中升集團控股有限公司
ZHONGSHENG GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 881

Zhongsheng Group
Lifetime Partner
中升集團 · 終生夥伴

ANNUAL REPORT 2016

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CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Huang Yi *(Chairman)*
Mr. Li Guoqiang *(President and CEO)*
Mr. Du Qingshan
Mr. Yu Guangming
Mr. Si Wei
Mr. Zhang Zhicheng

NON-EXECUTIVE DIRECTORS

Mr. Adam Keswick (resigned on 22 August 2016)
Mr. Pang Yiu Kai (appointed on 22 August 2016)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Yuk Keung (resigned on 19 September 2016)
Mr. Shen Jinjun
Mr. Lin Yong
Mr. Shoichi Ota
Mr. Ying Wei (appointed on 19 December 2016)

CORPORATE HEADQUARTERS

No. 20 Hequ Street
Shahekou District
Dalian
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 3504–12
35th Floor, Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

REGISTERED OFFICE

P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

LEGAL ADVISERS TO HONG KONG LAW

Freshfields Bruckhaus Deringer
11th Floor, Two Exchange Square
Central
Hong Kong

JOINT COMPANY SECRETARIES

Ms. Kam Mei Ha Wendy
Ms. Mak Sze Man

AUTHORIZED REPRESENTATIVES

Mr. Huang Yi
Ms. Kam Mei Ha Wendy

AUDIT COMMITTEE

Mr. Ying Wei *(Chairman)*
(appointed on 19 December 2016)
Mr. Shen Jinjun
Mr. Lin Yong
Mr. Ng Yuk Keung *(Chairman)*
(resigned on 19 September 2016)

REMUNERATION COMMITTEE

Mr. Lin Yong *(Chairman)*
Mr. Li Guoqiang
Mr. Shen Jinjun

NOMINATION COMMITTEE

Mr. Shen Jinjun *(Chairman)*
Mr. Huang Yi
Mr. Lin Yong

COMPLIANCE COMMITTEE

Mr. Du Qingshan *(Chairman)*
Mr. Huang Yi
Mr. Li Guoqiang

RISK COMMITTEE

Mr. Yu Guangming *(Chairman)*
Mr. Si Wei

HONG KONG SHARE REGISTRAR

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

STOCK CODE

881

AUDITORS

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

CHAIRMAN'S STATEMENT

Huang Yi
Chairman

Dear shareholders,

On behalf of the board (the "**Board**") of directors of Zhongsheng Group Holdings Limited ("**Zhongsheng Group**" or the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2016 (the "**Reporting Period**").

The year 2016 marked the beginning of the implementation of the 13th Five-Year Plan. Under the combined effect of continuous promotion of innovation and ongoing release of the impact of macroeconomic policies, the national economy operated steadily with a leveling-off of growth and rising trend, realizing a bright start. The GDP for the year achieved a year-on-year increase of 6.7%. From the industry perspective, the tertiary sector increased by 7.8% on a year-on-year basis, outpacing the 3.3% of the primary industry and the 6.1% of the secondary industry, gradually becoming a stabilizer for China's economic growth and demonstrating the diversity and optimization of the economic structure.

Given the backdrop of a favourable national economy, the automobile industry stepped up its efforts in supply-side reform by speeding up its pace of adjustments and innovation in product structure. The growth rates of production and sales increased month by month, with both the production volume and sales volume of automobiles for the whole year exceeding 28 million units, ranking first in the world for eight consecutive years. The production volume and sales volume of passenger vehicles also reached a record high of 24.421 million units and 24.377 million units, respectively, representing an increase of 15.5% and 14.9% as compared to that of the corresponding period last year, respectively. Such rapid growth made a contribution of up to 92.3% and 94.1% towards the increase in the production volume and sales volume of automobiles, respectively.

In addition, second-hand automobile market and after-sales market have been creating new development opportunities. In 2016, the total trading volume of second-hand automobiles in China increased by 10.33% on a year-on-year basis to 10.3907 million units, exceeding 10 million units for the first time. According the data from the China Association of Automobile Manufacturers, the after-sales market has been increasing by approximately RMB100 billion each year since 2012, and stands at RMB766.0 billion at present, which is expected to exceed RMB800.0 billion by 2017 easily, thereby making considerable room for the development and providing growth potential for the extension of the automobile industry chain.

With the positive demand-supply relationship in the automobile market and the enlarged room for development of the after-sales market, Zhongsheng Group has never stopped exploring and innovating so as to achieve steady development. As of 31 December 2016, the Group recorded a revenue of RMB71,599.2 million, representing an increase of 21.1% as compared to RMB59,142.6 million for the corresponding period in 2015. In particular, revenue generated from new automobile sales business amounted to RMB62,459.5 million, representing an increase of 20.5% as compared to RMB51,842.7 million for the corresponding period in 2015; and revenue generated from after-sales and accessories business increased by 25.2% to RMB9,139.7 million as compared to the corresponding period in 2015. Profit attributable to owners of the parent of the Group for 2016 was RMB1,860.2 million, representing an increase of 303.5% as compared to RMB461.0 million in the corresponding period in 2015; and earnings per share was RMB0.87 (the corresponding period in 2015: RMB0.21).

By seizing the development opportunities in the entire automobile market, Zhongsheng Group's strengths in terms of brand portfolio and geographical coverage were further highlighted, and its operational and management efficiency has also been uplifting. In 2016, the Group continued to expand its geographical coverage by optimising its brand portfolio, consolidating its business structure and actively participating in the market integration. In particular, through the acquisition of the equity interests in Hainan Jiahua Weiye Investment Co., Ltd. and its subsidiaries, 18 dealerships were added to the Group's portfolio, which enabled the Group successfully gained foothold in Hainan and acquired significant market share. As of 31 December 2016, the Group had 251 4S dealerships, covering 22 provincial regions and over 80 cities in China.

To tie in with the rapid growth in the automobile market, Zhongsheng Group explored and innovated in a prudent and proactive manner during 2016 with a widely recognized development. In May, Zhongsheng Group ranked the third among the 2015 Top 100 Automobile Dealers in China published by the China Automobile Dealers Association (the "**CADA**") with a revenue of RMB59.1 billion for 2015. In July, the Group was once again selected as one of the Fortune China 500, an international authoritative ranking, and ranked 102nd. In November, the Group was granted the "2016 Most Influential Brand in China's Automobile Dealer Industry" and the "2016 China's Automobile Dealer Industry Outstanding Contribution Award" by the CADA. All of these honours reflect the full recognition of the development prospects, business model and management philosophy of Zhongsheng Group.

Looking forward, the automobile industry of the PRC is still facing not only multiple challenges but also the associated opportunities arising from the challenges. By adhering to its firm belief and following its original aspiration, Zhongsheng Group will continue to enhance its strengths in terms of brand and geographical portfolio, further extend its industry chain, consolidate its advantages in the after-sales market, uphold the principle of people-oriented and customer-oriented, enhance its operational and management efficiency and efficiency per capita, promote the delicacy management, maintain a steady growth in the traditional dominant business segment and consistently seek new profit growth points. At the same time, we will stand by our corporate motto of "Zhongsheng Group – Lifetime Partner" as always, enhance our service quality and optimise our management system and management process in order to turn the professional automobile brand services into a cornerstone of the corporate development strategy and foster the sustainable development of the automobile industry of the PRC.

The Group's achievements are relied on the dedication and contributions of its staff from all departments as well as the faith, support, encouragement and trust of all shareholders and business partners. On behalf of the Board, I would like to express our sincere gratitude to all of you for your valuable contributions to the Group's development.

Huang Yi
Chairman
Hong Kong, 20 March 2017

CHIEF EXECUTIVE OFFICER'S STATEMENT

Li Guoqiang
President and Chief Executive Officer

MARKET REVIEW

In 2016, the economy of China operated within an appropriate range with positive factors gradually accumulating, while the quality and efficiency of development showed progressive improvements and the downward pressure was mitigated over time, presenting the initial realization of a bright start of the 13th Five-Year Plan. China's total GDP amounted to RMB74.4 trillion in 2016, representing a 6.7% increase from that in 2015, accounting for approximately 15% of the global GDP. In particular, the proportion of the service industry continued to grow, accounting for nearly two-thirds of the contribution of consumption, indicating a further improvement in the economic structure. With a steady growth in the national income and further rising consumption power of residents, the increase in income per capita for 2016 was slightly greater than that of GDP per capita in real terms, and is expected to double 2010's figure by 2020.

In 2016, the passenger vehicle market of China reached a record high with an annual sales volume of 24.377 million units, representing an increase of 14.9% as compared to the corresponding period of last year. Most notably, the luxury vehicle market of China also experienced a rapid growth with a total sales volume of 2.18 million units, exceeding 2 million units for the first time and representing a year-on-year increase of 16%.

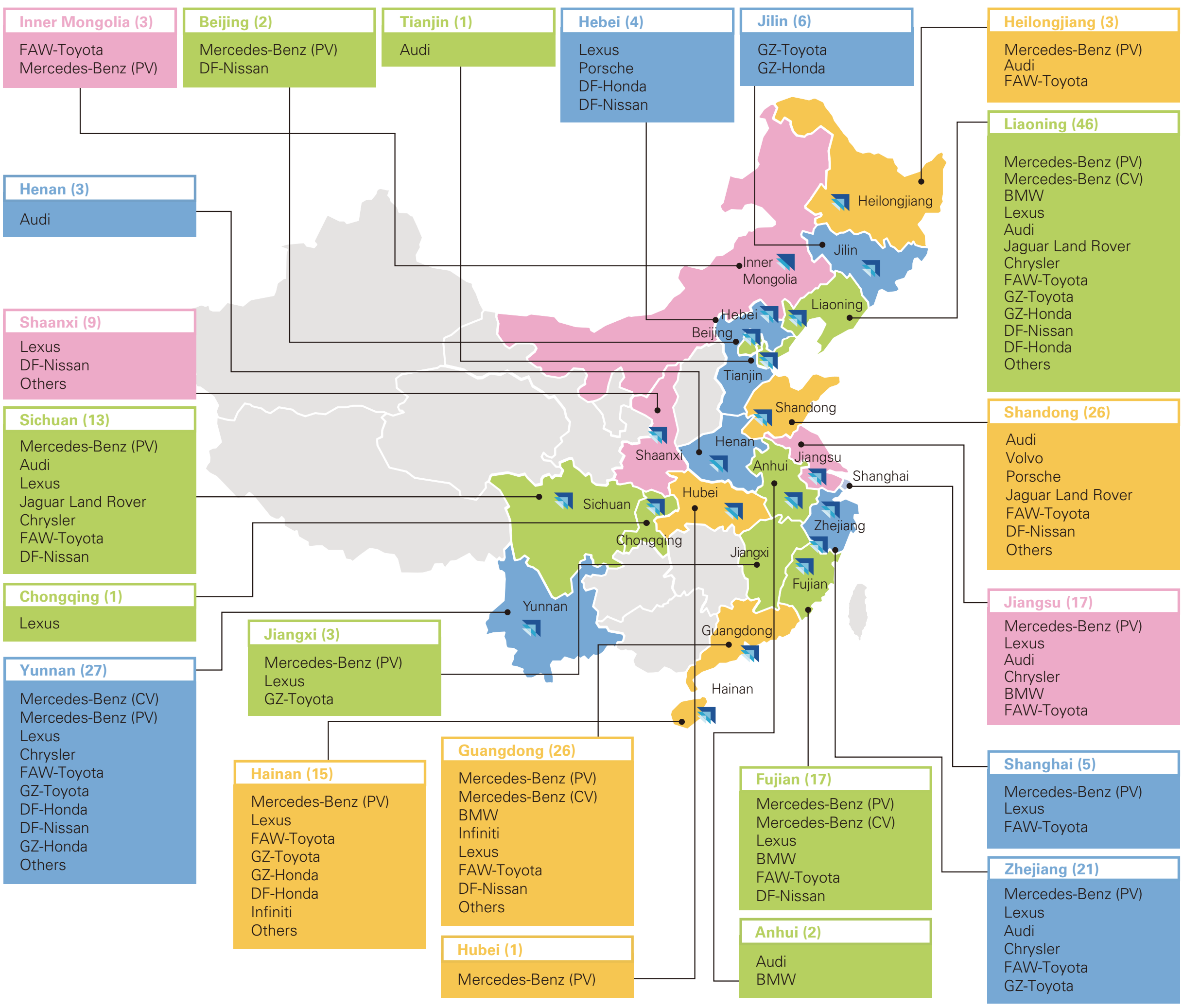
BUSINESS REVIEW

COMMITTED TO EXPANDING MARKET PRESENCE AND FURTHER HIGHLIGHTING THE STRENGTHS IN TERMS OF BRAND AND GEOGRAPHICAL PORTFOLIO

In light of the successive introduction of policies for the automobile industry in 2016, the consolidation of the automobile distribution network further advanced and the transformation and upgrade of the industry accelerated. The Group actively capitalized on the favourable policies and seized market opportunities. Based on the thorough understanding of the demands and consumption habit of customers in different markets, the Group has not only explored and strengthened its position in various major strategic regions, but also further expanded its market share, enhanced its market awareness and strengthened its industrial position through establishment of new networks as well as mergers and acquisitions.

As of 31 December 2016, the total number of 4S dealerships of the Group reached 251, including 120 luxury brand dealerships and 131 mid-to-high-end brand dealerships, which were mainly located in regions with higher consumption power or great potential for car purchasing and covered 22 provinces and regions and more than 80 cities across China.

The coverage of the Group's dealerships as of 31 December 2016 was as follows:



	Luxury brand	Mid-to-high-end brand	Total
Northeastern and Northern China regions	21	41	**62**
Eastern and Central China regions	50	25	**75**
Southern China region	29	29	**58**
Southwestern and Northwestern inland regions	20	36	**56**
Total	120	131	**251**

Currently, the Group's brand portfolio covers luxury brands such as Mercedes-Benz, Audi, Lexus, BMW, Jaguar Land Rover, Porsche, Infiniti and Volvo, as well as mid-to-high-end brands such as Toyota, Nissan and Honda. Such diversified brand portfolio and extensive geographic coverage cater to the needs of different customer groups.

POSITIVE DEMAND-SUPPLY RELATIONSHIP TO FACILITATE ROBUST BUSINESS GROWTH

With the gradual release of the rigid demand in the automobile industry and the upgrade of the demand for update and replacement, the production volume and sales volume of automobiles in China recorded another new high. Driven by the issue of the Certain Opinions on Promoting the Second-hand Vehicles Trade (《關於促進二手車便利交易的若干意見》), the second-hand automobile market started to boost. In 2016, the total trading volume of the second-hand automobiles in China exceeded ten million units for the first time. The continual swift increase in automobile ownership also facilitated the increasing demand for after-sales services. High-quality talents, high quality assurance and high-standard services and products became the fundamental elements of the development for after-sales services.

Benefiting from the revitalizations of China's automobile industry, in particular, the luxury automobile market, the Group achieved remarkable performance.

In face of the positive momentum in the market, the Group seized opportunities in a timely manner by steadfastly implementing its business plan for dealerships, aligning with the highest industrial standards, continuously enhancing operational and management efficiency and formulating precise strategic positioning, with a view to achieving all-round development in various businesses such as new automobile sales, after-sales and accessories business, second-hand automobiles, insurance and finance.

For the year of 2016, the Group's new automobiles sales volume reached 300,753 units, representing a year-on-year increase of 23.4%. The sales volume of new automobiles of luxury brands accounted for 39% of total new automobile sales volume. In terms of after-sales and accessories business, the Group realized an output value of RMB9,139.7 million for the year of 2016, representing a year-on-year increase of 25.2%. Other value-added services, mainly including insurance, finance and second-hand automobiles, achieved a rapid growth at the same time, realizing an income of RMB1,282.8 million, representing an increase of 32.0% as compared to the corresponding period of last year.

FUTURE OUTLOOK

Looking forward, although the automobile industry of China is still facing multiple challenges, it is also facing opportunities arising from the challenges. By adhering to its firm belief and following its original aspiration, the Group will continue to enhance its strengths in terms of brand and geographical portfolio, further extend its industry chain, consolidate its advantages in the after-sales market, uphold the people-oriented and customer-oriented principle, enhance its operational and management efficiency and efficiency per capita, carry out delicacy management, maintain a steady growth in the traditional dominant business segment and consistently seek new profit growth points. At the same time, we will adhere to our corporate motto of "Zhongsheng Group – Lifetime Partner" as always, enhance our service quality and optimise our management system and process, treat our professional automobile brand services as the cornerstone of our corporate development strategy and foster the sustainable development of the automobile industry of China.

Li Guoqiang
President and Chief Executive Officer

Hong Kong, 20 March 2017

SURVEY

SPARE PARTS

SALES

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FINANCIAL REVIEW

REVENUE

Revenue for the year ended 31 December 2016 was RMB71,599.2 million, representing an increase of RMB12,456.6 million or 21.1% as compared to the corresponding period of 2015, among which, revenue from new automobile sales amounted to RMB62,459.5 million, representing an increase of RMB10,616.8 million or 20.5% as compared to the corresponding period of 2015. Revenue from after-sales and accessories business amounted to RMB9,139.7 million, representing an increase of RMB1,839.8 million or 25.2% as compared to the corresponding period of 2015. The revenue from new automobile sales business accounted for 87.2% of our total revenue (2015: 87.7%) in 2016, and the portion of revenue from after-sales and accessories business increased from 12.3% in the year of 2015 to 12.8% in the year of 2016.

In terms of new automobile sales revenue in 2016, Mercedes-Benz is our top-selling brand, representing approximately 28.1% of our total new automobile sales revenue (2015: 27.2%).

COST OF SALES AND SERVICES

Cost of sales and services for the year ended 31 December 2016 amounted to RMB65,046.9 million, representing an increase of RMB10,573.5 million or 19.4% as compared to the corresponding period in 2015. Cost attributable to our new automobile sales business amounted to RMB60,370.4 million for the year ended 31 December 2016, representing an increase of RMB9,876.9 million or 19.6% as compared to the corresponding period in 2015. Cost attributable to our after-sales and accessories business amounted to RMB4,676.6 million for the year ended 31 December 2016, representing an increase of RMB696.6 million or 17.5% as compared to the same period of 2015.

