receivables from financial services of RMB16,666,818 (2016: RMB13,894,342) were past due and determined to be impaired. Consequently, specific allowance for doubtful debts of RMB16,089,726 (2016: RMB12,460,081) were recognised.

(c) Receivables from financial services that are not impaired

As at 31 December 2017, nil receivables from financial services are past due but not impaired (2016: nil).

21 PLEDGED BANK DEPOSITS AND BALANCES WITH CENTRAL BANK

	Note	At 31 December 2017 RMB'000	2016 RMB'000
Restricted guarantee deposits in respect of:			
Bank loans (note 23)	(i)	**579,176**	277,804
Bills payable (note 25)	(i)	**1,854,919**	1,298,850
Standby letter of credit	(ii)	**1,245,000**	251,000
		3,679,095	1,827,654
Restricted balances with central bank:			
Statutory deposit reserve funds	(iii)	**7,003**	4,280
		3,686,098	1,831,934

(i) The bank deposits pledged for banks loans and bills payables will be released upon the settlement of relevant bank loans and bills payable.

(ii) The bank deposits pledged for the standby letter of credit will be released upon the maturity day of the standby letter of credit.

(iii) Balances with central bank is the statutory deposit reserve placed by the financial services company with the People's Bank of China, calculated at 7.0% (2016: 7.0%) of RMB deposits received. The rate of statutory deposit reserves is determined by the People's Bank of China and cannot be used for daily operation.

22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	At 31 December	
	2017 **RMB'000**	2016 RMB'000
Deposit with banks within 3 months of maturity	**295,000**	13,400
Cash at banks and on hand	**2,421,220**	1,611,728
Cash and cash equivalents in consolidated cash flow statements	**2,716,220**	1,625,128

(b) Reconciliation of profit before taxation to cash generated from operations:

		For the year ended 31 December	
	Note	**2017**	2016
Profit before taxation		**1,753,791**	790,798
Adjustments for:			
– Depreciation	6(c)	**310,392**	278,158
– Amortisation of lease prepayments	6(c)	**27,984**	23,860
– Amortisation of intangible assets	6(c)	**103,607**	101,509
– Net gain on disposal of property, plant and equipment	5	**(25,073)**	(20,860)
– Net gain on disposal of lease prepayment		**–**	(1,923)
– Finance costs	6(a)	**700,993**	482,275
– Share of profit of joint venture and associates		**(29,030)**	(25,403)
– Interest income from bank deposits	5	**(22,187)**	(20,605)
– Allowance for doubtful debts	20(b)	**41,099**	30,728
– Write down of inventories	18(b)	**11,334**	20,044
– Net loss/(gain) on derivatives	5	**225,447**	(96,148)
– Foreign exchange (gain)/loss		**(202,991)**	178,667
Cash generated from operations		**2,895,366**	1,741,100
Changes in working capital:			
– (Increase)/decrease in inventories		**(1,012,272)**	154,835
– Increase in trade and other receivables		**(1,563,680)**	(1,121,408)
– Increase in pledged bank deposits		**(558,792)**	(58,818)
– Increase in trade and other payables		**668,743**	376,745
– Increase in receivables from financial services		**(1,778,436)**	(2,156,571)
– Increase in loans and borrowings for financial services		**771,053**	1,896,403
Cash (used in)/generated from operations		**(578,018)**	832,286
Income tax paid	7(c)	**(288,400)**	(185,100)
Net cash (used in)/generated from operating activities		**(866,418)**	647,186

22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(continued)

(c) Reconciliation of liabilities arising from financing activities

	Bank loans and borrowings for non-financial services RMB'000 (Note 23)	Bonds payable RMB'000 (Note 26)	Obligations under finance leases RMB'000 (Note 24)	Interest payables[i] RMB'000	Other financial assets RMB'000	Other financial liabilities RMB'000	Total RMB'000
At 1 January 2017	5,616,584	2,314,703	101,720	43,265	(143,456)	-	7,932,816
Changes from financing cash flows:							
Proceeds from loans and borrowings	25,300,667	901,463	-	-	-	-	26,202,130
Repayment of loans and borrowings	(18,063,943)	(2,314,703)	-	-	120,285	-	(20,258,361)
Capital element of finance lease liabilities paid	-	-	(224,161)	-	-	-	(224,161)
Other borrowing paid	-	-	-	(717,941)	(20,690)	(47,233)	(785,864)
Total changes from financing cash flows	7,236,724	(1,413,240)	(224,161)	(717,941)	99,595	(47,233)	4,933,744
Exchange adjustments	(202,991)	-	-	-	-	-	(202,991)
Changes in fair value (note 5)	-	-	-	-	43,861	181,586	225,447
New finance leases (note 12(c))	-	-	243,019	-	-	-	243,019
Interest expenses (note 6(a))	-	-	-	700,993	-	-	700,993
Capitalised borrowing cost (note 6(a))	-	-	-	38,898	-	-	38,898
Acquisition of subsidiaries (note 31)	127,828	-	-	-	-	-	127,828
Total other changes	127,828	-	243,019	739,891	-	-	1,110,738
At 31 December 2017	12,778,145	901,463	120,578	65,215	-	134,353	13,999,754

(i) Interest payables is recorded in trade and other payables as disclosed in note 25.

23 LOANS AND BORROWINGS

The analysis of the carrying amount of loans and borrowings is as follows:

	Note	At 31 December 2017 RMB'000	2016 RMB'000
Current			
Loans and borrowings for financial services			
Unsecured bank loans	(i)	**4,023,938**	3,064,885
Current portion of unsecured long-term bank loans	(i)	**–**	120,000
Current portion of secured long-term bank loans	(iii)	**–**	68,000
		4,023,938	3,252,885
Loans and borrowings for non-financial services			
Unsecured bank loans	(i)	**5,115,941**	3,927,766
Current portion of unsecured long-term bank loans	(i)	**613,245**	56,000
Unsecured short-term commercial paper	(ii)	**1,600,000**	700,000
Unsecured borrowings from other financial institutions		**220,000**	–
		7,549,186	4,683,766
Secured bank loans	(iii)	**759,288**	417,529
Secured borrowings from other financial institutions	(iv)	**713,681**	291,289
Current portion of secured long-term bank loans	(iii)	**50,000**	–
		9,072,155	5,392,584
Sub-total		**13,096,093**	8,645,469
Non-current			
Loans and borrowings for non-financial services			
Unsecured bank loans	(vi)	**3,455,990**	224,000
Secured bank loans	(vii)	**250,000**	–
Sub-total		**3,705,990**	224,000
Total		**16,802,083**	8,869,469

(i) Unsecured bank loans carried interest at annual rates ranging from 2.08% to 8.00% as at 31 December 2017 (2016: from 2.63% to 7.80%).

(ii) The group had issued five (2016: two) batches of one year short-term commercial papers in National Association of Financial Market Institutional Investors in 2017 with the amount of RMB200 million, RMB200 million, RMB300 million, RMB300 million and RMB600 million, respectively (2016: RMB350 million and RMB350 million). These short-term commercial papers bears interest rate of 6.35%, 6.25%, 6.39%, 6.5%, and 6.99% (2016: 5.5% and 5.4%) respectively.

(iii) Secured bank loans carried interest at annual rates ranging from 4.35% to 5.66% as at 31 December 2017 (2016: from 4.26% to 5.66%).

(iv) Secured borrowings from other financial institutions mainly represent loans obtained from the auto finance companies of the respective automobile manufacturers for purchase of motor vehicles, which are secured, interest-bearing with annual rates ranging from 4.35% to 8.35% as at 31 December 2017 (2016: from 4.08% to 7.50%).

23 LOANS AND BORROWINGS (continued)

(v) As at 31 December 2017, the following assets of the group had been pledged to secure for the group's banking facilities totalling to RMB4,611,260,000 (2016: RMB2,205,500,000):

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Inventories	**450,497**	185,451
Pledged bank deposits	**579,176**	277,804
Property, plant and equipment	**65,532**	–
Lease prepayment	**22,186**	–
Trade and other receivables	**29,892**	32,808
Receivables from financial services	**–**	249,505
Total	**1,147,283**	745,568

As of 31 December 2017, the above banking facilities were utilised to the extent of RMB1,772,969,000 (2016: RMB776,818,000).

Certain banking facilities of the group's subsidiaries are subject to the fulfilment of covenants relating to the subsidiaries' balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the subsidiaries were to breach the covenants, the drawn down facilities would become payable on demand. The group regularly monitors its compliance with these covenants. Further details of the group's management of liquidity risk are set out in note 32(b). As at 31 December 2017, none of the covenants relating to drawn down facilities had been breached (2016: None).

(vi) The non-current unsecured bank loans bearing interest rate from 4.24% to 4.53% in 2017 per annum as at 31 December 2017 (2016: 4.15%) will mature on 12 January 2020.

(vii) The non-current secured loan bearing interest rate at 5.225% per annum will mature on 28 September 2019.

24 OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases mainly represent financial liabilities from sale and leaseback transactions, which are interest-bearing with annual rates of 6.8%-7.91% as at 31 December 2017 (2016: 7.45%).

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Within 1 year	**87,739**	106,215
After 1 year but within 2 years	**39,508**	–
Less: Total future interest expense	**(6,669)**	(4,495)
Present value of lease obligations	**120,578**	101,720

25 TRADE AND OTHER PAYABLES

	At 31 December 2017 RMB'000	2016 RMB'000
Trade payables	**730,081**	615,156
Bills payable	**3,997,869**	3,489,345
	4,727,950	4,104,501
Receipts in advance	**540,532**	503,332
Other payables and accruals	**1,057,898**	887,826
Payables due to related parties	**11,624**	5,644
Trade and other payables	**6,338,004**	5,501,303

Bills payable of RMB1,854,919,000 as at 31 December 2017 (2016: RMB1,298,850,000) were secured by pledged bank deposits (see note 21).

Bills payable of RMB2,142,950,000 as at 31 December 2017 (2016: RMB2,190,495,000) were secured by inventories (see note 18).