GROSS PROFIT

Gross profit for the year ended 31 December 2016 amounted to RMB6,552.3 million, representing an increase of RMB1,883.1 million or 40.3% as compared to the corresponding period in 2015, of which the gross profit from new automobile sales business amounted to RMB2,089.1 million, representing an increase of RMB739.9 million or 54.8% as compared to the corresponding period in 2015. Gross profit from after-sales and accessories business was RMB4,463.2 million, representing an increase of RMB1,143.2 million or 34.4% as compared to the corresponding period of 2015. For the year ended 31 December 2016, the gross profit from after-sales and accessories business accounted for 68.1% of the total gross profit (2015: 71.1%). Our gross profit margin for the year ended 31 December 2016 was 9.2% (2015: 7.9%), of which the gross profit margin of new automobile sales business was 3.3% (2015: 2.6%). Gross profit margin of after-sales and accessories business was 48.8% (2015: 45.5%).

PROFIT FROM OPERATIONS

Profit from operations for the year ended 31 December 2016 amounted to RMB3,892.3 million, representing an increase of RMB1,882.4 million or 93.7% as compared to the corresponding period in 2015. Our operating profit margin for the year ended 31 December 2016 was 5.4% (2015: 3.4%).

PROFIT FOR THE YEAR

Our profit for the year ended 31 December 2016 amounted to RMB2,041.7 million, representing an increase of RMB1,560.4 million or 324.2% as compared to the corresponding period in 2015. Our net profit margin for the year ended 31 December 2016 was 2.9% (2015: 0.8%).

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

Our profit attributable to owners of the parent for the year ended 31 December 2016 was RMB1,860.2 million, representing an increase of RMB1,399.2 million or 303.5% as compared to the corresponding period in 2015.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

Our cash is primarily used to pay for the purchase of new automobiles, spare parts and automobile accessories, repay our indebtedness, fund our working capital and normal operating expenses, establish new dealerships and acquire other dealerships. We finance our liquidity requirements through a combination of cash flows generated from our operating activities and financing activities.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of bank loans and other borrowings, cash flow generated from our operating activities and other funds raised from the capital markets from time to time in the future.

CASH FLOW GENERATED FROM OPERATING ACTIVITIES

For the year ended 31 December 2016, our net cash generated from operating activities was RMB4,512.6 million, primarily arising from operating profit of RMB4,929.3 million before working capital movement, deducting a net increase in working capital of RMB6.9 million and payment of tax of RMB409.8 million.

CASH FLOW USED IN INVESTING ACTIVITIES

For the year ended 31 December 2016, our net cash used in investing activities was RMB2,779.8 million, consisting primarily of purchases of property, plant and equipment of RMB1,433.2 million, purchases of land use rights of RMB113.6 million and acquisition of subsidiaries of RMB725.2 million, partially offset by proceeds from disposal of items of property, plant and equipment of RMB408.6 million.

CASH FLOW USED IN FINANCING ACTIVITIES

For the year ended 31 December 2016, our net cash used in financing activities was RMB2,048.3 million, consisting of proceeds from bank loans and other borrowings of RMB37,674.9 million, partially offset by repayment of bank loans and other borrowings of RMB37,044.4 million, repayment of short-term bonds and bonds payable of RMB400.0 million and RMB600.0 million, respectively, and interest paid for bank loans and other borrowings of RMB916.3 million.

CAPITAL EXPENDITURE AND INVESTMENT

Our capital expenditures comprise expenditures on property, plant and equipment, land use rights and business combinations. For the year ended 31 December 2016, our total capital expenditures were RMB2,599.3 million.

INVENTORY ANALYSIS

Our inventories primarily consist of new automobiles, spare parts and automobile accessories. Generally, each of our dealerships independently manages the orders for new automobiles and part of the after-sales products. We also coordinate and aggregate orders for automobile accessories and other automobile-related products across our dealership network. We manage our quotas and inventory levels through our ERP system. Our inventories slightly increased by 3.8% from RMB6,289.3 million as at 31 December 2015 to RMB6,529.7 million as at 31 December 2016. The increase of our inventory balance was in line with the increase of our store number as well as the business scale expansion. Furthermore, if taking into consideration of the total number of stores, which increased from 213 at the end of 2015 to 251 at the end of 2016, the per store inventory balance actually declined.

The following table sets forth our average inventory turnover days for the periods indicated:

	Year ended 31 December	
	2016	2015
Average inventory turnover days	**34.5**	43.5

Our average inventory turnover days in 2016 decreased to 34.5 days from 43.5 days in 2015, primarily benefited from our continuous strict and delicacy control over inventory and the ramp up of sales of new stores.

BANK LOANS AND OTHER BORROWINGS

Our bank loans and other borrowings as at 31 December 2016 were RMB15,275.6 million, and our convertible bonds liability portion amounted to RMB2,753.1 million. Although our business scale expanded, our bank loans and other borrowings' balance decreased during the year, which was mainly due to our better inventory turnovers, further improved working capital utilization as well as enhanced efficiency of operation.

PLEDGE OF THE GROUP'S ASSETS

The Group pledged its group assets as securities for bank loans and other borrowings and banking facilities which were used to finance our daily business operation. As at 31 December 2016, the pledged group assets amounted to approximately RMB6.2 billion (2015: RMB5.4 billion).

CONTINGENT LIABILITIES

As at 31 December 2016, neither the Company nor the Group had any significant contingent liabilities.

MATERIAL ACQUISITION AND DISPOSAL

On 8 April 2016, Famous Great International Limited, a wholly-owned subsidiary of the Company, entered into a reorganization agreement (the "**Reorganisation Agreement**") with, among others, Teal Orchid Investment Limited (the "**Teal Orchid**") and Mr. Patrick Hsiao-Po, Chou ("**Mr. Chou**") to reorganize their respective interests in B&L Motor Holding Co., Ltd. (the "**B&L Motor**"). The reorganization comprises assets transferred in by Mr. Chou and Teal Orchid to the Company (the "**transferred-in assets**") and assets transferred out by the Company to Mr. Chou and Teal Orchid (the "**transferred-out assets**"), the consideration of which is determined based on the net bookvalue of the transferred-in assets and transferred-out assets, respectively. Please refer to the announcement of the Company dated 11 April 2016 for details of the Reorganisation Agreement.

On 29 April 2016, Zhongsheng (Dalian) Group Co., Ltd. (中升(大連)集團有限公司) ("**ZS Dalian**"), a wholly-owned subsidiary of the Company, entered into the cooperation agreement with Hainan Jiahua Holdings Co., Ltd. (海南嘉華控股有限公司) ("**Hainan Jiahua**") and its de facto controller, Mr. Xu Zhixin, pursuant to which ZS Dalian agreed to subscribe for 65% of the enlarged share capital of Jihua Weiye Investment Co., Ltd. (海南嘉華偉業投資有限公司), a subsidiary of Hainan Jiahua at a consideration of RMB455 million. Please refer to the announcement of the Company dated 29 April 2016 for detailed information.

GEARING RATIO

As at 31 December 2016, the gearing ratio of our Group was 58.7% (31 December 2015: 59.4%), which was calculated from net debt divided by the sum of net debt and total equity.

FUTURE PLANS AND THE EXPECTED FUNDING

Going forward, the Company will continue to expand its business in the luxury and mid-to-high end passenger vehicle market by capitalizing on the opportunities arising from the market and exploring acclaimed brands with potential. We aim to expand our distribution network through new establishment and appropriate mergers and acquisitions in the future. We currently plan to fund our future capital expenditure through cash flows generated from our operating activities and various resources including but not limited to internal funds and borrowings from banks, and we currently have sufficient credit facilities granted by our banks.

RISK OF EXPOSURE TO EXCHANGE RATE FLUCTUATIONS AND RELATED HEDGING

Nearly all our businesses are conducted in Mainland China and we conduct our business primarily in Renminbi. We make nearly all our procurement with Renminbi and nearly all our incomes are denominated in Renminbi as well. We do not expect material impact on our business from the exchange rate fluctuations, and we currently do not engage in hedging activities designed or intended to manage the foreign exchange risks. However, we will consider arranging for proper financial instruments at appropriate times to avoid the exchange rate risks when necessary.

EMPLOYEES' REMUNERATION POLICIES AND TRAINING

As at 31 December 2016, the Group had a total of 19,878 employees. During the year of 2016, the total staff costs (including directors' remunerations) amounted to approximately RMB2,313.3 million.

The remuneration we paid to our staff mainly comprised wages, commissions, discretionary bonuses and contributions to defined contribution welfare schemes (including pension funds). The management determines the remuneration of the employees with reference to performance, experiences and industry practice.

In the future, we plan to provide various internal and external trainings for our senior management, general managers of our subsidiary 4S dealerships, middle-level executives as well as other employees, so as to improve the management capability and quality throughout the Group, growing more "quality" employees into "outstanding" ones.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are pleased to present this environment, social and governance report in the annual report of the Group for the year ended 31 December 2016. This report has been complied with the "comply or explain" provisions set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**").

ENVIRONMENT

ENVIRONMENTAL POLICY

Our environmental policies focused on promoting waste reduction in our operation process, comprising following aspects:

- fully implementing the Environmental Protection Law of the People's Republic of China promulgated by the state within the Group, promoting energy conservation and emission reduction, enhancing environmental protection construction of operating facilities, and minimizing the impacts of daily operation on environment.

- optimising the Contingency Plan for Environmental Pollution Emergency of dealerships and improving emergency drills.

During the year ended 31 December 2016, our Group has been fully in compliance with all applicable environmental and related laws and regulations which have significant impact on the operation of our Group, including Environmental Protection Law of the People's Republic of China.

ENERGY EFFICIENCY

I. EMISSIONS AND REDUCTION ACHIEVEMENT

During the year ended 31 December 2016, our Group has adopted following measures to reduce the emissions in the daily operation so as to lessen impacts upon environment, including:

- undertaking environmental impact assessment, inspection and rectification of paint spray booth and improving emission monitoring equipment so as to reduce exhaust emission.

- undertaking standardized construction of environmental protection facilities and conducting sewage treatment improvement works within our Group.

- arranging scientific test drive and test ride so as to reduce exhaust emission.

II. ENERGY CONSUMPTION AND ENERGY SAVINGS INITIATIVES

Our Group is continually improving its environmental management practices to reduce energy and other resource, minimize waste and increase recycling. During the year ended 31 December 2016, our Group has implemented energy use efficiency initiatives to reduce our energy consumption, including installation of energy saving lamps and utilization of recycling of water for domestic use. Benefited from the above measures, the Group's utility expenses decreased as compared with corresponding period of the previous year.

ENVIRONMENT AND NATURAL RESOURCES

The Group is committed to reducing the adverse effects on the environment brought by wastes generated in operation activities. During the reporting period, we undertook waste treatment in accordance with relevant government requirements and fully implemented the Hazardous Waste Management Requirements Of Motor Vehicle Maintenance Industry. We collected and stored major hazardous wastes and general solid waste in our operation process by category, established a comprehensive environmental pollution prevention and control system, adopted measures against industrial solid waste to prevent environmental pollution and clarified management responsibility.

WORKPLACE QUALITY

EMPLOYMENT AND LABOUR STANDARDS

As at 31 December 2016, our Group had a total of 19,878 full-time employees, among which, 12,663 are males and 7,215 are females. It ensures that the employees are treated fairly and equally, and that their rights and interests are protected.

Our employees are critical to our success. We have invested, and intend to continue to invest substantially in our employees in order to recruit, integrate and retain the best personnel for our business. As a result of our large scale operations, we have been able to implement a systematic approach to foster capable and experienced managers. One of our corporate policies is to promote capable personnel within the Group's operations and provide a clear career path to those personnel, thus forming a large pool of motivated and experienced employees to support our business expansion plans.

By leveraging our strong operational expertise accumulated throughout our national store network, we frequently apprentice new recruits to our best performing 4S dealerships for training, before rotating them to 4S dealerships in other locations. We believe this ensures best practice sharing and the accumulated business expertise in our best-performing 4S dealerships can be replicated at all of our 4S dealerships. In addition, as a leading national automobile dealership group in the PRC with a diversified portfolio of automobile brands, we are able to offer our employees with a clear career path encompassing a variety of opportunities to work with different automobile brands as well as work in other regions in China, and we believe this would increase our employee retention rates in the face of intense competition for human resources.

In addition, we engaged law firms as regular legal advisers to each business unit and guided dealerships to comply with government laws and regulations. We selected management personnel in an open, fair and justified manner so as to ensure diversified composition of our management team. We have also issued Management Methods for Graduates' Training and Salary Management Methods for New Employees, revised the Employee Manual.

During the reporting period, the Group completely complied with the requirements of Labour Law of the People's Republic of China. We implemented irregular working hour and integrated working hour systems, provided staff benefits such as annual leave, maternity leave, medical leave and statutory holidays, and made full payment of salary on time. At the same time, we offered free meals for all staff, provided front-line staff with labour protection equipment, regular health check and occupational health check. The Group has also put in place labour protection measures for female staff such as menstrual, pregnancy, maternity and lactation leave.

Our Group adhered strictly to national and local regulations for recruiting and hiring. During the year 2016, there was no child labor or forced labor within our Group.

During the year 2016, our Group has been fully in compliance with all applicable labor laws and related regulations of the PRC, including, inter alia, Labour Law of the People's Republic of China, Labour Contract Law of the People's Republic of China and Special Rules on the Labor Protection of Female Employees.

HEALTH AND SAFETY

Our Group is committed to providing and maintaining a safe and healthy environment for all staff. We have enforced following safety and health measures to protect our staff:

Our Group's dedicated safety council, led by three of our Group's executive directors, analyzes, directs and coordinates safety procedures and plans in the short, medium and long-term, for our entire Group. Each of our subsidiaries has established a safety committee and appointed safety representatives or supervisors to report to the safety council, who meets four times a year.

Our Group's safety inquiry commission, also led by three of our Group's executive directors, conducts bi-annual surveys of our Group's operations to identify potential safety or occupational hazards. Our Group's emergency incident commission is responsible for directing rescue operations in the event of an accident. The emergency incident commission is also in charge of providing detailed reports and recommendations for improvement.

We have also issued detailed safety regulations which emphasize the importance of safety education and training for all employees, and strict compliance with applicable PRC safety laws, rules, regulations and standards. Our safety regulations provide guidance on a variety of matters, and authorize the suspension of operations in the event of a serious incident.

During the year 2016, our Group has been fully in compliance with all applicable relevant laws and related regulations of the PRC, including Law on Prevention and Control of Occupational Diseases.

TRAINING AND DEVELOPMENT

We have a deep bench of high-caliber store managers. We have devised and successfully implemented an in-house program to train and develop our store managers, who are crucial to the success of our 4S dealerships. Many of our store managers have completed a training program at our best-performing 4S dealerships. We also rotate each trainee manager to different positions in a 4S dealership, including deputy-store manager, sales director, service director and finance director, to ensure that our store managers are familiar with all operational aspects of a 4S dealership. We provide systematic training courses to our customer-facing employees such as our sales personnel, and motivate our employees by granting bonuses and awards to encourage our 4S dealerships to achieve high customer satisfaction rankings.

We work together with the automakers and local educational institutions to train automotive engineers and technicians. For instance, we draw engineering talent from Toyota's numerous automotive training schools in China. We have also participated in a joint initiative with Dalian Vocational Technical College, where we provide financial support and assist with the curriculum design for automotive engineering classes. We are a preferred recruiter at Dalian Vocational Technical College, and it has been a vital and reliable source of technical personnel for our repair, maintenance and detailing business.

We are also able to achieve a high rate of retention for our employees in the face of intense competition for human resources, as our corporate policy is to promote capable personnel from within our Group's operations, and thus motivating our employees. Furthermore, our large scale of operations enables us to offer our employees a variety of opportunities to work with different automobile brands in several regions in China, as well as several other incentives and competitive remuneration packages.

SUPPLIERS AND CUSTOMERS

SUPPLY CHAIN MANAGEMENT

Due to the business nature of our Group, we significantly depend on the automakers and suppliers of automobile accessories. We have established inspection mechanisms covering business qualification, business scope, security capabilities and product quality of our suppliers to manage risks associated with our supply chain including risks related to environment, society and governance practices.

In the year 2016, the Group had a total of more than 100 key suppliers. During the year, the Group was not aware that any key suppliers had any significant actual and potential negative impact on the business ethics, environmental protection, human rights and labour practices, nor did any of them have any non-compliance incident in respect of human rights issues.

PRODUCT RESPONSIBILITY

As a national automobile dealership group, we attach great importance to the interest of our customers so as to maintain good reputation of the Group. We conduct testing for all automobiles delivered to our customers and ensure that all parts and components meet product quality standards.

In 2016, the Group fully complied with all laws and regulations related to product responsibility, including the Regulation concerning Management of Compulsive Product Certification (《强制性產品認證管理規定》), the Regulations of the People's Republic of China on Certification and Accreditation (《中華人民共和國認證認可條例》), the Announcement on the Issuing of the Catalogue of Descriptions and Table of Definitions for Compulsory Product Certification by the Certification Accreditation Administration of the People's Republic of China (No. 45, 2014) (《國家認監委關於印發强制性產品認證目錄描述與界定表的公告(2014年第45號)》) and the Catalogue of Descriptions and Table of Definitions for Compulsory Product Certification and the Reference Table for HS Code 2014 (《<强制性產品認證目錄描述與界定表>與2014年HS編碼參考表》).

ANTI-CORRUPTION

During the reporting period, the Group fully complied with laws and regulations such as Law of The People's Republic of China against Unfair Competition and defended market fair competition to protect consumer interests as well as public interests. We promoted fair competition and did not monopolize or misappropriate operational resources in protecting consumer interests.

The Group highly emphasizes business ethics and adheres to high-standard business principles. Employees are required to sign the Employee Undertaking and Personal Integrity Commitment.

COMMUNITY CONTRIBUTIONS

We are dedicated to serving the community and creating positive impacts. In our daily operations, our dealerships across the nation are connected to local communities and recruit residents meeting requirements. At the same time we provide employment opportunities for the handicapped and offer assistance to families in difficulties, contributing to the development of local communities.

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group has committed to achieving high corporate governance standards.

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules.

The Company has applied the principles as set out in the CG Code.

The Board is of the view that throughout the year ended 31 December 2016, the Company has complied with the code provisions as set out in the CG Code.

A. THE BOARD

1. RESPONSIBILITIES

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The directors of the Company (the "**Directors**") make decisions objectively in the interests of the Company.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

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

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

2. DELEGATION OF MANAGEMENT FUNCTION

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company.

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

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to entering into any significant transactions by the abovementioned officers.