As of the end of reporting period, the ageing analysis of trade and bills payables, based on the invoice date, is as follows:

	At 31 December 2017 RMB'000	2016 RMB'000
Within 3 months	**4,632,655**	3,831,245
Over 3 months but within 6 months	**90,765**	271,299
Over 6 months but within 12 months	**4,530**	1,957
	4,727,950	4,104,501

26 BONDS PAYABLE

	At 31 December 2017 RMB'000	2016 RMB'000
Bonds payable	**901,463**	2,314,703
Details of the bonds are as follows:		
Principal amount	**910,000**	2,044,740
Discount on issue	**–**	(5,153)
Bonds issue costs	**(9,100)**	(18,618)
Proceeds received	**900,900**	2,020,969
Accumulated amortised amounts of discount on issue and issue costs	**563**	16,236
Exchange differences	**–**	277,498
As at 31 December	**901,463**	2,314,703

26 BONDS PAYABLE (continued)

On 16 September 2013, the company issued credit enhanced bonds with an aggregate principal amount of USD335,000,000 (the "Bonds"). The Bonds bear interest from 16 September 2013 (inclusive) at the rate of 4.5% per annum and were issued at a price of 99.748% of their principal amount. Interest on the Bonds is payable semiannually in arrears. Payments of principal and interest in respect of the Bonds have the benefit of an irrevocable standby letter of credit (the "Standby Letter of Credit") denominated in U.S. dollars and issued by Bank of China Limited, Macau Branch (the "LC Bank"). The bonds have been listed on The Stock Exchange of Hong Kong Limited. The Bonds was redeemed in whole prior to maturity date in April 2017. Relevant standby letter of credit for the Bonds was cancelled and pledges were released accordingly.

On 24 March 2017 and 24 October 2017, the group issued corporate bonds with an aggregate principal amount of RMB300 million and RMB610 million respectively (the "PRC Bonds"). The PRC bonds bear interest from 24 March 2017 (inclusive) at the rate of 6% per annum and 24 October 2017 (inclusive) at the rate of 7.9% per annum respectively and were issued at their principal amount. Interest on the PRC Bonds is payable annually in arrears. The PRC bonds have been listed on Shenzhen Stock Exchange, and will be mature on 24 March 2022 and 24 October 2022 at their principal amount respectively.

27 EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the company participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal government authorities where the subsidiaries are registered whereby these PRC subsidiaries are required to make a contribution at the respective local rates of the eligible employees' salaries to the Schemes. The group has accrued for the required pension fund contributions which are remitted to the respective social security offices when the contributions become due. The social security offices are responsible for making the benefit payments to the retired employee covered under the Schemes.

The group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pursuant to a resolution passed on 9 August 2010, the company adopted a pre-IPO employee share option scheme (the "Option Scheme") whereby 93 employees of the group were granted the rights to subscribe for share options of the company. A total number of 23,435,900 share options were granted on 10 August 2010, 20 August 2010 and 10 November 2010 respectively, and are then exercisable within a period of seven years. The exercise price are equivalent to RMB1.5, RMB2.0 and RMB2.5 for type 1, type 2 and type 3 correspondingly.

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions
Options granted to employees on		
10 August 2010 including:		
Type 1	17,540,700	50% on 1 January 2012, 25% on 1 January 2013, 25% on 1 January 2014
Type 2	2,062,400	50% on 1 April 2012, 25% on 1 April 2013, 25% on 1 April 2014
Type 3	1,452,000	50% on 1 July 2012, 25% on 1 July 2013, 25% on 1 July 2014
20 August 2010 including:		
Type 3	2,018,800	50% on 1 July 2012, 25% on 1 July 2013, 25% on 1 July 2014
10 November 2010 including:		
Type 3	362,000	50% on 1 July 2012, 25% on 1 July 2013, 25% on 1 July 2014
Total share options granted	23,435,900	

(b) The number and weighted average exercise prices of share options are as follows:

	2017		2016	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**RMB1.5**	**6,160,980**	RMB1.5	6,231,580
Exercised during the year	**RMB1.5**	**(5,338,980)**	RMB1.5	–
Forfeited during the year	**RMB1.5**	**(801,200)**	RMB1.5	(70,600)
Lapsed during the year	**RMB2.5**	**(20,800)**	–	–
Outstanding at the end of the year	**–**	**–**	RMB1.5	6,160,980
Exercisable at the end of the year	**–**	**–**	RMB1.5	6,160,980

29 DEFERRED TAX ASSETS AND LIABILITIES

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

	Fair value adjustment arising from business combination RMB'000	Depreciation allowances in excess of depreciation charges RMB'000	Future benefits of tax losses RMB'000	Deferred revenue and inventory provision RMB'000	Capitalisation of interest RMB'000	Total RMB'000
Deferred tax assets/(liabilities) arising from:						
At 1 January 2016	(855,717)	(6,705)	110,430	4,121	(27,101)	(774,972)
Credited/(charged) to profit or loss (note 7(a))	24,643	261	40,113	748	(5,509)	60,256
At 31 December 2016 and 1 January 2017	(831,074)	(6,444)	150,543	4,869	(32,610)	(714,716)
Acquisition of a subsidiary through business combination	(19,216)	–	–	–	–	(19,216)
Credited/(charged) to profit or loss (note 7(a))	24,593	687	5,537	12,133	(6,959)	35,991
At 31 December 2017	**(825,697)**	**(5,757)**	**156,080**	**17,002**	**(39,569)**	**(697,941)**

	At 31 December	
	2017 RMB'000	2016 RMB'000
Representing:		
Net deferred tax assets	**171,230**	154,912
Net deferred tax liabilities	**(869,171)**	(869,628)
	(697,941)	(714,716)

Deferred tax liabilities not recognised:

The PRC Corporate Income Tax Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. The group has not recognised deferred tax liabilities as at 31 December 2017 in respect of undistributed earnings of RMB5,590,536,000 (2016: RMB4,164,381,000) as the company controls the dividend policy of the subsidiaries and it has determined that these profit will not be distributable in the foreseeable future.

30 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in component of equity

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the company's individual components of equity between the beginning and the end of the year are set out below:

	The company				
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2016	188,788	4,549,233	84,889	(954,888)	3,868,022
Loss and total comprehensive income for the year	–	–	–	(222,022)	(222,022)
Dividends (note 30(b))	–	–	–	(187,209)	(187,209)
Balance at 31 December 2016 and 1 January 2017	**188,788**	**4,549,233**	**84,889**	**(1,364,119)**	**3,458,791**
Loss and total comprehensive income for the year	–	–	–	(319,176)	(319,176)
Dividends (note 30(b))	–	–	–	(193,215)	(193,215)
Issue of ordinary shares by placement (note 30(c)(i))	4,180	311,691	–	–	315,871
Equity settled share-based transactions	457	14,782	(6,996)	–	8,243
Balance at 31 December 2017	**193,425**	**4,875,706**	**77,893**	**(1,876,510)**	**3,270,514**

(b) Dividends

(i) Dividends payable to equity shareholders of the company attributable to the year

	2017 RMB'000	2016 RMB'000
Final dividend proposed after the end of the reporting period of HK$0.14 per ordinary share (2016: HK$0.10 per ordinary share)	**281,271**	197,705

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends (continued)

(ii) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year

	2017 **RMB'000**	2016 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.10 per ordinary share (2016: HK$0.10 per ordinary share)	**193,215**	187,209

(iii) Other dividends

During the year of 2017, certain subsidiaries of the group declared and paid dividends of RMB6,676,000 (2016: RMB13,868,000) in cash to non-controlling shareholders.

(c) Share capital

Movements in the authorised share capital of the company during the year are as follows:

	2017		2016	
	Number of shares (thousand)	**Amount HK$('000)**	Number of shares (thousand)	Amount HK$('000)
Ordinary shares, authorised:				
Ordinary shares of HK$0.10 each	**20,000,000**	**2,000,000**	20,000,000	2,000,000
Ordinary shares, issued and fully paid:				
At 1 January	**2,210,200**	**221,020**	2,210,200	221,020
Shares issued pursuant to pre-IPO employee share option scheme	**5,339**	**534**	–	–
Issue of ordinary shares by placement (i)	**50,000**	**5,000**	–	–
At 31 December	**2,265,539**	**226,554**	2,210,200	221,020
RMB equivalent ('000)		**193,425**		188,788

(i) Pursuant to a share placing agreement dated 15 December 2017, the Company completed a share placing by issuing 50,000,000 ordinary shares at a price of HK$7.60 per share on 28 December 2017. Consequently, RMB4,179,500 (equivalent to HK$5,000,000) were recorded in share capital.

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves

(i) PRC statutory reserves

PRC Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective boards of directors' meetings.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(ii) Exchange reserves

Foreign currency translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations which are dealt with in accordance with the accounting policies as set out in note 2(u).

(iii) General reserve

Pursuant to the relevant notices issued by regulatory bodies, certain subsidiary in the financial services segment in the Mainland China are required to set aside a general reserve to cover potential losses.

(e) Distributability of reserves

The company was incorporated on 9 July 2010. Under the Companies Law of the Cayman Islands, all reserves of the company may be applied for payment of distributions or dividends to equity holders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the company is able to pay its debts as they fall due in the ordinary course of business.

At 31 December 2017, distributable reserves of the company amounted to RMB3,077,089,000 (31 December 2016: RMB3,270,003,000). After the end of the reporting period, the directors proposed a final dividend of HK$0.14 (RMB0.11) per ordinary share (2016: HK$0.10 (RMB0.09) per ordinary share), amounting to RMB281,271,000 (2016: RMB197,705,000 (note 30(b)). This dividend has not been recognised as a liability at the end of the reporting date.

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(f) Capital risk management

The group's primary objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose the group defines net debt as interest-bearing loans and borrowings, obligations under finance leases, bills payable, bonds payable and unaccrued proposed dividends less cash and cash equivalents, time deposits and pledged bank deposits, and capital is defined as the total equity less unaccrued proposed dividends.

The adjusted net debt-to-capital ratios at 31 December 2017 and 31 December 2016 were as follows:

		At 31 December	
	Note	**2017**	2016
		RMB'000	RMB'000
Loans and borrowings	23	**16,802,083**	8,869,469
Obligations under finance leases	24	**120,578**	101,720
Bonds payable	26	**901,463**	2,314,703
Bills payable	25	**3,997,869**	3,489,345
Total borrowings		**21,821,993**	14,775,237
Add: Proposed dividends	30(b)	**281,271**	197,705
Less: Pledged bank deposits	21	**(3,686,098)**	(1,831,934)
Time deposits		**(837,000)**	–
Cash and cash equivalents	22	**(2,716,220)**	(1,625,128)
Adjusted net debt		**14,863,946**	11,515,880
Total equity		**10,353,632**	8,942,161
Less: Proposed dividends	30(b)	**(281,271)**	(197,705)
Adjusted total equity		**10,072,361**	8,744,456
Adjusted net debt-to-capital ratio		**1.48**	1.32

The group is subject to capital requirements imposed by certain banks as disclosed in note 23(v).