3. BOARD COMPOSITION

The Board comprises the following Directors:

Executive Directors:	Mr. HUANG Yi *(Chairman)* Mr. LI Guoqiang *(President and Chief Executive Officer)* Mr. DU Qingshan Mr. YU Guangming Mr. SI Wei Mr. ZHANG Zhicheng
Non-executive Directors:	Mr. Adam KESWICK (resigned on 22 August 2016) Mr. PANG Yiu Kai (appointed on 22 August 2016)
Independent Non-executive Directors:	Mr. NG Yuk Keung (resigned on 19 September 2016) Mr. SHEN Jinjun Mr. LIN Yong Mr. Shoichi OTA Mr. YING Wei (appointed on 19 December 2016)

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 30 to 34 of the Annual Report for the year ended 31 December 2016.

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

4. INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2016, the Board endeavored to meet the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors, save for three exceptions: independent non-executive directors representing at least one-third of the Board, at least one of the independent non-executive directors possessing appropriate professional qualifications or accounting or related financial management expertise, and the audit committee must be chaired by an independent non-executive director.

Pursuant to Rules 3.10 and 3.10A of the Listing Rules, the board of a listed issuer must include at least three independent non-executive directors and the member of the independent non-executive directors must represent at least one-third of the board of the listed issuer. Pursuant to Rule 3.21 of the Listing Rules, the audit committee of a listed issuer must comprise a minimum of three members, and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2). The audit committee must be chaired by an independent non-executive director.

After the resignation of Mr. Ng Yuk Keung as an independent non-executive Director has become effective on 19 September 2016, the number and qualification of independent non-executive Director and the composition of the Board and the Company's audit committee fail to meet the requirements under the Listing Rules. In order to comply with the requirements, the Company appointed Mr. Ying Wei as an independent non-executive Director and chairman of audit committee on 19 December 2016.

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

5. NON-EXECUTIVE DIRECTORS AND RE-ELECTION OF DIRECTORS

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

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association (the "**Articles of Association**"). The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and succession planning for Directors and assessing the independence of independent non-executive Directors.

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from their respective date of appointment unless terminated by not less than three months' written notice served by either the executive Directors or the Company. Each of the non-executive Director and independent non-executive Directors has signed an appointment letter with the Company for a term of three years with effect from their respective date of appointment. The appointments are subject to the provisions of retirement and rotation of directors under the Articles of Association.

In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

According to article 84 of the Articles of Association, Mr. Li Guoqiang, Mr. Du Qingshan, Mr. Adam Keswick and Mr. Shen Jinjun retired at the annual general meeting on 17 June 2016 whereas in accordance with Article 83(3) of the Articles of Association, Mr. Shoichi Ota held office only until the annual general meeting. These five Directors had offered themselves for re-election at the same annual general meeting. Meanwhile, the Directors to be retired from office by rotation at the forthcoming annual general meeting to be held on 12 June 2017 pursuant to the above article shall be eligible for re-election as directors at the same meeting.

6. CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

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

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

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and appropriate. Internally-facilitated briefings for Directors will be arranged and reading materials on relevant topics will be circulated to directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2016, the following directors attended in-house briefing(s), seminar(s) and training session(s) arranged by the Company or the following professional institution(s)/professional firm(s):

			Directors' Attendance												
Topic	Date	Name of Organizer	Huang Yi	Li Guo-qiang	Du Qing-shan	Yu Guang-ming	Si Wei	Zhang Zhi-cheng	Adam Keswick[1]	Pang Yiu Kai[2]	Ng Yuk Keung[3]	Shen Jinjun	Lin Yong	Shoichi Ota	Ying Wei[4]
The new requirement of the Listing Rules regarding the Environmental, Social and Governance (ESG) Report	31 Mar 2016	The Company	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	
Finance Industry Forum	3 May 2016	Xiamen University											✓ (Instructor)		
Opportunities and challenges coming with internationalisation of enterprises in China	7 Jun 2016	SPD Bank											✓		
From Occupy to Election	6 Oct 2016	South China Morning Post								✓					
Biz Summit	3 Nov 2016	The Hong Kong General Chamber of Commerce								✓					
Ethical Leadership	11 Nov 2016	Independent Commission Against Corruption of Hong Kong								✓ (Speaker)					
Strategy meeting on China	12 Nov 2016	Shenwan Hongyuan											✓		
Leadership & Management	20 Jan 2017	Hong Kong Management Association								✓ (Speaker)					
The Age of Analytics	9 Feb 2017	American Chamber of Commerce in Hong Kong								✓					

In addition, Mr. Adam Keswick and Mr. Pang Yiu Kai have studied various relevant materials including business journals and financial magazines during the year.

1 Resigned on 22 August 2016
2 Appointed on 22 August 2016
3 Resigned on 19 September 2016
4 Appointed on 19 December 2016

7. ATTENDANCE RECORD OF DIRECTORS AND BOARD COMMITTEE MEMBERS

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

	Attendance/Number of Meetings						
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	Compliance Committee	Risk Committee	Annual General Meeting
Huang Yi	5/5	3/3			1/1		1/1
Li Guoqiang	5/5		1/1		1/1		1/1
Du Qingshan	5/5				1/1		1/1
Yu Guangming	5/5					1/1	1/1
Si Wei	5/5					1/1	1/1
Zhang Zhicheng	5/5						1/1
Adam Keswick (Resigned on 22 August 2016)	1/3						0/1
Pang Yiu Kai (Appointed on 22 August 2016)	3/3						N/A
Ng Yuk Keung (Resigned on 19 September 2016)	4/4			2/2			1/1
Shen Jinjun	4/5	2/3	0/1	1/2			1/1
Lin Yong	5/5	3/3	1/1	2/2			1/1
Shoichi Ota	5/5						1/1
Ying Wei (Appointed on 19 December 2016)	N/A						N/A

Apart from regular Board meetings, the chairman also held one meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors on 31 March 2016. Except for Mr. Shen Jinjun, all the relevant directors attended this meeting.

B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

The chairman of the Board is Mr. Huang Yi, who provides leadership to the Board and is responsible for chairing the meetings, managing the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. He is also responsible for the strategic management of the Group and for formulating the Group's overall corporate direction and task. The chief executive officer is Mr. Li Guoqiang, who is responsible for the overall management and operations of the Group. He is also responsible for running the Company's businesses and implementing the Group's strategic plans and business goals.

To facilitate a timely discussion of all key and appropriate issues by the Board, the chairman co-ordinates with the senior management to provide adequate, complete and reliable information to all Directors for consideration and review.

C. BOARD COMMITTEES

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

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

1. AUDIT COMMITTEE

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

During the year ended 31 December 2016, the Audit Committee held two meetings to review the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of internal control and risk management systems and internal audit function, appointment of external auditors and relevant scope of works and arrangements for employees to raise concerns about possible improprieties. The attendance records of the Audit Committee meetings are set out under "Attendance Record of Directors and Board Committee Members" on page 24.

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

2. REMUNERATION COMMITTEE

The primary functions of the Remuneration Committee include establishing transparent procedures for developing remuneration policy and structure, ensuring that no Director or any of his associates will participate in deciding his own remuneration, determining the remuneration policy and structure for all Directors and senior management, assessing their performance and approving the terms of their service contracts, and making recommendations to the Board on the remuneration packages of individual executive directors and senior management.

Details of the amount of Directors' and chief executive officer's remuneration are set out in note 9 to the financial statements.

For the year ended 31 December 2016, the aggregate emoluments payable to members of senior management fell within the following band:

	Number of Individual
HK$3,500,001 to HK$4,000,000	1

The Remuneration Committee met once during the year ended 31 December 2016 to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters. The attendance records of the Remuneration Committee meeting are set out under "Attendance Record of Directors and Board Committee Members" on page 24.

3. NOMINATION COMMITTEE

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

In designing the Board composition, the Nomination Committee would consider from a number of aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board where necessary, and make recommendation to the Board for adoption.

The Nomination Committee has adopted a set of nomination procedures for selection of candidates for directorship of the Company by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations.

The Nomination Committee met three times during the year ended 31 December 2016 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, to consider the qualifications of the retiring Directors standing for election at the annual general meeting, and to consider and recommend to the Board on the appointment of Directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained. The attendance records of the Nomination Committee meeting are set out under "Attendance Record of Directors and Board Committee Members" on page 24.

4. COMPLIANCE COMMITTEE

The primary function of the Compliance Committee is to determine the policy for the corporate governance of the Company so as to ensure compliance on regulatory matters and corporate governance.

The Compliance Committee met once during the year ended 31 December 2016 to review the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report. The attendance records of the Compliance Committee meeting are set out under "Attendance Record of Directors and Board Committee Members" on page 24.

To discharge our corporate governance duties, the inside information disclosure policy was adopted and a shareholders' communication policy was devised.

5. RISK COMMITTEE

The primary functions of the Risk Committee are to determine the risk management strategies, review the risk management system of the Group as well as to assess the Group's risk profile and risk management capabilities so as to improve the Group's risk management and internal control systems.

The Risk Committee met once during the year ended 31 December 2016 to review the adequacy and effectiveness of the Group's risk management and internal control systems.

D. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

The Company's employees, who are likely to be in possession of unpublished inside information of the Group, are also subject to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the employees was noted by the Company.

E. DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

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

F. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 45 to 49.

The external auditors of the Company attended the annual general meeting held on 17 June 2016 to answer questions about the conduct of the audit, the preparation and content of the auditors' report and auditor independence.

During the year, the remuneration paid or payable to the Company's external auditors in respect of audit services and non-audit services for the year ended 31 December 2016 amounted to RMB5,800,000 and HK$45,000 respectively. The main non-audit services provided by the external auditors include tax services.

The Audit Committee recommended to the Board that, subject to our shareholders' approval at the forthcoming annual general meeting (to be held on 12 June 2017), Ernst & Young be re-appointed as the external auditor of the Company.

G. RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness.

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems. Such systems are in place to provide reasonable, though not absolute, assurance against material misstatement or loss, and to manage rather than eliminate the risk of failure to achieve business objectives.

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

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales and leasing, financial reporting, human resources and information technology.

Risk management is our top priority and is in change of general manager. Our appraisal system further focuses on the effect of enhancement, while the continual improvement is the foundation, which ensures the implementation of internal control rectification. The Company's risk management and internal control features prevention beforehand rather than punishment afterwards, and the risk management is carried out in all aspects, pursuing the goal in overall efficiency maximization. In addition, the Company's risk management and internal control procedures are as follows: (i) regional brand projects unit will organize dealerships to complete self-check before 10th of each month and complete review before 25th of each month, sharing excellent internal control experiences; and (ii) the Group will carry out risk reminder, self-check counseling and whole process monitoring from time to time.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department.

The management, in coordination with department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress, and reported to the Risk Committee and the Board on all findings and the effectiveness of the systems.

The management has confirmed to the Board and the Audit Committee and Risk Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2016.

The Internal Audit Department of the Group is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department of the Group examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee and Risk Committee.

The Board, as supported by the Audit Committee and Risk Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2016, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries in order to prohibit any unauthorized access and use of inside information.

The Company would appoint independent consultancy firm to conduct a thorough review of risk management and internal control systems of the Company and its subsidiaries on regular intervals basis when necessary.

H. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board, all other members of the Board including non-executive Directors, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the annual general meetings to meet shareholders and answer their enquiries.

During the year of 2016, the Company has not made any changes to the Articles of Association. A latest version of the Articles of Association is also available on the Company's website and the Stock Exchange's website.

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

I. SHAREHOLDERS' RIGHTS

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

(I) CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

Pursuant to article 58 of the Articles of Association, an extraordinary general meetings (the "**EGM**") may be convened by the Board on requisition of one or more shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such meeting shall be held within 2 months after the deposit of such requisition. If the Board fails to proceed to convene such EGM within 21 days of the deposit of the requisition, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) concerned as a result of the failure of the Board shall be reimbursed to the requisitionist(s) concerned by the Company.

The requisitionist(s) must state the objects clearly in the requisition, sign the requisition and deposit the same to the Board or the company secretary or the primary contact persons of the Company.

(II) PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2013 Revision) or the Articles of Association. However, shareholders who wish to put forward proposals at general meetings may achieve so by means of convening an extraordinary general meeting following the procedures set out in paragraph (I) above.

As regards the procedures for shareholders to propose a person for election as a Director, they are available on the Company's website at www.zs-group.com.cn.

(III) PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board, shareholders may send written enquires to the Company.

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

PRIMARY CONTACT PERSONS

Shareholders may send their requisitions, proposed resolutions or enquiries as mentioned in (I), (II) and (III) above to the primary contact person of the Company as set out below:

Name:	Ms. Yan Shezhen, Ms. Yao Zhenchao
Address:	Room 3504-12, 35th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong
Fax:	(+852) 2803 5676
Email:	yanshezhen@zs-group.com.cn, yaozhenchao@zs-group.com.cn

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

J. COMPANY SECRETARY

Ms. Kam Mei Ha Wendy and Ms. Mak Sze Man of Tricor Services Limited, external service provider, have been engaged by the Company as its joint company secretaries. Both of them have satisfied the training requirement for the year of 2016 under Rule 3.29 of the Listing Rules.

Their primary contact persons at the Company are Ms. Yan Shezhen, the head of investor relationship of the Company, and Ms. Yao Zhenchao, the chief legal officer of the Company.

K. GOING CONCERN

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

L. SUBSEQUENT EVENT

On 13 April 2017, the Company and Jardine Strategic Holdings Limited (the "**Investor**") entered into the subscription agreement, according to which the Company agreed to issue 120,557,263 shares at the aggregate subscription price of HK$1,344,290,639 to the Investor (or its nominee). Please refer to the announcement of the Company dated 13 April 2017 for detailed information.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of members of the Board:

Name	Age	Position
HUANG Yi	54	Chairman and executive Director
LI Guoqiang	53	President, executive Director and chief executive officer
DU Qingshan	54	Executive Director
YU Guangming	59	Executive Director
SI Wei	54	Executive Director
ZHANG Zhicheng	44	Executive Director
PANG Yiu Kai	56	Non-executive Director
SHEN Jinjun	59	Independent non-executive Director
LIN Yong	47	Independent non-executive Director
Shoichi OTA	68	Independent non-executive Director
YING Wei	50	Independent non-executive Director

EXECUTIVE DIRECTORS

HUANG Yi (黃毅), aged 54, is our Chairman and executive Director. Mr. Huang is one of the two founders, and has been Chairman of our Group since its inception in 1998. Mr. Huang has been serving as an executive Director since 23 June 2008 and he is also a director of the various companies in the Group. Mr. Huang is responsible for the strategic management of the Group and for formulating our overall corporate direction and focus. Prior to founding our Group, Mr. Huang was a director and deputy general manager at China Resources Machinery Co., Ltd. ("**China Resources Machinery**"), a state-owned enterprise engaged in importing and exporting automobiles and other machinery. Mr. Huang held numerous management positions in business administration, product procurement and sales operations in China Resources Machinery during his tenure between 1984 and 1994. In 1994, Mr. Huang joined China Automobile Company Limited ("**China Automobile**") as a director, and was responsible for China Automobile's procurement and sales divisions. In 1996, Mr. Huang invested in, and became a shareholder of, China Automobile. China Automobile, currently known as Hokuryo Holdings Company Limited, is presently an indirect wholly-owned subsidiary of our Group. Mr. Huang has served as the president of the second session of Mercedes-Benz Dealer Council since November 2014, the president of the third and fourth session of Lexus China Dealer Council since 2013, as well as the president of the Advisory Council of GZ Toyota since 2012. Mr. Huang has substantial senior management experience and more than 29 years' of experience and in-depth knowledge of the PRC automobile industry. He received a Bachelor's degree in Economics from Xiamen University in 1983 and was awarded the title of "Economist" by MOFCOM in 1990, a work-related qualification title usually awarded to the government officials or managerial staff in state-owned enterprises by the government in recognition of their relevant working experiences. Mr. Huang also served on a pro bono basis as a director of Pok Oi Hospital, a charitable organization providing medical and educational services in the New Territories in Hong Kong, between 1997 and 1999.

LI Guoqiang (李國強), aged 53, is the other founder of our Group, and has been serving as the Group's chief executive officer and president since 1998 and as an executive Director since 23 June 2008. He is also a director of the various companies in the Group. Mr. Li is responsible for the overall management and operations of the Group. Mr. Li has served as deputy chairman for the CADA since December 2009. In 1995, Mr. Li founded Dalian Aotong Automobile Repair & Assembly Factory ("**Aotong Repair & Assembly**"), a company engaged in automobile repair and maintenance services. Mr. Li served as the factory director and legal representative of Aotong Repair & Assembly, and he was responsible for its overall management and operations. From 1996 to 1998, Mr. Li served as the vice chairman of Dalian Toyota Maintenance & Service Co., Ltd. and general manager of Dalian Bonded Zone Toyota Automobile Sales Co., Ltd., and was responsible for the decisions of procurement and sales of automobiles as well as the management of the national distribution networks during his tenure. In 1998, Mr. Li founded Dalian Aotong Industry Co., Ltd. ("**Aotong Industry**"), a company engaged in distribution of automobiles. Aotong Industry is the predecessor of Zhongsheng (Dalian) Group Co., Ltd., which is presently an indirect wholly-owned subsidiary of our Group. Mr. Li has substantial senior management experience and more than 27 years' experience and in-depth knowledge of the PRC automobile industry. Mr. Li also received a Distinguished Lexus Dealer award in 2007 from Toyota Motor (China) Investment Co., Ltd., as part of the Lexus Certification Program.

DU Qingshan (杜青山), aged 54, has been serving as deputy general manager of the Group since 2007. Mr. Du has been an executive Director since 23 June 2008. He is responsible for the financial planning, strategy and management of the Group, and oversees all the financial matters of the Group. Prior to joining the Group in 2007, Mr. Du was appointed by the State-owned Assets Supervision and Administration Commission of Dalian Municipal Government to serve as the chief financial officer of a large-scale state-owned enterprise, Dalian DHI.DCW Group Co., Ltd. ("**Dalian DHI.DCW**") and was in charge of the general financial and accounting affairs of Dalian DHI.DCW. Mr. Du was primarily responsible for the financial operations of Dalian DHI.DCW, which contributed to his over 27 years' experience in the areas of accountancy and finance. Mr. Du received a Bachelor's degree in Economics from the Shanghai University of Finance and Economics in 1986 and a master's degree in Business Administration from Dongbei University of Finance and Economics in 2002.

YU Guangming (俞光明), aged 59, has been serving as deputy general manager of the Group since 2004. Mr. Yu has been an executive Director since 23 June 2008. He is responsible for the strategic business development of the Group as well as selecting and training middle-to-senior level managers of 4S dealerships of the Group. Since joining our Group in 2000, Mr. Yu has held numerous management positions in several of our principal subsidiaries, including Zhongsheng (Dalian) Group Co., Ltd., Dalian Aotong Dongfeng Honda Automobile Sales & Services Co., Ltd., Shanghai Guoxin Automobile Sales Co., Ltd. and Shanghai Zhongsheng Toyota Automobile Sales & Services Co., Ltd., primarily in charge of setting up, overseeing and improving the management teams of our subsidiaries, implementing the strategic decisions of the Group and liaising with the automakers and customers regarding business relationship building. Prior to joining the Group, Mr. Yu served as a manager of Shanghai Material Office of the PRC Ministry of Railways from 1975 to1994, and he was primarily responsible for the management of its business operations. From 1994 to 2000, Mr. Yu served as a deputy managing director of Hong Kong Union Park Company Limited, a Hong Kong subsidiary of China Railway Materials Commercial Corporation, a large-scale PRC state-owned enterprise, where he was in charge of its overall management and operations during his tenure. Mr. Yu has more than 17 years' relevant experience in the PRC automobile industry. Mr. Yu received a graduation certificate in respect of an associate degree in English from Shanghai International Studies University in 1985.

SI Wei (司衛), aged 54, has been an executive Director since 20 August 2012. Mr. Si joined the Group in June 2012 and since then has been responsible for the strategic development of the Group. Mr. Si has approximately 25 years' experience in the automobile industry. Mr. Si commenced his industry experience by working for automobile dealers from 1992 to 1999, during which period he was exposed to an array of automobile brands including Mitsubishi and Saab. In 1999, he joined the Audi Motor Department of Volkswagen (China) Investment Company Limited, where he was a sales manager responsible for sales of imported Audi automobiles and management and development of dealership network about imported Audi automobiles. From 2004 to 2006, Mr. Si was a sales director of Volkswagen (Finance) China Company Limited responsible for sales and dealership relationship. From 2006 to 2007, Mr. Si acted as the director of the Iveco Business Department for Fiat's representative office in China and took responsibilities for business development matters. Subsequently Mr. Si commenced his employment with Beijing Benz Automobile Co., Ltd. in 2007 where he was initially the general manager of dealership network development department, responsible for dealership network management and development. In 2008, Mr. Si assumed the office of vice executive president of Beijing Benz Automobile Co., Ltd. in charge of sales and marketing activities. Mr. Si received a Bachelor's degree in English and American literature from Beijing Normal College in 1987.

ZHANG Zhicheng (張志誠), aged 44, has been serving as vice-president of the Group since July 2008 and executive Director since 31 March 2014. Mr. Zhang joined the Group in 2003, and has held numerous management positions in several of our key operating subsidiaries, including Fuzhou Zhongsheng Toyota Automobile Sales Co., Ltd., Dalian Zhongsheng Lexus Automobile Sales & Services Co., Ltd. and Dalian Zhongsheng Toyota Automobile Sales & Services Co., Ltd., primarily responsible for implementing the strategic decisions of the Group and liaising with the automakers regarding developing our brand automobile sales business. Mr. Zhang currently oversees the sales and management of our brand automobile sales business. Mr. Zhang has over 14 years' relevant experience and in-depth expertise in the China's automobile industry. Mr. Zhang received a Master's degree in Business Administration from Dongbei University of Finance and Economics in 2003. Mr. Zhang also received Peak Performance General Manager awards in both 2006 and 2007 from Toyota Motor (China) Investment Co., Ltd., as part of the Lexus Certification Program.

NON-EXECUTIVE DIRECTOR

PANG Yiu Kai (彭耀佳) GBS, JP, aged 56, has served as a non-executive Director since 22 August 2016. He is the deputy managing director of Jardine Matheson Holdings Limited. He is also deputy chairman of Jardine Matheson Limited, chairman of Jardine Pacific, chairman and chief executive of Jardine Motors, and a director of Jardine Matheson (China) Limited. Mr. Pang joined the Jardine Matheson Group in Hong Kong in 1984, where he first worked in a variety of positions in the trading, marketing and retail sectors of the group. He was appointed director of Jardine Pacific in 1995 with responsibility for the company's restaurants businesses, and in 1999 he moved to Jardine Motors as chief executive officer of Zung Fu before becoming executive chairman in 2003. Prior to taking up his current role, he was appointed in 2007 as chief executive of a listed-subsidiary of Jardine Matheson Group, Hongkong Land Holding Limited, a property investment, management and development group.

Mr. Pang is a director of Dairy Farm International Holdings Limited (stock code: DFI), Hongkong Land Holdings Limited (stock code: HKLD), Jardine Matheson Holdings Limited (stock code: JAR), Jardine Strategic Holdings Limited (stock code: JDS) and Mandarin Oriental International Limited (stock code: MDO), each of which has a standard listing on the London Stock Exchange as primary listing, with secondary listings in Bermuda and Singapore. Mr. Pang is also a director of Yonghui Superstores Co., Ltd. (stock code: 601933), a company listed on the Shanghai Stock Exchange.

In addition to his business pursuits, Mr. Pang plays an active role in the business community and in public service in Hong Kong. In 2016 and 2008, he was awarded the Gold Bauhinia Star and the Silver Bauhinia Star, respectively, by the HKSAR Government. He was appointed a Justice of the Peace in 2001. He was chosen as one of Ten Outstanding Young Persons of Hong Kong in 1999. He is vice patron of the Community Chest of Hong Kong. He is also a member of the general committee of the Hong Kong General Chamber of Commerce and the chairman of the Employers' Federation of Hong Kong. He is also the chairmen of the council of the Education University of Hong Kong and HKSAR Government Standing Committee on Directorate Salaries and Conditions of Service and a member of HKSAR Government Trade and Industry Advisory Board. He is a member of Hospital Authority and chairman of the Hospital Governing Committee of Queen Mary Hospital and Tsan Yuk Hospital. He is also a member of the executive committee and council of the Hong Kong Management Association.

Mr. Pang was born in Hong Kong and graduated from the University of Nottingham with a Bachelor of Science Degree in Civil Engineering and a Master of Business Administration Degree from the University of Edinburgh in the United Kingdom. He completed the Program for Global Leadership at Harvard Business School in 1998. In July 2016, he was conferred an Honorary Doctorate degree by the University of Edinburgh.

INDEPENDENT NON-EXECUTIVE DIRECTORS

SHEN Jinjun (沈進軍), aged 59, has been serving as an independent non-executive Director since 16 November 2009. Mr. Shen has become an independent non-executive director of Wuchan Zhongda Group Co., Ltd. (Stock code: 600704), a company listed on the Shanghai Stock Exchange, since August 2011, an independent non-executive director of China Grand Automotive Services Co., Ltd. (Stock code: 600297), a company listed on the Shanghai Stock Exchange, since July 2015 and an independent non-executive director of Beijing Changjiu Logistics Corp. (Stock code: 603569), a company listed on the Shanghai Stock Exchange, since August 2016. Mr. Shen has served as deputy chairman and secretary chief for the China Automobile Dealers Association since 2005 and has served as the chairman for CADA since 5 November 2014. Mr. Shen has also worked as the deputy chief of the Transport and Mechanical Section of Mechanical and Electrical Equipment Division of the State Administration of Supplies, chief of Automobile Section of Mechanical and Electrical Equipment Circulation Division of Ministry of Internal Trade and the chief of the Electrical, Mechanical and Metallic section of Production Circulation Division of the State Administration of Domestic Commerce. During that time, Mr. Shen was mainly responsible for administering the automobile dealing industry and participated in the formulation of related regulations. Mr. Shen completed all the related courses of an associate degree majoring in electronics at the Beijing Open University in 1982 and obtained a graduation certificate.

LIN Yong (林涌), aged 47, has been serving as an independent non-executive Director since 31 March 2014. Mr. Lin has over 21 years of experience in investment bank industry. He joined Haitong Securities Co., Ltd. in 1996 and was a general manager of the Investment Banking Department of Haitong Securities Co., Ltd. from 2001 to 2007 and he has been appointed as an assistant to general manager of Haitong Securities Co., Ltd. with effect from 30 December 2014. He has been the chief executive officer of Haitong International Holdings Limited (formerly known as "Hai Tong (HK) Financial Holdings Limited") since 2007 and is responsible for the overall operation of Haitong International Holdings Limited. He was appointed as an executive director on 23 December 2009 of Haitong International Securities Group Ltd. (stock code: 665) which is a company listed on the Stock Exchange and as the joint managing director of this company on 10 March 2010. He has been a deputy chairman of the board of directors and the managing director of this company as well as the chief executive officer of this group since 29 April 2011. In addition, Mr. Lin is the chairman of the board of directors or a director of various subsidiaries of this company and a responsible officer of Hai Tong Asset Management (HK) Limited, Hai Tong Capital (HK) Limited, Haitong International Asset Management Limited and Haitong International Capital Limited under the Securities and Futures Ordinance. Mr. Lin is one of the first batch of sponsor representatives of China Securities Regulatory Committee. Mr. Lin also served as a member of the advisory committee of the Securities and Futures Commission. In 2006, Mr. Lin was named 2006 Top Ten Outstanding Young Person in Financial Sector in Shanghai (2006年上海首屆十大金融傑出青年) and was honoured as the "the 2014 Shanghai Financial Industry Leader" (2014 滬上金融行業領袖) in 2014. He acts as an adjunct professor in Management College of Xiamen University and is a member of China Finance 40 Forum Executive Council since 12 May 2010. Mr. Lin holds a Doctorate Degree in Economics from Xi'an Jiaotong University.

Shoichi OTA (太田祥一), aged 68, has been an independent non-executive Director since 31 August 2015. Mr. Ota has over 44 years' experience in the automobile industry. Mr. Ota joined Toyota Motor Sales Co. Ltd. (later Toyota Motor Corporation) in April 1972. During his tenure in Toyota Motor Corporation, Mr. Ota respectively served as an executive staff of oversea industrial vehicle division from September 1972 to August 1978, an executive staff of Middle East division for territorial vehicle sales from September 1978 to March 1987, a manager of overseas parts division from April 1987 to March 1993 and a project general manager of overseas parts division from April 1993 to December 1997. Subsequently, Mr. Ota served as a director and vice-president of Toyota Motor Asia Pacific, Singapore from January 1998 to December 2001. From January 2002 to May 2005, Mr. Ota served as a managing director of J-TACS Corporation, Japan. Mr. Ota served as a senior managing director of Tacti Corporation, Japan from June 2005 to June 2013. Mr. Ota holds a Bachelor's degree in Economics from Nagoya University.

YING Wei (應偉), aged 50, has served as an independent non-executive Director and chairman of audit committee of the Company since 19 December 2016. Mr. Ying is the managing director of CDH Investments and an independent non-executive director of CHTC Fong's Industries Company Limited (a company listed on the Stock Exchange, stock code: 641) and Fountain Set (Holdings) Limited (a company listed on the Stock Exchange, stock code: 420). Mr. Ying is also the chairman and a non-executive director of New Focus Auto Tech Holdings Limited (a company listed on the Stock Exchange, stock code: 360), a non-executive director of China Health Group Limited (a company listed on the Stock Exchange, stock code: 673) and a director of Chongqing New Century Cruise Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 2558). Mr. Ying is a non-practising member of The Chinese Institute of Certified Public Accountants and holds a master's degree in Business Administration from the University of San Francisco and a bachelor's degree in Economics from Zhejiang Gongshang University (formerly Hangzhou College of Commerce).

OTHER SENIOR MANAGEMENT

The table below shows certain information in respect of our senior management (excluding Directors who also hold executive positions):

Name	Age	Position
FANG Jinjiang	50	Vice-president
TANG Xianfeng	47	Vice-president

FANG Jinjiang (方錦江), aged 50, joined our Group in April 2012 and currently serves as vice-president of our Group. Mr. Fang is primarily responsible for dealership network development. Mr. Fang worked as the general manager of dealership network development and management department of Beijing Benz Automotive Co., Ltd. from April 2008 to March 2012. Mr. Fang worked in Volkswagen Finance (China) Co., Ltd. from December 2004 to March 2008, and served successively as a sales manager and director of sales division. Mr. Fang served as sales manager of Volkswagen (China) Investment Co., Ltd. from July 2003 to November 2004 in Sales Department of Imported Audi. Mr. Fang worked in FAW – Volkswagen Sales Co., Ltd. from January 1998 to June 2003, and served successively as a consultant in market research and training, network planning manager of regional management department from Germany party and training manager of sales department from Germany party. Mr. Fang worked in the sales & marketing department of Volkswagen Asia Pacific Co., Ltd. (Hong Kong) from August 1996 to December 1997. Mr. Fang received a diploma in automobile market from Canadian Automotive Institute in April 1995 and a Bachelor's degree in automobile market from University of Northwood in April 1996.

TANG Xianfeng (唐憲峰), aged 47, joined our Group in January 2014 and currently serves as vice-president of our Group, primary responsible for construction and development. Prior to joining the Group, Mr. Tang served as the vice-president of Dalian Huarui Heavy Industry Group Co., Ltd. from January 2012 to December 2013. In addition, Mr. Tang also served as a designer in the research institute, office vice-director, assistant to the head of reducer factory, vice-director of labour and personnel department and head of port machinery factory of Dalian Daqi Group from 1999 to 2003. Mr. Tang joined Dalian DHI. DCW Group Co., Ltd. in June 2003 and served as the executive vice head and head of Second Business Division, assistant to the general manager and vice general manager of the Group. Mr. Tang obtained a Bachelor's degree in lifting transportation and mechanical engineering from Taiyuan Heavy Machinery Institute in 1991 and obtained a Master's degree in mechanical engineering Wuhan University of Technology in 2006. Mr. Tang obtained the senior professional manager qualification and was qualified as professor and researcher level senior engineer.

COMPANY SECRETARIES

KAM Mei Ha Wendy (甘美霞), aged 49, was appointed as joint company secretary of the Company on 1 July 2010. She is a director of Corporate Services Division of Tricor Services Limited and a fellow member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Kam has over 25 years of experience in corporate secretarial area.

MAK Sze Man (麥詩敏), aged 42, was appointed as joint company secretary of the Company on 1 July 2010. She is a senior manager of Corporate Services Division of Tricor Services Limited and an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Mak has over 20 years of experience in corporate secretarial area.

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The Group's operations are conducted in the PRC through its subsidiaries in the PRC. The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the sale and service of motor vehicles. There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

We are a leading national automobile dealership group in China. We have dealership agreements to operate our 4S dealerships for a diversified portfolio of automobile brands, consisting of luxury automobile brands including Mercedes-Benz, Lexus, Audi, Jaguar Land Rover, Porsche, Chrysler, Volvo and Imported Volkswagen, and mid-to-high end automobile brands including Toyota and Nissan. Through our "One-stop Automobile Shop" business model, we offer a comprehensive range of new automobiles and after-sales products and services in each of our 4S dealerships. In addition to our new automobile sales business, our after-sales businesses offer spare parts, automobile accessories, repair and maintenance services, detailing services, and other automobile-related products and services.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the financial statements on pages 50 to 133 of this annual report.

BUSINESS REVIEW

A review of the business of the Company and a discussion and analysis of the Company's performance during the year, and the material factors underlying its results and financial position are provided in the Management Discussion and Analysis on pages 11 to 15. Main risks and uncertain factors faced by the Group and corresponding mitigation methods are set out in note 47 to the Consolidated Financial Statements. Particulars of an important event affecting the Company that have occurred since the end of the financial year 2016 is set out in note 48 to the Consolidated Financial Statements and "L. Subsequent Event" in the Corporate Governance Report. The future development of the Company's business is discussed throughout this annual report including in the Chief Executive Officer's Statement on pages 6 to 9 and Management Discussion and Analysis on pages 11 to 15. In addition, details regarding the Company's performance on environmental and social-related key performance indicators and policies are provided in the "environment policies and performance" of this Report of Directors; compliance with relevant laws and regulations which have a significant impact on the Company are provided in the "compliance with laws and regulations" of this Report of Directors; and an account of the Company's relationships with its employees, customers, suppliers, shareholders, etc. are disclosed, in "relationship with stakeholders" of this Report of Directors.

CAPITAL

Details of the capital of the Group during the Reporting Period are set out in note 36 to the financial statements.

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company has distributable reserves of RMB5,544.2 million in total available for distribution, of which RMB572.2 million has been proposed as final dividend for the year.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 134 of this annual report.

DONATIONS

The Company made a donation of RMB125,000 to various PRC charity projects or organizations for the year of 2016.

PROPERTY, PLANT AND EQUIPMENT

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

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group as at 31 December 2016 are set out in note 26 to the Financial Statements.

CONTINGENT LIABILITIES

As at 31 December 2016, neither the Company, nor the Group had any significant contingent liabilities.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as approved by the Stock Exchange and as permitted under the Listing Rules as at the date of this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association and there is no restriction against such rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS

The Directors during the Reporting Period and up to the date of this annual report are:

EXECUTIVE DIRECTORS

Mr. Huang Yi *(Chairman)*
Mr. Li Guoqiang *(President and Chief Executive Officer)*
Mr. Du Qingshan
Mr. Yu Guangming
Mr. Si Wei
Mr. Zhang Zhicheng

NON-EXECUTIVE DIRECTORS

Mr. Adam Keswick (Resigned on 22 August 2016)
Mr. Pang Yiu Kai (Appointed on 22 August 2016)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Yuk Keung (Resigned on 19 September 2016)
Mr. Shen Jinjun
Mr. Lin Yong
Mr. Shoichi Ota
Mr. Ying Wei (Appointed on 19 December 2016)

During the year ended 31 December 2016, Mr. Adam Keswick resigned as a non-executive Director on 22 August 2016 due to his re-location to the United Kingdom to take up new responsibilities in the Jardine Matheson Group; Mr. Ng Yuk Keung resigned as an independent non-executive Director due to work arrangement on 19 September 2016.

Pursuant to the Articles of Association, Mr. Yu Guangming, Mr. Zhang Zhicheng and Mr. Lin Yong shall retire from their office by rotation at the forthcoming annual general meeting whereas Mr. Pang Yiu Kai and Mr. Ying Wei, who were appointed on 22 August 2016 and 19 December 2016, respectively, shall hold office only until the forthcoming annual general meeting. These five Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out on pages 30 to 34 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from their respective date of appointment unless terminated by not less than three months' notice in writing served by either the executive Directors or the Company. Each of the non-executive Directors and independent non-executive Directors has signed an appointment letter with the Company for a term of three years with effect from their respective date of appointment. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

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

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

We have received from each of the independent non-executive Directors, namely Mr. Shen Jinjun, Mr. Lin Yong, Mr. Shoichi Ota and Mr. Ying Wei, the confirmation of their respective independence pursuant to rule 3.13 of the Listing Rules. The Company has duly reviewed the confirmation of independence of each of these Directors. We consider that our independent non-executive Directors have been independent from the date of their appointment to 31 December 2016 and remain so as of the date of this annual report.