31 BUSINESS COMBINATION

On 31 March 2017, the group acquired 100% equity interest in Yiwu Xinhui Auto Trading Co., Ltd. ("Yiwu Xinhui") and Yongkang Guobang Auto Trading Co., Ltd. ("Yongkang Guobang") from independent third parties at a total consideration of RMB235,000,000. Yiwu Xinhui and Yongkang Guobang are principally engaged in the business of automobile dealership and after-sales services. Their major assets consist of Benz 4S dealership stores located in Yiwu and Yongkang, Zhejiang province, the PRC, respectively.

The above acquisition had the following effect on the group's assets and liabilities:

	Pre-acquisition carrying amounts RMB'000	Fair value adjustments RMB'000	Recognised values on acquisition RMB'000
Property, plant and equipment	29,869	–	29,869
Car dealership	–	78,333	78,333
Inventories	64,373	–	64,373
Trade and other receivables	277,403	–	277,403
Cash and cash equivalents	2,667	–	2,667
Trade and other payables	(143,292)	–	(143,292)
Loans and borrowings	(127,828)	–	(127,828)
Deferred tax assets/(liabilities)	876	(19,583)	(18,707)
Net identified assets and liabilities	104,068	58,750	162,818
Percentage attributable to the Group			100%
Net identified assets and liabilities attributable to the Group			162,818
Goodwill on acquisition of 100% equity interest			72,182
Total consideration			235,000
Analysis of the net cash outflow in respect of the acquisition:			
Cash consideration paid			235,000
Less: cash acquired			(2,667)
Net cash outflow in acquisition			232,333

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

The revenue and profit that Yiwu Xinhui and Yongkang Guobang contributed to the group during the year ended 31 December 2017 are RMB628,988,000 and RMB60,489,000 respectively. If the acquisition had occurred on 1 January 2017, management estimates that the group's consolidated revenue and consolidated profit for the year ended 31 December 2017 would have been RMB35,668,684,000 and RMB1,220,794,000 respectively. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the above acquisition would have been the same if the acquisition had occurred on 1 January 2017.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the group's business.

The group's exposure to these risks and the financial risk management policies and practices used by the group to manage these risks are described below.

(a) Credit risk

The group's credit risk is primarily attributable to trade and other receivables and receivables from financial services. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit risk in respect of trade receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent mortgage granted by major financial institutions to customers of the group, which is normally settled within one month directly by major financial institutions. Normally, the group does not obtain collateral from customers.

In respect of receivables from financial services, a separate risk management department of the financial services company is responsible for organising and coordinating the risk management of the company, including reviewing the policy of credit risk management, monitoring the implementation of the relevant policy and organizing the extension of general credit limit.

According to external regulation and requirement of relevant rules, the financial services company drew up loan classification policy, loan reserve policy, loan approval guide and relevant rules for loan collection. The financial services company's credit risk management runs through three stages as pre-lending investigation, credit approval and post-lending management. In the first stage, the financial services company will investigate the borrower's credit background. In the second stage, all the lending transactions must be approved by specified levels of approvers. In the final stage, the financial services company will continuously monitor all the loans and take appropriate measures to prevent and control credit risk if deterioration of the repayment capacity or credit position of the borrower is noted.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

The financial services company adopts the loan risk classification approach to monitor the risk condition of its loan portfolios. Loans are classified by a five-tier grading system: Normal, special mention, substandard, doubtful and loss, according to risk levels. The five-tier grading for loans and advances is defined as follows:

Normal: The borrower is in stable condition and can fulfil the contract at present. There is no doubt that the principal and interest will be overdue.

Special Mention: The borrower can repay the principle and interest, but the potential weakness may result in deterioration of the repayment capacity or credit position of the borrower in the future.

Substandard: Assets so classified must have one or more evident weaknesses that jeopardise the timely repayment of its obligations. Certain losses might incur even if collaterals are realised.

Doubtful: Repayment in full is with significant doubt or even impossible considering the current weakness noted. Great losses might incur even if collaterals are realised.

Loss: Nearly uncollectible or only collectible for minor part even if all the possible measures and legal means have been taken into action, which indicates that it shall no-longer be recognised due to the few recovery.

At the respective balance sheet dates, the group has certain concentration of credit risk as prepayments to vendors and other receivables due from vendors constitute a large portion of trade and other receivables. The receivables from the five largest debtors at 31 December 2017 represented 67% of the total trade and other receivables (2016: 71%), while 39% of the total trade and other receivables were due from the largest single debtor (2016: 40%).

The group does not provide any other guarantees outside the group which would expose the group to credit risk.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due.

The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The group's policy is to regularly monitor current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutes to meet its liquidity requirements in the short and longer term.

The following are the contractual maturities of the group's financial liabilities at 31 December 2017, which are based on contractual undiscounted cash flows and the earliest date the group can be required to pay.

	At 31 December 2017 Contractual undiscounted cash outflow				At 31 December 2016 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Loans and borrowings	13,623,126	3,912,775	17,535,901	16,802,083	8,815,595	229,394	9,044,989	8,869,469
Obligations under finance leases	90,193	37,054	127,247	120,578	103,950	-	103,950	101,720
Bonds payable	66,190	1,153,228	1,219,418	901,463	178,074	2,425,316	2,603,390	2,314,703
Trade and other payables	6,338,004	-	6,338,004	6,338,004	5,501,303	-	5,501,303	5,501,303
	20,117,513	5,103,057	25,220,570	24,162,128	14,598,922	2,654,710	17,253,632	16,787,195

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

(i) Interest rate profile

Cash at bank, pledged bank deposits, and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk. Cash at bank are with floating or fixed interest rates ranging from 0.01% to 2.15% per annum as at 31 December 2017 (2016: 0.01% to 3.05%). Pledged bank deposits are placed to satisfy conditions for issuance of commercial bills and bank loans granted to the group, with fixed interest rates ranging from 0.3% to 1.54% per annum as at 31 December 2017 (2016: 0.30% to 5.66%).

The group's interest-bearing borrowings and interest rates as at 31 December 2017 are as follows:

		At 31 December	
	Interest Rate	**2017** **RMB'000**	2016 RMB'000
Fixed rate borrowings	4.35%~8.00%	**11,231,492**	8,593,584
Variable rate borrowings	2.08%~8.40%	**6,592,632**	2,692,308
		17,824,124	11,285,892

(ii) Sensitivity analysis

The group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

A general decrease/increase of 100 basis points in interest rates prevailing at 31 December 2017, with all other variables held constant, would increase/decrease the group's profit after tax and retained earnings by approximately RMB49,444,743 (2016: RMB20,192,312).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2016.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(d) Foreign currency risk

The group is exposed to currency risk primarily through borrowings and cash balances that are dominated in a foreign currency. The currencies giving rise to this risk are primarily United States dollars and Hong Kong dollars.

(i) Exposure to currency risk

The following table details the group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of reporting period.

	2017			2016		
	United Sates Dollars RMB'000	**Euro RMB'000**	**Hong Kong Dollars RMB'000**	United Sates Dollars RMB'000	Euro RMB'000	Hong Kong Dollars RMB'000
Trade and other receivables	**–**	**–**	**743**	341	–	1,087
Cash and cash equivalents	**110,123**	**224**	**330,140**	55,489	210	4,323
Loans and borrowings	**3,999,179**	**–**	**1,053,234**	69,370	–	486,343
Bonds payable	**–**	**–**	**–**	2,314,703	–	–
Net exposure	**3,889,056**	**224**	**722,351**	2,328,243	210	480,933

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2017		2016	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States Dollars	**5%**	**(194,453)**	5%	(110,042)
	(5)%	**194,453**	(5)%	110,042
Euro	**5%**	**11**	5%	11
	(5)%	**(11)**	(5)%	(11)
Hong Kong Dollars	**5%**	**(36,118)**	5%	24,567
	(5)%	**36,118**	(5)%	(24,567)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(d) Foreign currency risk (continued)

(ii) Sensitivity analysis (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the profit after tax and retained profit of each entity of the group measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the group which expose the group to foreign currency risk as at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the group's presentation currency. The analysis has been performed on the same basis for 2016.

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

The fair value of the group's financial instruments are categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair Value measurement. The level, into which a fair value measurement is classified, is determined with the reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets and liabilities at the measurement date.

– Level 2 valuations: Fair values measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data at not available.

– Level 3 valuations: Fair values measured using significant unobservable inputs.

The following table presents the group's (liabilities)/assets that are measured at fair value.

	Fair value at 31 December	Fair value measurement as at 31 December 2017 categorised into			Fair value at 31 December	Fair value measurement as at 31 December 2016 categorised into		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements								
(Liabilities)/Assets:								
Derivative financial instruments:								
Capped cross currency swap	(134,353)	-	(134,353)	-	143,456	-	143,456	-

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the capped cross currency swap is determined by discounted-cash flow method and Black-Scholes model. The discount rate used is the rate of market yield for financial instruments with substantially identical contract terms and characteristics.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(e) Fair value measurement (continued)

(ii) Fair value of financial assets and liabilities carried at other than fair value

At 31 December 2017 and 2016, all financial assets and liabilities, except for the derivative financial instrument, are carried at amounts not materially different from their fair values, except for the amounts due to related parties which have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair value of such balances.

33 COMMITMENTS

(a) Capital commitments

Capital commitments of the group in respect of property, plant, equipment and strategic operation management cooperation scheme (see note 39(a)) outstanding at 31 December 2017 not provided for in the consolidated financial statements were as follows:

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Contracted for	**1,030,235**	283,354

(b) Operating lease commitments

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Within 1 year	**495,566**	291,155
After 1 year but within 5 years	**987,004**	706,829
After 5 years	**878,794**	495,464
	2,361,364	1,493,448

The group leases a number of warehouses, lands and office premises under operating leases. The leases typically run for an initial period between 1 and 20 years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

34 CONTINGENT LIABILITIES

As at 31 December 2017, the group did not have any significant contingent liabilities.