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

As at 31 December 2016, the interests and short positions of our Directors and chief executives in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code as contained in Appendix 10 to the Listing Rules, were as follows:

LONG POSITIONS IN THE COMPANY'S SHARES

Name of Director	Capacity/Nature of Interest	Total Number of Ordinary Shares	Approximate Percentage of Shareholding (%)
Mr. Huang Yi	Deemed Interest/Interest of Controlled Company	334,292,004	15.57
	Founder of a discretionary trust/Beneficiary of a Trust	486,657,686	22.67
	Agreement to acquire interests	486,657,686	22.67
Mr. Li Guoqiang	Deemed Interest/Interest of Controlled Company	181,613,500	8.46
	Founder of a discretionary trust/Beneficiary of a Trust	486,657,686	22.67
	Agreement to acquire interests	639,336,190	29.78

Save as disclosed above, none of the Directors or chief executives of the Company has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at the end of the Reporting Period.

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

As at 31 December 2016, the followings are the persons, other than the Directors or chief executives of the Company, who had interests or short positions in the shares and underlying shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

LONG POSITION IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of Shareholder	Capacity/Nature of Interest	Total Number of Ordinary Shares	Approximate Percentage of Shareholding (%)
Blue Natural Development Ltd. (Note 1)	Beneficial owner and agreement to acquire interests	1,307,607,376 (long position)	60.92
Light Yield Ltd. (Note 2)	Beneficial owner, deemed interest/interest of controlled company and agreement to acquire interests	1,307,607,376 (long position)	60.92
Vest Sun Ltd. (Note 3)	Deemed interest/interest of controlled company and agreement to acquire interests	1,307,607,376 (long position)	60.92
Mountain Bright Limited (Note 4)	Beneficial owner and agreement to acquire interests	1,307,607,376 (long position)	60.92
RBC Trustees (CI) Limited	Deemed interest/interest of controlled company, trustee and agreement to acquire interests	1,307,607,376 (long position)	60.92
Vintage Star Limited (Note 5)	Beneficial owner and agreement to acquire interests	1,307,607,376 (long position)	60.92
Jardine Strategic Holdings Limited	Deemed interest/interest of controlled company	571,415,839 (long position)	26.62
Jardine Matheson Holdings Limited	Deemed interest/interest of controlled company	571,415,839 (long position)	26.62
JSH Investment Holdings Limited	Beneficial owner	571,415,839 (long position)	26.62

Notes:

1. Blue Natural Development Ltd. is owned by Light Yield Ltd. (62.3%) and Vest Sun Ltd. (37.7%). Mr. Huang Yi and Mr. Li Guoqiang are directors of Blue Natural Development Ltd..
2. Light Yield Ltd. is wholly-owned by Mr. Huang Yi, who is also the sole director of Light Yield Ltd..
3. Vest Sun Ltd. is wholly-owned by Mr. Li Guoqiang, who is also the sole director of Vest Sun Ltd..
4. Mountain Bright Limited is wholly owned by RBC Trustees (CI) Limited as trustee of a trust settlement for Mr. Huang Yi (the settler of the trust) and his family.
5. Vintage Star Limited is wholly owned by RBC Trustees (CI) Limited as trustee of a trust settlement for Mr. Li Guoqiang (the settler of the trust) and his family.

Save as disclosed above, as at the end of the Reporting Period, the Directors and the chief executives of the Company are not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONVERTIBLE BONDS

On 19 January 2014, the Company and Jardine Strategic Holdings Limited (the "**Investor**") entered into a subscription agreement, according to which the Company agreed to issue, and the Investor agreed to subscribe for (or procure its nominee to subscribe for) in principal amount of HK$3,091,500,000 with interest rate of 2.85 per cent. convertible bonds due on 25 April 2017 (the "**Convertible Bonds**").

The Convertible Bonds are convertible into shares at the initial conversion price of HK$12.95899 per conversion share at the option of the holder thereof, at any time on or after 180 days after the issue date up to the close of business on the date falling ten days prior to the maturity date, being the third anniversary of the date of issue of the Convertible Bonds. There was no conversion of the convertible bonds as at the date of this annual report. The Company will redeem each Convertible Bond on the maturity date at its principal amount together with accrued and unpaid interest thereon. The issue of Convertible Bonds were completed on 25 April 2014. Upon full conversion of the outstanding Convertible Bonds, the Company may issue 238,560,258 shares, adding the issued shares of the Company to 2,385,067,215 shares. As at the date of this Annual Report, none of the Convertible Bonds has been converted into any shares and the conversion period of the Convertible Bonds will be lapsed on 25 April 2017. Details of the Convertible Bonds during the year are set out in note 29 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year ended 31 December 2016 was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2016 and up to the date of this annual report, none of the Directors and controlling shareholders (i.e. Mr. Huang Yi, Mr. Li Guoqiang, Light Yield Ltd., Vest Sun Ltd., Blue Natural Development Ltd., Mountain Bright Limited, RBC Trustees (CI) Limited and Vintage Star Limited) of the Company was interested in any business which competes or is likely to compete with the businesses of our Group.

We have received an annual written confirmation from our controlling shareholders, including Mr. Huang Yi and Mr. Li Guoqiang, in respect of the compliance by and with the provisions of the non-competition deed entered into between the Company and our controlling shareholders (the "**Non-competition Deed**").

Our independent non-executive Directors have reviewed the compliance with the Non-competition Deed during the financial year ended 31 December 2016 and up to the date of this annual report based on information and confirmation provided by or obtained from controlling shareholders, and were satisfied that our controlling shareholders, including Mr. Huang Yi and Mr. Li Guoqiang, have duly complied with the Non-competition Deed.

CONNECTED TRANSACTIONS

The Group has conducted a non-exempt connected transaction during the year.

On 8 April 2016, Famous Great International Limited, a wholly-owned subsidiary of the Company entered into a Reorganisation Agreement with, among others, Teal Orchid and Mr. Chou to reorganize their respective interests in B&L Motor. The reorganization comprises the transferred-in assets and the transferred-out assets, the consideration of which is determined based on the net bookvalue of the transferred-in assets and transferred-out assets, respectively. The consideration payable for the transferred-in assets of the Company in the reorganization is off-set by the consideration receivable for the transferred-out assets and other payables to the companies controlled by Mr. Chou or his associates, and no cash is involved. Through the reorganization, each party will further strengthen its regional advantages in business development and improve efficiency in operation and management.

As at the date of execution of the Reorganisation Agreement, each of the Company and Teal Orchid held 50% equity interest in B&L Motor and Mr. Chou is the ultimate controlling shareholder of Teal Orchid. As B&L Motor has been treated as a subsidiary of the Company, both Teal Orchid and Mr. Chou constitute our connect persons under Chapter 14A of the Listing Rules by virtue of being substantial shareholders of our subsidiary. Thus, the transferred-in transaction and transferred-out transaction under the Reorganisation Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Save as disclosed above, the Board confirmed that none of the related party transactions set out in note 45 to the financial statements constituted non-exempt connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS

No director or any entity connected with any director had a material interest, either directly or indirectly, in any transactions, arrangement or contract of significance to the business of our Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2016 and up to the date of this annual report.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Board with reference to directors' duties, responsibilities and performance and the results of our Group.

Details of the directors' remuneration during the Reporting Period are set out in note 9 to the financial statements.

RETIREMENT SCHEMES

Details of the retirement benefits plans of our Group are set out in note 33 to the financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period and up to the date of this annual report.

CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, at no time during the year had the Company or any of its subsidiaries entered into any contract of significance with the controlling shareholder or any of its subsidiaries, nor had any contract of significance been entered into for the services provided by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

SHARE OPTION SCHEME

The Share Option Scheme was conditionally approved by a resolution of the shareholders on 9 February 2010 and adopted by a resolution of the Board on the same day. Unless it is terminated by the Board or our shareholders in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of ten years on the date which it becomes unconditional. After the period, no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to exercise any subsisting options granted prior to the expiry of this ten year period or otherwise as handled in accordance with the provisions of the Share Option Scheme. The amount payable by a participant upon of a grant of option is HK$1.00. The last day for accepting and paying for the consideration of the option shall be determined by the Board and shall be set out on the offer letter for granting such option. The period during which a granted option may be exercised in accordance with the terms of the Share Option Scheme shall be the period of time to be notified by the Board to each grantee, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the offer date.

The Board may, at its absolute discretion, offer any employee, management member or director of the Company, or any of our subsidiaries and third party service providers the options to subscribe for shares on the terms set out in the Share Option Scheme. The purpose of the Share Option Scheme is to attract and retain skilled and experienced personnel, to incentivize them to remain with us and to give effect to our customer-focused corporate culture, and to motivate them to strive for our future development and expansion, by providing them with the opportunity to acquire equity interests in the Company.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of the share in issue as at the date of approval of the Share Options Scheme. No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to that person in any 12 months period up to the date of the latest grant exceeds 1% of our issued share capital from time to time, unless the approval of our shareholders is obtained.

The amount payable for each share to be subscribed for under an option upon exercise shall be determined by the Board and notified to a proposed beneficiary at the time of offer of the option and shall be not less than the higher of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of the Shares. The Share Option Scheme does not contain any minimum period(s) for which an option must be held before it can be exercised. However, at the time of grant of the options, the Company may specify any such minimum period(s).

During the Reporting Period and up to the date of this annual report, no options have been granted pursuant to the Share Option Scheme. As at 31 December 2016, the total number of shares available for issue under the Share Option Scheme remained to be 155,999,280, representing approximately 7.27% of the issued share capital of the Company. As at the date of this annual report, the remaining life of the Share Option Scheme is approximately two years and nine months.

DEBENTURES IN ISSUE

Save as disclosed in this annual report, the Company did not have any debentures in issue during the year ended 31 December 2016.

EQUITY-LINKED AGREEMENT

The Company did not entered into any equity-linked agreement during the year ended 31 December 2016. Save for the Convertible Bonds and the Share Option Scheme, no equity-linked agreements were existed during the year ended 31 December 2016.

PERMITTED INDEMNITY PROVISION

The Company has purchased appropriate liability insurance for its Directors and senior management. The permitted indemnity provisions are set out in such liability insurance. Save as disclosed above, no permitted indemnity provision was made by the Company for the year ended 31 December 2016 and no permitted indemnity provision was in force as at the date of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the percentage of the aggregate sales attributable to the Group's five largest customers was less than 30% of the Group's total sales. The respective percentage of purchases attributable to the Group's largest supplier and five largest suppliers in aggregate was 28.9% and 80.0%.

None of our Directors or any of their associates or any shareholders (which to the best knowledge of our Directors owned more than 5% of the Company's issued share capital) had a material interest in our five largest customers and suppliers.

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

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 2016.

ENVIRONMENT POLICIES AND PERFORMANCE

The Group recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure our compliance to the prevailing environmental protection laws and regulations. Adhering to the concept of green environmental protection, the Group has also promoted green operations and advocated the concept of green office. Environmental protection, energy conservation and emissions reduction and reasonable and efficient utilization of resources have been consistently implemented in the daily operation activities of the Group. The Group has also been working on reducing its energy use, consumption and wastage by actively promoting recycling concept, using less paper and saving electric power and use of water. Going forward, the Group will continue to develop sustainable policies and designs to reduce its environmental impact not only internally within its offices but also externally in the regions it operates in.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company recognizes the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licenses. The Company has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators effectively through effective communications. During the year under review, the Company has complied, to the best of the knowledge of Directors, with all relevant rules and regulations that have a significant impact on the Company.

RELATIONSHIP WITH STAKEHOLDERS

The Company recognizes that our employees, customers and business associates are key to our sustainability development. We strive to achieve corporate sustainability through engaging our employees, providing quality services for our customers, collaborating with business partners and supporting the community and social welfare.

The Company places significant emphasis on human capital. The Company provides a fair workplace, promoting non-discrimination and diversity to our staff, together with competitive remuneration and benefits, as well as a range of opportunities for career advancement based on employees' merits and performance. Furthermore, we have established and will continue to promote our KPI-driven corporate culture with a clear career and promotion system to motivate our employees. Our employees are provided with rotation opportunities both cross-stores and cross-functions to develop their skills and their own career path with us.

We promote a customer-oriented culture within the Company. Our corporate motto is "Zhongsheng Group – Lifetime Partner", and it is central to our corporate culture. The Company values the feedback from customers by daily communication and other means. The Company has also established the mechanism about customer service and support. The Company treats providing customer support as an opportunity to improve our relationship with the customer, addressing customer's concern in a timely manner and in accordance with international standards.

We have strong and established working relationships with leading global automakers and their PRC joint venture corporations. We believe that our suppliers are equally important in our development into a first-class automobile dealer enterprise. Therefore, we proactively collaborate with our business partners to deliver quality sustainable services.

With the goal of developing into a preeminent international enterprise and a trustworthy public company, the Company actively fulfill its social responsibility. The Group, with high quality products and services, is committed to creating good internal and external corporate relationships, and build a harmonious enterprise to undertake its responsibilities for employees, customers, suppliers and the shareholders.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules. Throughout the Reporting Period, the Company has complied with the code provisions in the CG Code.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2016 have been audited by Ernst & Young, certified public accountants. Ernst & Young retired and a resolution to re-appoint Ernst & Young as the auditors of the Company in the following year will be proposed at the Company's forthcoming annual general meeting. The Company did not change its auditor during the preceding three years.

PROPOSED DISTRIBUTION OF FINAL DIVIDEND

The Board resolved to propose to the shareholders on the forthcoming annual general meeting of the Company (the "**AGM**") on 12 June 2017 for the distribution of a final dividend of HK$0.30 per ordinary share for the year ended 31 December 2016 payable to the Shareholders whose names are listed in the register of the Company on 20 June 2017, in an aggregate amount of HK$643.95 million (equivalent to RMB572.16 million). It is expected that the final dividend will be paid on 10 July 2017. The proposal for the distribution of the final dividend above is subject to the consideration and approval of the shareholders at the AGM.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 7 June 2017 to Monday, 12 June 2017 (both days inclusive) and from Friday, 16 June 2017 to Tuesday, 20 June 2017 (both days inclusive), during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming 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, Wanchai, Hong Kong for registration before 4:30 p.m. on Tuesday, 6 June 2017. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the forthcoming 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, 15 June 2017.

By order of the Board
Huang Yi
Chairman

Hong Kong, 20 March 2017

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Zhongsheng Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 50 to 133, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statement, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Acquisitions	
During the year ended 31 December 2016, the Group completed acquisitions of certain car dealerships at a total consideration of approximately RMB1,735,708,000. The accounting for these acquisitions involved significant judgement of the management for the purchase price allocation mainly in relation to the valuation of property, plant and equipment, land use rights, intangible assets which include dealership agreements, customer relationship and the remaining goodwill balance. The Group engaged an external independent appraiser to perform the valuation. Information of the acquisition was disclosed in Note 2.4 *Summary of Significant Accounting Policies – Business combinations and goodwill* and Note 38 Business Combination to the financial statements.	We evaluated the competency, capabilities and objectivity of the external independent appraiser engaged by the Group to perform the valuation and involved our internal valuation specialists to review the valuation methodologies adopted by the appraiser, and the assumptions used in valuation of the assets acquired and liabilities by reference to the historical experience and the market practices. We also checked the related disclosures.
Impairment assessment of goodwill and intangible assets	
The carrying values of goodwill and intangible assets amounted to approximately RMB2,732,547,000 and RMB3,306,307,000 as at 31 December 2016, respectively. Under HKFRS, the Group is required to annually perform an impairment test for goodwill and to assess whether there are any indications of impairment of intangible assets with definite useful life at each reporting period end. An impairment test itself for intangible assets with definite useful life only has to be carried out if there are such indications. The impairment test is based on the recoverable value of each of the cash-generating units ("CGU") or group of CGUs to which the goodwill and the intangible asset is assigned to. Management's assessment process was complex and significant judgement was involved, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and discount rate applied. Information of the goodwill and intangible assets were disclosed in Note 2.4 *Summary of Significant Accounting Policies – Impairment of non-financial assets*, Note 3 *Significant Accounting Judgement and Estimates – Estimation uncertainty*, Note 17 *Goodwill* and Note 16 *Intangible assets* to the financial statements.	We have involved our internal valuation specialists to assist us in evaluating the models and certain assumptions used by the Group in the impairment test of goodwill and intangible assets. We paid attention to the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective CGU or group of CGUs. We have also reviewed Group's assessment of whether there had been any indicators of impairment of the intangible assets with definite useful lives for the year.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Vender rebate receivables	
The Group recognised volume-related vendor rebates on an accrual basis based on the terms of the suppliers' contracts. As at 31 December 2016, the rebate receivables recognised in the consolidated statement of financial position amounted to approximately RMB3,594,429,000. The balance of rebate receivables was significant and the process of calculating the accrual was complex. Information of the rebates receivables was disclosed in Note 2.4 *Summary of Significant Accounting Policies – Vendor rebates* and Note 21 *Prepayments, deposits and other receivables* to the financial statements.	Our audit procedures included, among others, checking the rebate policies adopted against the terms of the relevant supplier contracts and checking the calculation of the rebate receivables based on the rebate policies. We also checked subsequent settlement of the rebates against the accrued balance.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Wai Lap, Philip.