35 MATERIAL RELATED PARTY TRANSACTIONS

Name of party	Relationship
Wang Muqing and Wang Muqing's family member 王木清及王木清家屬	Controlling Shareholder
Beijing Guangze Real Estate Development Co., Ltd ("Beijing Guangze") 北京廣澤房地產開發有限公司	Controlled by Mr. Wang Muqing's family members
Hubei Xike Industry Co., Ltd. ("Hubei Xike") 湖北熙可實業有限公司	Controlled by Mr. Wang Muqing's family members
Beijing Baoze Automobile Technology Development Co., Ltd. ("Beijing Baoze Technology") 北京寶澤汽車科技發展有限公司	Controlled by Beijing Guangze
Inner Mongolia Shengze Dingjie Automobile Trading Co., Ltd. ("Inner Mongolia Shengze Dingjie") 內蒙古聖澤鼎傑汽車貿易有限公司	Controlled by Beijing Guangze
Changsha Shengze Ruibao Electronics Trading Co., Ltd. ("Changsha Shengze Ruibao") 長沙聖澤瑞寶電子產品貿易有限公司	Controlled by Beijing Guangze
Wuhan Shengze Jieyun Trading Co., Ltd. ("Wuhan Jieyun") 武漢聖澤捷運貿易有限公司	Controlled by Beijing Guangze
Wuhan Shengze Jiezhong Logistics Co., Ltd. ("Wuhan Jiezhong") 武漢聖澤捷眾物流有限公司	Controlled by Beijing Guangze
Wuhan Jiangrong Investment Co., Ltd. ("Wuhan Investment") 武漢江融投資有限公司	Controlled by Beijing Guangze

Note: The English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

35 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Recurring transactions

	For the year ended 31 December	
	2017 **RMB'000**	2016 RMB'000
Rental and property management expense:		
Hubei Shengze	**4,196**	5,594
Hubei Xike	**1,398**	–
Beijing Baoze Technology	**32,174**	32,174
Inner Mongolia Shengze Dingjie	**23,124**	23,124
Changsha Shengze Ruibao	**2,488**	2,488
Wuhan Jieyun	**14,174**	14,174
Wuhan Jiezhong	**2,544**	2,544
Wuhan Investment	**14,864**	16,346
	94,962	96,444

The company's directors are of the opinion that the above related party transactions were conducted on terms no less favourable to the group than terms available to or from independent third parties and in the ordinary course of business.

(b) Balances with related parties

	For the year ended 31 December	
	2017 **RMB'000**	2016 RMB'000
Due to related parties:		
Beijing Baoze Technology	**913**	1,016
Inner Mongolia Shengze Dingjie	**10,711**	4,628
	11,624	5,644

(c) Key management personnel remuneration

Key management personnel remuneration is disclosed in note 8 and note 9.

(d) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of rental expenses above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section Continuing Connected Transactions of the Reports of the directors.

36 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	At 31 December	
	2017	2016
Non-current assets		
Property, plant and equipment	**966**	76
Interest in subsidiaries	**7,940,536**	6,151,075
Other financial assets	**–**	143,456
	7,941,502	6,294,607
Current assets		
Trade and other receivables	**10,680**	23,783
Cash and cash equivalents	**434,496**	13,258
	445,176	37,041
Current liabilities		
Loans and borrowings	**1,131,892**	555,719
Trade and other payables	**4,684**	2,435
	1,136,576	558,154
Net current liabilities	**(691,400)**	(521,113)
Total assets less current liabilities	**7,250,102**	5,773,494
Non-current liabilities		
Bonds payable	**–**	2,314,703
Loans and borrowings	**3,845,235**	–
Other financial liabilities	**134,353**	–
	3,979,588	2,314,703
NET ASSETS	**3,270,514**	3,458,791
Equity		
Share capital	**193,425**	188,788
Reserves	**3,077,089**	3,270,003
TOTAL EQUITY	**3,270,514**	3,458,791

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
Amendments to HKAS 40, *Investment property: Transfers of investment property*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the group, and further impacts may be identified before the standards are initially applied in the group's interim financial report for the six months ended 30 June 2018. The group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification measurement of financial liabilities. The group has decided not to adopt HKFRS 9 until it becomes mandatory on 1 January 2018. Expected impacts of the new requirements on the group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI). The group currently does not have any financial assets measured at FVTPL or FVTOCI.

Based on the assessment so far, the group expects that its financial assets currently measured at amortised cost will continue with their respective classification and measurement upon the adoption of HKFRS 9.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

HKFRS 9, Financial instruments (continued)

(a) Classification and measurement (continued)

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the group's trade receivables and receivables from financial services. Based on a preliminary assessment, the application of the new impairment model may not have a significant impact on the group.

(c) Hedging accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The group currently does not have any hedge relationship and therefore it may not have any impact on the group on adoption of HKFRS 9.

Based on the above assessment so far, the group considers that the initial application of HKFRS 9 will not have a significant impact on the group's results of operations and financial position.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

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

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

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

The group plans to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

HKFRS 15, Revenue from contracts with customers (continued)

Based on the assessment so far, the group considers that the initial application of HKFRS 15 will not have a significant impact on the group's results of operations and financial position.

HKFRS 16, Leases

As disclosed in note 2(i), currently the group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease.

Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 33(b), at 31 December 2017 the group's future minimum lease payments under non-cancellable operating leases amount to RMB2,361,364,000 for properties and other assets, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date.

38 ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing these consolidated financial statements. The principal accounting policies are set forth in note 2. The group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these consolidated financial statements.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The group reviews annually the useful life of an asset and its residual value, if any, in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

38 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Impairment losses on receivables from financial services

Receivables from financial services are regularly reviewed to assess whether there's sign of impairment loss, and evaluate the specific amount of the impairment loss. The objective evidence of impairment loss of individual or portfolios of receivables from financial services includes demonstration of observed data on a sharp decline of the expected future cash flow or deterioration of the repayment capacity or credit position of the borrower. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

(c) Impairment losses on trade and other receivables

Impairment losses on trade and other receivables are assessed and provided based on management's regular review of ageing analysis and evaluation of collectability. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debt would affect the consolidated statement of profit or loss in future years.

(d) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(e) Provision for inventories

The group reviews the carrying amounts of the inventories at the respective balance sheet dates to determine whether the inventories are carried at lower of cost and net realisable value. Management estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down and affect the group's net asset value.

(f) Impairment of goodwill

The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make an estimation of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(g) Accrual of vendor rebate

The group reviews the accruals of vendor rebate at the end of each reporting period by reference to the rebates receivables in accordance with the applicable terms and conditions of the suppliers' agreements. The accruals for vendor rebates involved management estimation and the extent of rebates entitlement under the respective categories of vendor rebate. Specific factors management considered included the recent historical sales volume patterns, the rebate rates applied and any other available information concerning the credit worthiness of suppliers.

(h) Useful lives of intangible assets

The intangible assets are depreciated on a straight-line basis by taking into account the residual value. The group reviews the estimated useful lives periodically to determine the related amortisation charges for its intangible assets. The estimation is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions, with consideration of market condition.

39 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Strategic operation management cooperation scheme

On 23 December 2017, the group entered into an agreement on strategic operation management cooperation scheme ("SOMCS") with independent third parties, which was effective from 1 January 2018 for 10 years. The group will obtain the right to engage in the 4S business of 10 BMW/Mini brands stores (the "Target Companies") during the 10 years' period. Such SOMCS constitutes a business combination in accordance with HKFRS 3 "Business Combinations".

Under such SOMCS, the group will establish new operating entities ("Operating Entities"). Relevant BMW/ Mini vehicles dealerships will be legally transferred from the Target Companies to the newly established operating entities of the group during the cooperation period. The group will bear a fixed annual payment amount of RMB71,000,000 for such arrangement during the 10 years period. The aggregate fixed annual amount (amounting to RMB710 million) has been disclosed in note 33(a).

In addition, the Operating Entities would lease the existing business premise of the Target Companies from the original lessor so as to undertake the 4S automobile business. The group will pay monthly rental fees under an agreed step-up lease structure during the 10 years' period in the amount of RMB6,750,000 per month in the first three years, with an upward adjustment of 8% for every three years. The relevant lease commitment has been disclosed in note 33(b).

(b) Facility agreement

On 16 January 2018, the company (as borrower) and two of its Hong Kong incorporated subsidiaries (as guarantors) entered into a facility agreement (the "Facility Agreement") with (among other parties) nineteen financial institutions (as lenders) for a syndicated term loan facility for an initial aggregate amount of US$380 million (with a green shoe option of an amount up to US$600 million (inclusive of the said initial amount)). The final repayment date of the loan facility shall be the date falling 36 months after the first utilization date.

(c) Placing of new shares

On 19 January 2018, the placing of 226 million new shares of the company at the placing price of HK$7.70 per placing shares under general mandate and the placing agreement dated 11 January 2018 (the "Placing"), was completed. The net proceeds from the placing amounted to HK$1,727 million.

(d) Final dividend

Subsequent to 31 December 2017, the directors proposed a final dividend. Further details are disclosed in note 30(b).

40 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the company as at 31 December 2017 to be Joy Capital Holdings Limited, which was incorporated in the British Virgin Islands.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Muqing *(Chairman)*
Mr. Wang Kunpeng *(Vice Chairman)*
Mr. Koh Tee Choong, Ivan *(Chief Executive Officer)*
Mr. Li Zhubo
Mr. Wan To
Mr. Shao Yong Jun

Independent Non-executive Directors

Dr. Wong Tin Yau, Kelvin
Dr. Cao Tong
Ms. Wong Tan Tan

REGISTERED OFFICE

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COMPANY SECRETARY

Ms. Yeung Wing Yee

AUTHORIZED REPRESENTATIVES

Mr. Shao Yong Jun
Mr. Li Zhubo

AUDIT COMMITTEE

Dr. Wong Tin Yau, Kelvin *(Chairman)*
Dr. Cao Tong
Ms. Wong Tan Tan

NOMINATION COMMITTEE

Mr. Wang Muqing *(Chairman)*
Dr. Cao Tong
Ms. Wong Tan Tan

REMUNERATION COMMITTEE

Dr. Cao Tong *(Chairman)*
Mr. Wang Muqing
Dr. Wong Tin Yau, Kelvin

HONG KONG SHARE REGISTRAR

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46th Floor, Hopewell Centre
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CAYMAN ISLANDS SHARE REGISTRAR

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Cayman Islands

PRINCIPAL BANKERS

China Construction Bank Corporation, Hubei Branch
Industrial and Commercial Bank of China, Wuhan Branch
Bank of China, Hubei Branch
Industrial Bank Co., Ltd., Wuhan Branch
China Merchants Bank, Wuhan Branch
China Minsheng Banking Corp., Ltd., Communications Finance Business Department
China Guangfa Bank, Shanghai Branch
Shanghai Pudong Development Bank Co., Ltd.
DBS Bank (China) Limited
Standard Chartered Bank (China) Limited
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia (China) Limited
Ping An Bank Company Limited Shanghai Branch
China Citic Bank Corporation Limited Headquarter General Banking

AUDITORS

KPMG
Certified Public Accountants

HONG KONG LEGAL COUNSEL

Chiu & Partners
Clifford Chance

CHINA ZHENGTONG
AUTO SERVICES HOLDINGS LIMITED
中國正通汽車服務控股有限公司

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