Ernst & Young
Certified Public Accountants
Hong Kong

20 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5(a)	**71,599,221**	59,142,607
Cost of sales and services provided	6(b)	**(65,046,942)**	(54,473,414)
Gross profit		**6,552,279**	4,669,193
Other income and gains, net	5(b)	**1,325,514**	1,104,143
Selling and distribution expenses		**(2,806,807)**	(2,609,155)
Administrative expenses		**(1,178,687)**	(1,154,254)
Profit from operations		**3,892,299**	2,009,927
Finance costs	7	**(1,018,020)**	(1,295,697)
Share of profits and losses of:			
Joint ventures	18	**4,148**	1,408
Profit before tax	6	**2,878,427**	715,638
Income tax expense	8	**(836,689)**	(234,329)
Profit for the year		**2,041,738**	481,309
Attributable to:			
Owners of the parent		**1,860,228**	460,964
Non-controlling interests		**181,510**	20,345
		2,041,738	481,309
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
– For profit for the year (RMB)	12	**0.87**	0.21
Diluted			
– For profit for the year (RMB)	12	**0.85**	0.21

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
Profit for the year	**2,041,738**	481,309
Other comprehensive loss		
Exchange differences on translation of foreign operations	**(279,938)**	(161,069)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(279,938)**	(161,069)
Other comprehensive loss for the year, net of tax	**(279,938)**	(161,069)
Total comprehensive income for the year	**1,761,800**	320,240
Attributable to:		
Owners of the parent	**1,580,290**	299,895
Non-controlling interests	**181,510**	20,345
	1,761,800	320,240

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**8,810,138**	8,092,754
Investment properties		**–**	47,086
Land use rights	14	**1,953,734**	2,520,331
Prepayments	15	**999,506**	883,468
Intangible assets	16	**3,306,307**	2,953,635
Goodwill	17	**2,732,547**	2,622,410
Investments in joint ventures	18	**48,019**	43,871
Deferred tax assets	34(b)	**307,243**	357,649
Total non-current assets		**18,157,494**	17,521,204
CURRENT ASSETS			
Inventories	19	**6,529,742**	6,289,279
Trade receivables	20	**1,149,141**	936,326
Prepayments, deposits and other receivables	21	**8,062,394**	7,982,139
Amounts due from related parties	45(b)(i)	**952**	1,185
Available-for-sale investments	22	**25,850**	23,880
Pledged bank deposits	23	**1,241,999**	1,295,865
Cash in transit	24	**320,223**	210,920
Cash and cash equivalents	25	**4,157,264**	4,464,517
Total current assets		**21,487,565**	21,204,111
CURRENT LIABILITIES			
Bank loans and other borrowings	26	**13,382,299**	13,734,023
Short term bonds	27	**–**	414,977
Bonds payable, current portion	28	**–**	622,646
Convertible bonds, current portion	29	**2,753,130**	13,537
Trade and bills payables	30	**4,057,369**	3,494,918
Other payables and accruals	31	**2,011,732**	1,652,959
Other liabilities	32	**245,000**	–
Amounts due to related parties	45(b)(ii)	**820**	4,493
Income tax payable	34(a)	**1,133,583**	714,068
Dividends payable		**9**	1,479
Total current liabilities		**23,583,942**	20,653,100
NET CURRENT (LIABILITIES)/ASSETS		**(2,096,377)**	551,011
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,061,117**	18,072,215

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	34(b)	**1,068,885**	979,805
Convertible bonds	29	**–**	2,488,664
Bank loans and other borrowings	26	**1,893,273**	1,987,751
Total non-current liabilities		**2,962,158**	5,456,220
NET ASSETS		**13,098,959**	12,615,995
EQUITY			
Equity attributable to owners of the parent			
Share capital	36	**186**	186
Reserves	37	**12,218,142**	11,268,325
		12,218,328	11,268,511
Non-controlling interests		**880,631**	1,347,484
Total equity		**13,098,959**	12,615,995

Huang Yi
Director

Li Guoqiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the parent													
	Share capital RMB'000	Share premium* RMB'000	Treasury shares RMB'000	Equity component of convertible bonds* RMB'000	Discretionary reserve fund* RMB'000	Statutory reserve* RMB'000	Merger reserve* RMB'000	Other reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Proposed final dividend* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	186	6,280,579	(2,964)	203,729	37,110	643,021	(1,386,176)	(129,732)	(60,574)	5,383,437	150,181	11,118,797	1,262,131	12,380,928
Profit for the year	–	–	–	–	–	–	–	–	–	460,964	–	460,964	20,345	481,309
Other comprehensive loss for the year:														
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(161,069)	–	–	(161,069)	–	(161,069)
Total comprehensive income for the year	–	–	–	–	–	–	–	–	(161,069)	460,964	–	299,895	20,345	320,240
Cancellation of shares	–	(2,964)	2,964	–	–	–	–	–	–	–	–	–	–	–
Disposal of subsidiaries	–	–	–	–	–	(1,193)	–	–	–	1,193	–	–	–	–
Non-controlling interests arising from business combination	–	–	–	–	–	–	–	–	–	–	–	–	83,551	83,551
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	(18,543)	(18,543)
Final 2014 dividend declared	–	–	–	–	–	–	–	–	–	–	(150,181)	(150,181)	–	(150,181)
Proposed final 2015 dividend	–	(90,153)	–	–	–	–	–	–	–	–	90,153	–	–	–
Transfer from retained profits	–	–	–	–	–	72,570	–	–	–	(72,570)	–	–	–	–
At 31 December 2015	186	6,187,462	–	203,729	37,110	714,398	(1,386,176)	(129,732)	(221,643)	5,773,024	90,153	11,268,511	1,347,484	12,615,995
Profit for the year	–	–	–	–	–	–	–	–	–	1,860,228	–	1,860,228	181,510	2,041,738
Other comprehensive loss for the year:														
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(279,938)	–	–	(279,938)	–	(279,938)
Total comprehensive income for the year	–	–	–	–	–	–	–	–	(279,938)	1,860,228	–	1,580,290	181,510	1,761,800
Acquisition of non-controlling interests	–	–	–	–	–	–	–	(307,686)	–	–	–	(307,686)	(377,538)	(685,224)
Disposal of subsidiaries	–	–	–	–	–	(57,872)	–	–	–	57,872	–	–	(633,058)	(633,058)
Non-controlling interests arising from business combination	–	–	–	–	–	–	–	–	–	–	–	–	366,030	366,030
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	(3,797)	(3,797)
Final 2015 dividend declared	–	–	–	–	–	–	–	–	–	–	(90,153)	(90,153)	–	(90,153)
Proposed final 2016 dividend	–	(572,164)	–	–	–	–	–	–	–	–	572,164	–	–	–
Put option over non-controlling interests	–	–	–	–	–	–	–	(232,634)	–	–	–	(232,634)	–	(232,634)
Transfer from retained profits	–	–	–	–	–	198,212	–	–	–	(198,212)	–	–	–	–
At 31 December 2016	**186**	**5,615,298**	**-**	**203,729**	**37,110**	**854,738**	**(1,386,176)**	**(670,052)**	**(501,581)**	**7,492,912**	**572,164**	**12,218,328**	**880,631**	**13,098,959**

* These reserve accounts comprise the consolidated reserves of RMB12,218,142,000 (2015: RMB11,268,325,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	**2016 RMB'000**	2015 RMB'000
Operating activities			
Profit before tax		**2,878,427**	715,638
Adjustments for:			
Share of profits of joint ventures	18(b)	**(4,148)**	(1,408)
Depreciation and impairment of property, plant and equipment	13	**712,031**	594,155
Depreciation and impairment of investment properties	6(c)	**–**	1,181
Amortisation of land use rights	14	**43,618**	54,052
Amortisation of intangible assets	16	**153,749**	161,631
Impairment of intangible assets	16	**29,355**	28,202
Impairment of goodwill	17	**58,208**	12,431
Write-down of inventories to net realisable value	6(c)	**(1,833)**	657
Interest income	5(b)	**(31,243)**	(68,041)
Net loss on disposal of items of property, plant and equipment	5(b)	**71,845**	89,624
Net gain on disposal of land use rights	5(b)	**–**	(33,499)
Finance costs	7	**1,018,020**	1,295,697
Loss on disposal of subsidiaries	39	**1,293**	9,469
Net gain on disposal of listed equity investments	5(b)	**–**	(3,891)
		4,929,322	2,855,898
(Increase)/decrease in cash in transit		**(87,888)**	6,457
Increase in trade receivables		**(172,156)**	(272,093)
Increase in prepayments, deposits and other receivables		**(74,451)**	(173,109)
Decrease in inventories		**405,765**	2,498,669
(Decrease)/increase in trade and bills payables		**(116,737)**	91,740
Increase/(decrease) in other payables and accruals		**42,062**	(110,314)
Decrease in amounts due from related parties – trade related		**233**	103
(Decrease)/increase in amounts due to related parties – trade related		**(3,673)**	598
Cash generated from operations		**4,922,477**	4,897,949
Tax paid		**(409,836)**	(246,282)
Net cash generated from operating activities		**4,512,641**	4,651,667

	Notes	2016 RMB'000	2015 RMB'000
Investing activities			
Purchase of items of property, plant and equipment		**(1,433,212)**	(1,596,050)
Proceeds from disposal of items of property, plant and equipment		**408,557**	563,975
Purchase of land use rights		**(113,625)**	(185,604)
Proceeds from disposal of land use rights		**–**	34,234
Purchase of intangible assets		**(6,654)**	(16,461)
(Purchase)/redemption of available-for-sale investments, net		**(1,970)**	60,170
Prepayments for the potential acquisitions of equity interests from third parties		**(406,653)**	(94,506)
Acquisitions of subsidiaries		**(725,224)**	(392,668)
Increase in prepayments, deposits and other receivables		**(17,000)**	(177,627)
Dividends received from a joint venture		**–**	800
Proceeds from disposal of listed equity investments		**–**	40,099
Disposal of subsidiaries, net of cash		**(516,523)**	5,991
Interest received		**32,536**	67,508
Net cash used in investing activities		**(2,779,768)**	(1,690,139)
Financing activities			
Proceeds from bank loans and other borrowings		**37,674,921**	31,218,074
Repayments of bank loans and other borrowings		**(37,044,380)**	(33,117,879)
Decrease in pledged bank deposits		**28,603**	783,185
Decrease in notes payable		**(450,056)**	(364,003)
Acquisition of non-controlling interests		**(94,500)**	–
Net proceeds from issue of short term bonds		**–**	400,000
Repayment of short-term bonds		**(400,000)**	–
Repayment of bonds payable		**(600,000)**	–
Interest paid for bank loans and other borrowings		**(916,274)**	(1,199,958)
Interest paid for short term bonds		**(23,680)**	(1,600)
Interest paid for convertible bonds	29	**(75,457)**	(70,962)
Interest paid for bonds payable	28	**(42,000)**	(42,000)
Capital element of finance lease rental payments		**(10,049)**	(35,328)
Dividends paid to the non-controlling shareholders		**(5,267)**	(17,073)
Dividends paid		**(90,153)**	(150,181)
Net cash used in financing activities		**(2,048,292)**	(2,597,725)
Net (decrease)/increase in cash and cash equivalents		**(315,419)**	363,803
Cash and cash equivalents at beginning of year		**4,464,517**	4,091,220
Effect of foreign exchange rate changes, net		**8,166**	9,494
Cash and cash equivalents at end of year		**4,157,264**	4,464,517

Huang Yi
Director

Li Guoqiang
Director

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands. The Company has established a principal place of business in Hong Kong which is located at Rooms 3504-12, 35th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 26 March 2010.

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

In the opinion of the directors of the Company (the "Directors"), the ultimate controlling shareholders of the Company are Mr. Huang Yi and Mr. Li Guoqiang.

2.1 BASIS OF PRESENTATION

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

As at 31 December 2016, the Group had net current liabilities of approximately RMB2,096,377,000. The Directors believe that the Group has sufficient cash flows from the operations and current available banking facilities to meet its liabilities as and when they fall due. Therefore, the financial statements are prepared on going concern basis.

BASIS OF CONSOLIDATION

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PRESENTATION (continued)

BASIS OF CONSOLIDATION (continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS IN JOINT VENTURES

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

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE MEASUREMENT

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RELATED PARTIES

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

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

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

Category	Estimated useful life	Estimated residual value
Buildings	10-30 years	5%
Leasehold improvements	5 years	–
Plant and machinery	5-10 years	5%
Furniture and fixtures	5 years	5%
Motor vehicles	5-10 years	5%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENT PROPERTIES

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

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

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

Software	3-5 years
Dealership agreements	20-40 years
Customer relationships	15 years
Others	5-44 years

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASES

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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

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

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

LAND USE RIGHTS

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the right to use certain land and the amount paid for such a right is recorded as land use rights, which are amortised over the lease terms of 26 to 68 years using the straight-line method.

INVESTMENTS AND OTHER FINANCIAL ASSETS

INITIAL RECOGNITION AND MEASUREMENT

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

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

SUBSEQUENT MEASUREMENT

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

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

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

LOANS AND RECEIVABLES

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

AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERECOGNITION OF FINANCIAL ASSETS

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

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

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

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

FINANCIAL ASSETS CARRIED AT AMORTISED COST

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (continued)

FINANCIAL ASSETS CARRIED AT AMORTISED COST (continued)

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

AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

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

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

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

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

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

FINANCIAL LIABILITIES

INITIAL RECOGNITION AND MEASUREMENT

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

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

The Group's financial liabilities include trade and bills payables, other payables, amounts due to related parties, bank loans and other borrowings, short term bonds, bonds payables and convertible bonds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL LIABILITIES (continued)

SUBSEQUENT MEASUREMENT

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

LOANS AND BORROWINGS

After initial recognition, banks loans and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

CONVERTIBLE BONDS

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

PUT OPTION OVER NON-CONTROLLING INTEREST

During the process of acquiring the majority equity interests of a subsidiary, the Group provided the non-controlling shareholder the right to dispose its equity interests to the Group. The equity interests in the subsidiary held by the non-controlling shareholder shall be recognised as non-controlling interests in the consolidated financial statements of the Group. At the same time, for the put option, the Group shall assume the obligations to redeem in cash the equity interests in the subsidiary held by the non-controlling shareholder. The present value of the amount payable at the time of redemption of such put option shall be deducted from equity (other than non-controlling interests) and is recognised as the financial liability of the Group. Such financial liability shall be re-measured at the present value of the amount payable upon redemption in the subsequent period, with changes recognised in the consolidated statement of profit or loss.

DERECOGNITION OF FINANCIAL LIABILITIES

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OFFSETTING OF FINANCIAL INSTRUMENTS

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

INVENTORIES

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

CASH AND CASH EQUIVALENTS

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

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

INCOME TAX

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

GOVERNMENT GRANTS

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

REVENUE RECOGNITION

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

VENDOR REBATES

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

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

EMPLOYEE BENEFITS

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

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

BORROWING COSTS

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

Where funds have been borrowed generally and used for the purpose of obtaining qualifying assets, a capitalisation rate of 6.0% has been applied to the expenditure on the individual assets.

DIVIDENDS

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using their respective functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

JUDGEMENT

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

DEFERRED TAX ASSETS

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets recognised was RMB307,243,000 (2015: RMB357,649,000) as at 31 December 2016. More details are given in note 34(b).

ESTIMATION UNCERTAINTY

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

IMPAIRMENT OF GOODWILL

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimation of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount as at 31 December 2016 of goodwill was RMB2,732,547,000 (2015: RMB2,622,410,000). Further details are given in note 17.

IMPAIRMENT OF NON-FINANCIAL ASSETS (OTHER THAN GOODWILL)

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

USEFUL LIVES OF INTANGIBLE ASSETS

The intangible assets are depreciated on the 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. Management will increase the amortisation charges when useful lives become shorter than previously estimated.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY (continued)

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

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

4. OPERATING SEGMENT INFORMATION

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

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

INFORMATION ABOUT GEOGRAPHICAL AREA

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

INFORMATION ABOUT MAJOR CUSTOMERS

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information is presented in accordance with HKFRS 8 *Operating Segments*.

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

	2016 RMB'000	2015 RMB'000
Revenue from the sale of motor vehicles	**62,459,485**	51,842,665
Others	**9,139,736**	7,299,942
	71,599,221	59,142,607

(b) Other income and gains, net:

	2016 RMB'000	2015 RMB'000
Commission income	**1,282,816**	972,167
Rental income	**22,684**	28,469
Interest income	**31,243**	68,041
Government grants	**9,026**	9,759
Net loss on disposal of items of property, plant and equipment	**(71,845)**	(89,624)
Net gain on disposal of land use rights	**–**	33,499
Net loss on disposal of subsidiaries	**(1,293)**	(9,469)
Net gain on disposal of listed equity investments	**–**	3,891
Others	**52,883**	87,410
	1,325,514	1,104,143

6. PROFIT BEFORE TAX

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

		2016 RMB'000	2015 RMB'000
(a)	**Employee benefit expense (including directors' and chief executive officer's remuneration (note 9)):**		
	Wages and salaries	**1,906,072**	1,434,181
	Pension scheme contributions	**267,938**	216,048
	Other welfare	**139,261**	96,395
		2,313,271	1,746,624
(b)	**Cost of sales and services provided:**		
	Cost of sales of motor vehicles	**60,370,388**	50,493,492
	Others	**4,676,554**	3,979,922
		65,046,942	54,473,414
(c)	**Other items:**		
	Depreciation and impairment of property, plant and equipment	**712,031**	594,155
	Depreciation and impairment of investment properties	**–**	1,181
	Amortisation of land use rights	**43,618**	54,052
	Amortisation of intangible assets	**153,749**	161,631
	Impairment of goodwill	**58,208**	12,431
	Impairment of intangible assets	**29,355**	28,202
	Auditor's remuneration	**5,800**	5,600
	Lease expenses	**254,427**	169,034
	Advertisement and promotion expenses	**619,519**	561,046
	Office expenses	**212,464**	193,130
	Logistics expenses	**91,015**	133,356
	Write-down of inventories to net realisable value	**(1,833)**	657
	Net loss on disposal of items of property, plant and equipment	**71,845**	89,624
	Net gain on disposal of land use rights	**–**	(33,499)
	Net loss on disposal of subsidiaries	**1,293**	9,469
	Net gain on disposal of listed equity investments	**–**	(3,891)

7. FINANCE COSTS

	2016 **RMB'000**	2015 RMB'000
Interest expense on bank borrowings	**763,653**	1,047,563
Interest expense on convertible bonds	**155,363**	141,356
Interest expense on other borrowings	**160,552**	170,156
Interest expense on finance leases	**561**	3,213
Interest expense on short term bonds	**8,703**	16,577
Interest expense on bonds payable	**19,354**	42,839
Less: Interest capitalised	**(90,166)**	(126,007)
	1,018,020	1,295,697

8. INCOME TAX EXPENSE

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

	2016 **RMB'000**	2015 RMB'000
Current Mainland China corporate income tax	**848,422**	313,150
Deferred tax (note 34(b))	**(11,733)**	(78,821)
	836,689	234,329

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

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

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

According to the Corporate Income Tax Law ("CIT") of the People's Republic of China, the income tax rates for both domestic and foreign investment enterprises in Mainland China are unified at 25% effective from 1 January 2008.

Certain subsidiaries of the Group enjoyed preferential CIT rates which were lower than 25% during the reporting period as approved by the relevant tax authorities or operated in designated areas with preferential CIT policies in the PRC.

8. INCOME TAX EXPENSE (continued)

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

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

	2016 **RMB'000**	2015 RMB'000
Profit before tax	**2,878,427**	715,638
Tax at the statutory tax rate (25%)	**719,607**	178,910
Tax effect of non-deductible expenses	**95,888**	39,240
Income not subject to tax	**(321)**	(4,042)
Profits attributable to joint ventures	**(1,037)**	(352)
Lower tax rates for specific provinces or enacted by local authority	**8,808**	16,071
Tax losses not recognised	**13,744**	4,502
Tax charge	**836,689**	234,329

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2016 **RMB'000**	2015 RMB'000
Fees	**662**	728
Other emoluments:		
Salaries, allowances and other benefits	**15,677**	15,386
Contributions to defined contribution retirement schemes	**437**	409
	16,114	15,795
	16,776	16,523

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) INDEPENDENT NON-EXECUTIVE DIRECTORS

The fees paid to independent non-executive directors during the year were as follows:

	2016 RMB'000	2015 RMB'000
– Mr. Shigeno Tomihei	–	51
– Mr. Ng Yuk Keung	102	203
– Mr. Shen Jinjun	217	203
– Mr. Lin Yong	217	203
– Mr. Shoichi Ota	126	68
– Mr. Ying Wei	–	–
	662	728

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

(b) EXECUTIVE DIRECTORS, NON-EXECUTIVE DIRECTORS AND THE CHIEF EXECUTIVE

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	Total RMB'000
2016					
Executive directors:					
– Mr. Huang Yi	–	2,252	–	16	2,268
– Mr. Yu Guangming	–	1,823	–	83	1,906
– Mr. Du Qingshan	–	2,917	–	72	2,989
– Mr. Si Wei	–	600	–	104	704
– Mr. Zhang Zhicheng	–	2,917	–	72	2,989
Executive director and chief executive:					
– Mr. Li Guoqiang	–	5,168	–	90	5,258
Non-executive directors:					
– Mr. Adam Keswick	–	–	–	–	–
– Mr. Pang Yiu Kai	–	–	–	–	–
	–	15,677	–	437	16,114

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) EXECUTIVE DIRECTORS, NON-EXECUTIVE DIRECTORS AND THE CHIEF EXECUTIVE (continued)

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	Total RMB'000
2015					
Executive directors:					
– Mr. Huang Yi	–	2,115	–	15	2,130
– Mr. Yu Guangming	–	1,802	–	81	1,883
– Mr. Du Qingshan	–	2,918	–	67	2,985
– Mr. Si Wei	–	600	–	97	697
– Mr. Zhang Zhicheng	–	2,918	–	67	2,985
Executive director and chief executive:					
– Mr. Li Guoqiang	–	5,031	–	84	5,115
Non-executive directors:					
– Mr. Leng Xuesong	–	–	–	–	–
– Mr. Adam Keswick	–	–	–	–	–
	–	15,384	–	411	15,795

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

Notes:

(i) Mr. Ng Yuk Keung has retired as an independent non-executive director of the Company with effect from 19 September 2016.

(ii) Mr. Ying Wei has been appointed as an independent non-executive director of the Company with effect from 19 December 2016.

(iii) Mr. Adam Keswick has resigned as a non-executive director of the Company with effect from 22 August 2016.

(iv) Mr. Pang Yiu Kai has been appointed as a non-executive director of the Company with effect from 22 August 2016.

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included three directors and the chief executive (2015: two directors and the chief executive), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining one (2015: two) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, bonuses, allowances and benefits in kind	**2,914**	5,834
Pension scheme contributions	**72**	133
	2,986	5,967

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

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

11. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Proposed final – HK$0.30 (approximately RMB0.27) (2015: HK$0.05) per ordinary share	**572,164**	90,153

The calculation of the proposed final dividend for the year ended 31 December 2016 is based on the proposed final dividend per ordinary share, and the total number of ordinary shares as at 20 March 2017.

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

During the year ended 31 December 2016, a final dividend of HK$0.05 per ordinary share in respect of the year ended 31 December 2015 was declared and paid to the ordinary equity holders of the Company. The aggregate amount of the final dividend declared and paid in the year ended 31 December 2016 was HK$107,325,000 (equivalent to RMB90,153,000).

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

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,146,506,957 (2015: 2,146,506,957) in issue during the year.

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

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

EARNINGS

	2016 RMB'000	2015 RMB'000
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**1,860,228**	460,964
Interest on convertible bonds	**155,363**	141,356
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**2,015,591**	602,320

SHARES

	Number of Shares 2016	 2015
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,146,506,957**	2,146,506,957
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	**238,560,258**	238,560,258
Weighted average number of ordinary shares used in diluted earnings per share calculation	**2,385,067,215**	2,385,067,215

EARNINGS PER SHARE

	2016 RMB	2015 RMB
Basic	**0.87**	0.21
Diluted	**0.85**	0.21

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2016	**6,459,146**	**510,369**	**660,846**	**521,290**	**1,282,313**	**716,515**	**10,150,479**
Exchange realignment	**–**	**50**	**–**	**15**	**384**	**–**	**449**
Additions	**109,651**	**40,449**	**45,757**	**53,913**	**660,716**	**588,559**	**1,499,045**
Acquisition of subsidiaries (note 38)	**752,851**	**9,571**	**53,722**	**79,145**	**147,366**	**8,228**	**1,050,883**
Transfer	**745,978**	**8,127**	**3,643**	**6,367**	**–**	**(764,115)**	**–**
Disposals	**–**	**(4,067)**	**(86,725)**	**(23,157)**	**(659,714)**	**(2,675)**	**(776,338)**
Disposals of subsidiaries (note 39)	**(448,786)**	**(240,400)**	**(61,947)**	**(45,396)**	**(122,524)**	**(9,383)**	**(928,436)**
At 31 December 2016	**7,618,840**	**324,099**	**615,296**	**592,177**	**1,308,541**	**537,129**	**10,996,082**
Accumulated depreciation and impairment:							
At 1 January 2016	**916,767**	**287,956**	**281,738**	**322,478**	**248,786**	**–**	**2,057,725**
Exchange realignment	**–**	**50**	**–**	**15**	**94**	**–**	**159**
Depreciation and impairment provided during the year	**347,713**	**31,636**	**62,763**	**81,293**	**188,626**	**–**	**712,031**
Disposals	**–**	**(3,014)**	**(75,690)**	**(22,192)**	**(193,402)**	**–**	**(294,298)**
Disposals of subsidiaries (note 39)	**(70,085)**	**(130,762)**	**(27,625)**	**(31,746)**	**(29,455)**	**–**	**(289,673)**
At 31 December 2016	**1,194,395**	**185,866**	**241,186**	**349,848**	**214,649**	**–**	**2,185,944**
Net book amount:							
At 31 December 2016	**6,424,445**	**138,233**	**374,110**	**242,329**	**1,093,892**	**537,129**	**8,810,138**
Cost:							
At 1 January 2015	5,437,035	450,639	569,471	455,221	1,339,119	880,620	9,132,105
Exchange realignment	–	43	–	13	316	–	372
Additions	111,022	22,200	84,402	67,851	670,266	686,733	1,642,474
Acquisition of subsidiaries	164,109	15,543	14,471	12,017	61,953	–	268,093
Transfer	824,243	21,944	1,900	2,751	–	(850,838)	–
Disposals	(76,967)	–	(7,786)	(15,487)	(786,295)	–	(886,535)
Disposals of subsidiaries	(296)	–	(1,612)	(1,076)	(3,046)	–	(6,030)
At 31 December 2015	6,459,146	510,369	660,846	521,290	1,282,313	716,515	10,150,479
Accumulated depreciation and impairment:							
At 1 January 2015	723,176	223,208	222,777	256,813	246,090	–	1,672,064
Exchange realignment	–	43	–	13	135	–	191
Depreciation and impairment provided during the year	219,145	64,705	62,072	73,293	174,940	–	594,155
Disposals	(25,446)	–	(1,872)	(6,688)	(171,112)	–	(205,118)
Disposals of subsidiaries	(108)	–	(1,239)	(953)	(1,267)	–	(3,567)
At 31 December 2015	916,767	287,956	281,738	322,478	248,786	–	2,057,725
Net book amount:							
At 31 December 2015	5,542,379	222,413	379,108	198,812	1,033,527	716,515	8,092,754

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group has yet to obtain property ownership certificates for certain buildings with an aggregate net book value of RMB4,586,293,000 as at 31 December 2016 (2015: RMB3,932,305,000). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial titles to these buildings as at 31 December 2016 and 2015, respectively.

As at 31 December 2016, certain of the Group's buildings with an aggregate net book value of approximately RMB412,808,000 (2015: RMB490,545,000) were pledged as security for the Group's bank loans (note 26(a)(ii)).

14. LAND USE RIGHTS

	2016 RMB'000	2015 RMB'000
Cost:		
At the beginning of the year	**2,737,321**	2,354,231
Additions	**25,230**	359,134
Acquisition of subsidiaries (note 38)	**103,841**	62,444
Disposals	**–**	(38,488)
Disposals of subsidiaries (note 39)	**(691,165)**	–
At the end of the year	**2,175,227**	2,737,321
Amortisation:		
At the beginning of the year	**216,990**	168,487
Charge for the year	**43,618**	54,052
Disposals	**–**	(5,549)
Disposals of subsidiaries (note 39)	**(39,115)**	–
At the end of the year	**221,493**	216,990
Net book value:		
At the end of the year	**1,953,734**	2,520,331

The lease prepayments of the Group represent the cost of the Group's land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group are from 18 to 63 years.

As at 31 December 2016, certain of the Group's land use rights with an aggregate net book value of approximately RMB209,921,000 (2015: RMB813,394,000) were pledged as security for the Group's bank loans (note 26(a)(i)).

The Group has yet to obtain the legal titles of certain land use rights in Mainland China with an aggregate net book value of RMB399,427,000 as at 31 December 2016 (2015: RMB355,781,000). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial titles to these land use rights as at 31 December 2016 and 2015, respectively.

15. PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Prepaid lease for land	**128,325**	162,864
Prepayment for land use rights	**282,151**	281,400
Prepaid lease for buildings	**95,146**	97,475
Prepayments for potential acquisitions	**493,884**	341,729
	999,506	883,468

16. INTANGIBLE ASSETS

	Software RMB'000	Dealership agreements RMB'000	Customer relationships RMB'000	Others RMB'000	Total RMB'000
Cost:					
At 1 January 2016	**54,239**	**2,702,145**	**786,024**	**122,553**	**3,664,961**
Exchange realignment	**26**	**–**	**–**	**498**	**524**
Additions	**6,654**	**–**	**–**	**–**	**6,654**
Acquisition of subsidiaries (note 38)	**359**	**1,063,200**	**96,770**	**–**	**1,160,329**
Disposals	**–**	**(34,300)**	**–**	**(37,668)**	**(71,968)**
Disposals of subsidiaries (note 39)	**(4,554)**	**(539,930)**	**(198,540)**	**–**	**(743,024)**
At 31 December 2016	**56,724**	**3,191,115**	**684,254**	**85,383**	**4,017,476**
Accumulated amortisation and impairment:					
At 1 January 2016	**31,539**	**385,046**	**232,153**	**62,588**	**711,326**
Exchange realignment	**24**	**–**	**–**	**–**	**24**
Amortisation provided during the year	**7,336**	**96,460**	**45,259**	**4,694**	**153,749**
Impairment provided during the year	**–**	**22,236**	**6,317**	**802**	**29,355**
Disposals	**–**	**–**	**–**	**(37,668)**	**(37,668)**
Disposals of subsidiaries (note 39)	**(2,313)**	**(73,815)**	**(69,489)**	**–**	**(145,617)**
At 31 December 2016	**36,586**	**429,927**	**214,240**	**30,416**	**711,169**
Net book value:					
At 31 December 2016	**20,138**	**2,761,188**	**470,014**	**54,967**	**3,306,307**

16. INTANGIBLE ASSETS (continued)

	Software RMB'000	Dealership agreements RMB'000	Customer relationships RMB'000	Others RMB'000	Total RMB'000
Cost:					
At 1 January 2015	48,285	2,292,685	744,536	112,721	3,198,227
Exchange realignment	22	–	–	(1,806)	(1,784)
Additions	4,822	43,000	–	11,638	59,460
Acquisition of subsidiaries	1,140	369,300	42,568	–	413,008
Disposals of Subsidiaries	(30)	(2,840)	(1,080)	–	(3,950)
At 31 December 2015	54,239	2,702,145	786,024	122,553	3,664,961
Accumulated amortisation and impairment:					
At 1 January 2015	24,781	298,644	180,690	18,845	522,960
Exchange realignment	20	–	–	(306)	(286)
Amortisation provided during the year	6,768	87,162	51,854	15,847	161,631
Impairment provided during the year	–	–	–	28,202	28,202
Disposals of subsidiaries	(30)	(760)	(391)	–	(1,181)
At 31 December 2015	31,539	385,046	232,153	62,588	711,326
Net book value:					
At 31 December 2015	22,700	2,317,099	553,871	59,965	2,953,635

The Group's principal identifiable intangible assets represent dealership agreements in Mainland China with various vehicle manufacturers and customer relationships acquired from third parties. The dealership agreements do not include a specified contract period or termination arrangement.

The customer relationships are amortised over 15 years and the dealership agreements are amortised from 20 years to 40 years, which are management's best estimation of their useful lives.

As at 31 December 2016, the operating results of four 4S dealership stores located in Dalian, Shaoxing and Taizhou, respectively, did not meet management's expectation. Based on analysis of relevant cash generating units, the Group recognised a full impairment against the carrying amount of RMB29,355,000.

17. GOODWILL

	2016 RMB'000	2015 RMB'000
At the beginning of the year	**2,622,410**	2,432,635
Acquisition of subsidiaries (note 38)	**566,197**	203,832
Disposal of subsidiaries (note 39)	**(397,852)**	(1,626)
Impairment during the year	**(58,208)**	(12,431)
At the end of the year	**2,732,547**	2,622,410

17. GOODWILL (continued)

IMPAIRMENT TESTING OF GOODWILL

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

Goodwill acquired through business combinations has been allocated to the relevant 4S dealership business (or group of 4S dealership business) from which the goodwill was resulted. These individual 4S dealership business are treated as a cash generating unit for impairment testing.

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period from the end of the reporting period is 3%. The discount rate applied to the cash flow projections beyond the one-year period is 13% (2015: 14%).

The carrying amount of goodwill allocated to each cash-generating unit (or group of cash-generating units) of the operation of 4S dealership business that are not individually material to the Group:

	2016 **RMB'000**	2015 RMB'000
4S dealership business	**2,732,547**	2,622,410

ASSUMPTIONS USED IN THE VALUE IN USE CALCULATION

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

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

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

The values assigned to key assumptions on sales and service of motor vehicles revenue and operating expenses are consistent with external information sources.

As at 31 December 2016, the operating results of four 4S dealership stores located in Dalian, Shaoxing and Taizhou, respectively, did not meet management's expectation. Based on analysis of relevant cash generating units, the Group recognised a full impairment against the carrying amount of RMB58,208,000.

18. INVESTMENTS IN JOINT VENTURES

	2016 **RMB'000**	2015 RMB'000
Share of net assets	**48,019**	43,871

廈門中升豐田汽車銷售服務有限公司 (Xiamen Zhongsheng Toyota Automobile Sales & Service Co., Ltd.) ("Xiamen Zhongsheng"), 中升泰克提汽車服務（大連）有限公司 (Zhongsheng Tacti Automobile Service (Dalian) Co., Ltd.) ("Zhongsheng Tacti") and 提愛希汽車用品商貿（上海）有限公司 (TAC Automobile Accessories Trading (Shanghai) Co., Ltd.) ("TAC") are joint ventures of the Group and are considered to be related parties of the Group.

18. INVESTMENTS IN JOINT VENTURES (continued)

(a) PARTICULARS OF THE JOINT VENTURES

Joint ventures	Place and date of registration	Authorised registered/paid-in/ issued capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Xiamen Zhongsheng	Xiamen, the PRC, 2002	RMB12,000,000	50%	50%	50%	Sale and service of motor vehicles
Zhongsheng Tacti	Dalian, the PRC, 2009	US$3,000,000	50%	50%	50%	Sale and service of accessories
TAC	Shanghai, the PRC, 2011	RMB4,000,000	50%	50%	50%	Sale and service of accessories

(b) The following table illustrates the summarised financial information of the Group's joint ventures that are not individually material to the Group:

Share of the joint ventures' assets and liabilities:

	2016 RMB'000	2015 RMB'000
Non-current assets	**1,536**	1,408
Current assets	**51,961**	46,215
Current liabilities	**(5,478)**	(3,752)
Net assets	**48,019**	43,871

Share of the joint ventures' results:

	2016 RMB'000	2015 RMB'000
Income	**160,900**	137,996
Expenses	**(156,058)**	(136,070)
Tax	**(694)**	(518)
Profit for the year	**4,148**	1,408
Dividend received	**–**	(800)

19. INVENTORIES

Inventories in the consolidated statement of financial position represent:

	2016 RMB'000	2015 RMB'000
Motor vehicles	**5,839,065**	5,586,644
Spare parts and others	**694,235**	708,026
	6,533,300	6,294,670
Less: Provision for inventories	**3,558**	5,391
	6,529,742	6,289,279

As at 31 December 2016, certain of the Group's inventories with a carrying amount of approximately RMB2,481,770,000 (2015: RMB1,456,529,000) were pledged as security for the Group's bank loans and other borrowings (notes 26(a)(iii) and 26(c)).

As at 31 December 2016, certain of the Group's inventories with a carrying amount of approximately RMB1,812,774,000 (2015: RMB1,322,884,000) were pledged as security for the Group's bills payable.

20. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**1,149,141**	936,326
Impairment	**–**	–
	1,149,141	936,326

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2016 RMB'000	2015 RMB'000
Within 3 months	**1,089,745**	850,468
More than 3 months but less than 1 year	**14,490**	37,464
Over 1 year	**44,906**	48,394
	1,149,141	936,326

20. TRADE RECEIVABLES (continued)

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**1,130,651**	914,348
Over one year past due	**18,490**	21,978
	1,149,141	936,326

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments and deposits to suppliers	**2,285,109**	2,242,994
Deposits paid for acquisition of land use rights	**980,198**	923,507
Advances to certain companies to be acquired	**17,000**	540,842
Rebate receivables	**3,594,429**	3,145,693
VAT recoverable (i)	**35,966**	196,661
Receivables on disposal of subsidiaries	**6,474**	6,824
Receivables on disposal of items of property, plant and equipment	**51,209**	49,571
Receivables on disposal of land use rights	**34,425**	34,425
Receivables from original shareholders of subsidiaries acquired	**173,812**	12,531
Interest receivables	**592**	1,885
Prepaid finance costs	**32,061**	39,991
Others	**851,119**	787,215
	8,062,394	7,982,139

Note:

(i) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is the net difference between output and deductible input VAT. The applicable tax rate for domestic sales of the Group is 17% and 6%.

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

	2016 RMB'000	2015 RMB'000
Prepayments, deposits, and other receivables	**4,729,060**	4,578,986

22. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Financial products issued by financial institution, at cost	**25,850**	23,880

As at 31 December 2016, certain financial products with a carrying amount of RMB25,850,000 were stated at cost less impairment. All the financial products as at 31 December 2016 have been disposed of by the Group with respective investment incomes as of the date of this report.

23. PLEDGED BANK DEPOSITS

	2016 RMB'000	2015 RMB'000
Deposits pledged with banks as collateral against credit facilities granted by the banks	**1,241,999**	1,295,865

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

24. CASH IN TRANSIT

	2016 RMB'000	2015 RMB'000
Cash in transit	**320,223**	210,920

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

25. CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**3,634,881**	4,338,818
Short term deposits	**522,383**	125,699
Cash and cash equivalents	**4,157,264**	4,464,517

As at 31 December 2016, the cash and bank balances and short term deposits of the Group denominated in a currency other than RMB amounted to RMB 93,979,000 (2015: RMB151,903,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

26. BANK LOANS AND OTHER BORROWINGS

		2016			2015		
	Notes	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Finance lease payables (note 35)		2-6	2017	2,114	6-18	2016	8,210
Bank loans							
– secured	(a)	4-6	2017	2,405,663	4-8	2016	2,478,950
– guaranteed	(b)	5	2017	36,000	–	–	–
– unsecured		3-6	2017	8,631,038	4-7	2016	10,102,131
Other borrowings							
– secured	(c)	2-8	2017	1,801,483	3-8	2016	804,017
– unsecured		3-8	2017	63,546	5-9	2016	28,285
Current portion of long term bank loans							
– secured	(a)	4-6	2017	55,000	6-8	2016	242,430
– unsecured		7	2017	41,500	7	2016	70,000
Syndicated term loan	(d)	3-4	2017	345,955	–	–	–
				13,382,299			13,734,023
Non-current							
Finance lease payables (note 35)		2-6	2018	1,687	6-18	2017	522
Bank loans							
– secured	(a)	3-6	2018-2019	700,000	5-8	2017-2019	632,410
– unsecured		3-7	2018	153,720	7	2017-2018	56,500
Syndicated term loan	(d)	3-4	2018	1,037,866	3-4	2017-2018	1,298,319
				1,893,273			1,987,751
				15,275,572			15,721,774

26. BANK LOANS AND OTHER BORROWINGS (continued)

	2016 RMB'000	2015 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**11,169,201**	12,893,511
In the second year	**208,720**	162,240
In the third to fifth years	**645,000**	526,670
	12,022,921	13,582,421
Other borrowings repayable:		
Within one year	**1,865,029**	832,302
Syndicated term loan:		
Within one year	**345,955**	–
In the second year	**1,037,866**	324,579
In the third year	**–**	973,740
	1,383,821	1,298,319
Finance lease payables:		
Within one year	**2,114**	8,210
In the second year	**1,687**	522
	3,801	8,732
	15,275,572	15,721,774

Notes:

(a) Certain of the Group's bank loans were secured by:

(i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying amount of approximately RMB209,921,000 (2015: RMB813,394,000) as at 31 December 2016;

(ii) mortgages over the Group's buildings, which had an aggregate carrying amount of approximately RMB412,808,000 (2015: RMB490,545,000) as at 31 December 2016;

(iii) mortgages over the Group's inventories, which had an aggregate carrying amount of approximately RMB716,400,000 (2015: RMB652,512,000) as at 31 December 2016; and

(iv) mortgages over the entire shares of Hangzhou Zhongsheng Lexus Automobile Sales & Service Co., Ltd., Quanzhou Zhongsheng Lexus Automobile Sales & Service Co., Ltd., Dongguan Changping Zhongsheng Lexus Automobile Sales & Service Co., Ltd., Kunming Zhongsheng Toyota Automobile Sales & Service Co., Ltd., Dalian Zhongsheng Star Automobile Sales & Service Co., Ltd., Weihai Zhongsheng Weida Automobile Sales & Service Co., Ltd., Weihai Zhongsheng Huizhong Automobile Sales & Service Co., Ltd., Zhengzhou Zhongsheng Huidi Automobile Sales & Service Co., Ltd., Anyang Zhongsheng Huidi Sales & Service Co., Ltd., Hefei Zhongsheng Huidi Automobile Sales & Service Co., Ltd., Xinyang Zhongsheng Huidi Automobile Sales & Service Co., Ltd., Yunnan Zhongsheng Lexus Automobile Sales & Service Co., Ltd. (wholly owned by Zhongsheng (Dalian) Group Co., Ltd.) and Dalian Xinshengrong Automobile Sales & Service Co., Ltd., (wholly owned by Dalian Xinshengrong New Industrial Co., Ltd.).

26. BANK LOANS AND OTHER BORROWINGS (continued)

Notes: (continued)

(b) Certain of the Group's bank loans amounting to RMB36,000,000 (2015: Nil) were guaranteed by certain third parties as at 31 December 2016.

(c) Certain of the Group's other borrowings were secured by mortgages over the Group's inventories, which had an aggregate carrying amount of approximately RMB1,765,370,000 (2015: RMB804,017,000) as at 31 December 2016.

(d) Syndicated Term Loan borrowed by the Company was secured by mortgages over the entire shares of BILLION GREAT CORPORATION LIMITED (wholly owned by WELL SNAPE HOLDINGS LIMITED (BVI)) and Loong Wah Motors Limited (wholly owned by Loong Wah Motors (CAYMAN) Co., Ltd.).

(e) All bank loans and other borrowings were denominated in RMB, except for certain bank loans which were denominated in Hong Kong dollars, US dollars and Euros, amounting to RMB174,429,000, RMB1,795,394,000, RMB442,780,000 respectively. (2015: RMB163,367,100, RMB1,063,957,000, RMB70,996,000).

27. SHORT TERM BONDS

At the end of each reporting period, outstanding short term bonds are summarised as follows:

	Face value RMB'000	Maturity	Fixed interest rate	**2016 RMB'000**	2015 RMB'000
Short term bonds	400,000	2016	5.92%	**–**	414,977

28. BONDS PAYABLE

	2016 RMB'000	2015 RMB'000
Non-current	**–**	–
Current	**–**	622,646
	–	622,646

At initial recognition, the bonds payable in their original currencies are as follows:

	RMB'000
Face value of the bonds payable	600,000
Less: Issuance cost	(1,800)
	598,200

28. BONDS PAYABLE (continued)

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

	2016 RMB'000	2015 RMB'000
At the beginning of the year	**622,646**	621,807
Add: Interest expense (note 7)	**19,354**	42,839
Less: Interest paid	**(42,000)**	(42,000)
Payment of bonds payable	**(600,000)**	–
At the end of the year	**–**	622,646

On 13 June 2014, the Group issued bonds payable due on 13 June 2016, with an aggregate principal amount of RMB600,000,000 and a fixed interest rate of 7% per annum (the "bonds payable").

Interest of the bonds payable is payable annually in arrears on 13 June in each year commencing from 13 June 2015.

Interest expense on the bonds payable is calculated using the effective interest rate method by applying the effective interest rate of 7.17%.

29. CONVERTIBLE BONDS

On 25 April 2014, the Company issued convertible bonds with a nominal value of HK$3,091,500,000 2.85%. There was no movement in the number of these convertible bonds during the year. The bonds are convertible at the option of the bondholders into ordinary shares on or after the date falling 180 days after the issue date up to the close of business on the date falling ten days prior to the maturity at a conversion price of HK$12.95899 per share. The bonds are redeemable at the option of the bondholders at 100% of the principal amount together with interest accrued and unpaid to such date on 25 April 2017. The bonds carry interest at a rate of 2.85% per annum, which is payable semi-annually in arrears on 25 October and 25 April.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

29. CONVERTIBLE BONDS (continued)

The convertible bonds issued have been split into the liability and equity components as follows:

	2016 RMB'000	2015 RMB'000
Nominal value of convertible bonds issued during year 2014	**2,455,238**	2,455,238
Equity component	**(204,139)**	(204,139)
Direct transaction costs attributable to the liability component	**(4,520)**	(4,520)
Liability component at the issuance date	**2,246,579**	2,246,579
Interest expense	**388,310**	232,947
Interest paid	**(181,327)**	(105,870)
Exchange realignment	**299,568**	128,545
Liability component at the end of the year	**2,753,130**	2,502,201
Less: Portion classified as current liabilities	**2,753,130**	13,537
Long-term portion	**–**	2,488,664

30. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**1,007,924**	1,023,626
Bills payable	**3,049,445**	2,471,292
Trade and bills payables	**4,057,369**	3,494,918

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

	2016 RMB'000	2015 RMB'000
Within 3 months	**3,808,531**	3,200,783
3 to 6 months	**242,724**	285,342
6 to 12 months	**4,101**	4,770
Over 12 months	**2,013**	4,023
	4,057,369	3,494,918

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

31. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Payables for purchase of property, plant and equipment and land use rights	**134,617**	152,357
Advances and deposits from distributors	**53,315**	68,919
Advances from customers	**1,327,257**	1,012,626
Payables for purchase of equity interests from third parties	**225,492**	118,189
Staff payroll and welfare payables	**1,734**	2,828
Others	**269,317**	298,040
	2,011,732	1,652,959

32. OTHER LIABILITIES

Included in other liabilities are a put option over non-controlling interest of RMB245,000,000 (2015: Nil) arising from the acquisition of Hainan Jiahua Weiye Investment Co., Ltd. and its subsidiaries (note 38(f)).

33. EMPLOYEE RETIREMENT BENEFITS

In compliance with the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), the Company has participated in an MPF scheme, which is a defined contribution scheme managed by an independent trustee, to provide retirement benefits to its Hong Kong employees. Contributions to the MPF scheme are made in accordance with the statutory limits prescribed by the MPF Ordinance.

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries in Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 10% to 22% (2015: 10% to 22%) of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

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

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 7% to 18% (2015: 7% to 18%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for these contributions to the accommodation fund.

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

34. INCOME TAX PAYABLE AND DEFERRED TAX

(a) The movements in income tax payable during the year are as follows:

	2016 RMB'000	2015 RMB'000
At the beginning of the year	**714,068**	637,809
Provision for current tax for the year	**848,422**	313,150
Transferred from deferred tax liabilities	**–**	628
Income tax payable arising from acquisition of subsidiaries	**4,311**	8,763
Income tax payable decrease due to disposal of subsidiaries	**(23,382)**	–
Current tax paid	**(409,836)**	(246,282)
At the end of the year	**1,133,583**	714,068

34. INCOME TAX PAYABLE AND DEFERRED TAX (continued)

(b) Deferred Tax Assets and Liabilities Recognised

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

DEFERRED TAX ASSETS:

	Losses available for offsetting against future taxable profits RMB'000
At 1 January 2016	**357,649**
Deferred tax arising from acquisition of subsidiaries (note 38)	**17,189**
Deferred tax decrease due to disposal of subsidiaries (note 39)	**(51,398)**
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 8(a))	**(16,197)**
At 31 December 2016	**307,243**
At 1 January 2015	285,347
Deferred tax arising from acquisition of subsidiaries	10,394
Deferred tax decrease due to disposal of subsidiaries	(1,072)
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 8(a))	62,980
At 31 December 2015	357,649

The Group has tax losses arising in Hong Kong of RMB66,766,000 (2015: RMB46,133,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses arising in Mainland China of RMB51,505,000 (2015: RMB12,607,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

34. INCOME TAX PAYABLE AND DEFERRED TAX (continued)

(b) Deferred Tax Assets and Liabilities Recognised (continued)

DEFERRED TAX LIABILITIES:

	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Capitalisation of interest expenses and others RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2016	**764,222**	**164,997**	**50,586**	**979,805**
Deferred tax arising from acquisition of subsidiaries (note 38)	**299,487**	**–**	**–**	**299,487**
Deferred tax decrease due to disposal of subsidiaries (note 39)	**(152,816)**	**(12,746)**	**(16,915)**	**(182,477)**
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 8(a))	**(54,788)**	**26,858**	**–**	**(27,930)**
At 31 December 2016	**856,105**	**179,109**	**33,671**	**1,068,885**
At 1 January 2015	712,764	127,840	51,214	891,818
Deferred tax arising from acquisition of subsidiaries	105,195	–	–	105,195
Deferred tax decrease due to disposal of subsidiaries	(739)	–	–	(739)
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 8(a))	(52,998)	37,157	–	(15,841)
Transferred to tax payable during the year	–	–	(628)	(628)
At 31 December 2015	764,222	164,997	50,586	979,805

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained profits as at 31 December 2007 are exempted from the withholding tax.

In the opinion of the directors, it is not probable that the Group's subsidiaries established in Mainland China will, in the foreseeable future, distribute earnings with temporary differences aggregating approximately RMB8,052,597,000 (2015: RMB5,618,066,000) associated with investments in these subsidiaries for which deferred tax liabilities have not been recognised as at 31 December 2016.

35. FINANCE LEASE PAYABLES

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of finance leases, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation to reflect the purchase and financing.

Assets held under capitalised finance leases were included in its equipment.

At the end of the reporting period, the total future minimum lease payments under leases and their present values were as follows:

	Minimum lease payments 2016 RMB'000	Minimum lease payments 2015 RMB'000	**Present value of minimum lease payments 2016 RMB'000**	Present value of minimum lease payments 2015 RMB'000
Amount payables:				
Within one year	**2,333**	8,711	**2,114**	8,210
In the second year	**1,874**	592	**1,687**	522
Total minimum finance lease payments	**4,207**	9,303	**3,801**	8,732
Future finance charges	**(406)**	(571)		
Total net finance lease payables	**3,801**	8,732		
Portion classified as current liabilities (note 26)	**2,114**	8,210		
Non-current portion (note 26)	**1,687**	522		

36. SHARE CAPITAL

Shares	**2016 HK$'000**	2015 HK$'000
Issued and fully paid:		
2,146,506,957 (2015: 2,146,506,957) ordinary shares	**215**	215
Equivalent to RMB'000	**186**	186

36. SHARE CAPITAL (continued)

During the years ended 31 December 2016 and 2015, the movements in the Company's share capital were as follows:

	Number of shares in issue	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2015	2,147,041,457	186	(2,964)	6,280,579	6,277,801
Cancellation of shares	(534,500)	–	2,964	(2,964)	–
Proposed final 2015 dividend	–	–	–	(90,153)	(90,153)
At 31 December 2015	2,146,506,957	186	–	6,187,462	6,187,648
Proposed final 2016 dividend	–	–	–	(572,164)	(572,164)
At 31 December 2016	2,146,506,957	186	–	5,615,298	5,615,484

37. RESERVES

(i) DISCRETIONARY RESERVE FUND

Pursuant to the articles of association of certain subsidiaries of the Group registered in the PRC, these subsidiaries are required to transfer part of their profits after taxation to the discretionary reserve fund. The amounts allocated to this reserve are determined by the respective boards of directors.

For the PRC subsidiaries, in accordance with the Company Law of the People's Republic of China, the discretionary reserve fund can be used to offset previous years' losses, if any, and may be converted into capital in proportion to the equity holders' existing equity holdings, provided that the balance after the conversion is not less than 25% of the registered capital.

(ii) STATUTORY RESERVE

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

(iii) EXCHANGE FLUCTUATION RESERVE

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China. The reserve is dealt with in accordance with the accounting policy set out in note 2.4.

(iv) MERGER RESERVE

The merger reserve of the Group represents the capital contributions from the equity holders of the Company.

(v) OTHER RESERVE

The other reserve of the Group mainly represents the excess of the carrying amount of the non-controlling interests acquired over the consideration and the present value of the amount payable at the time of redemption of put option over non-controlling interests.

38. BUSINESS COMBINATION

(a) As part of the Group's plan to expand its motor vehicle sales and service business in Zhejiang province, the Group acquired 100% of the equity interests in the following companies, which are engaged in the motor vehicle sales and service business in Mainland China, from two third parties on 1 January 2016 at a total consideration of RMB230,000,000. The purchase consideration for the acquisition was in the form of cash, with RMB185,387,000 paid by the end of the year of 2016.

Company Name	Acquired equity interest %
華興(中國)汽車有限公司 (Wah Hing (China) Motors Co., Ltd.)	100%
浙江華策汽車有限公司 (Zhejiang Huace Automobile Co., Ltd.)	100%
浙江華策北控汽車有限公司 (Zhejiang Huace Beikong Automobile Co., Ltd.)	100%

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	93,031
Intangible assets	16	58,561
Inventories		36,374
Trade receivables		9,764
Prepayments, deposits and other receivables		17,814
Pledged bank deposits		136
Cash in transit		2,427
Cash and cash equivalents		11,325
Trade and bills payables		(14,247)
Other payables and accruals		(28,841)
Deferred tax liabilities	34(b)	(13,999)
Total identifiable net assets		172,345
Goodwill on acquisition		57,655
Total purchase consideration		230,000

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB9,764,000 and RMB16,333,000, respectively, which is equal to the gross contractual amounts.

38. BUSINESS COMBINATION (continued)

(a) (continued)

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

	Recognised fair values on acquisition date RMB'000
Cash consideration paid	(185,387)
Cash and cash equivalents acquired	11,325
Net cash outflow	(174,062)

Since the acquisition, the acquired business contributed RMB791,335,000 to the Group's revenue and RMB63,626,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB71,599,221,000 and RMB2,041,738,000 respectively.

(b) As part of the Group's plan to expand its motor vehicle sales and service business in Yunnan province, the Group acquired 100% of the equity interest in 雲南聯慶汽車銷售服務有限公司 (Yunnan Lianqing Automobile Sales & Service Co., Ltd.), which is engaged in the motor vehicle sales and service business in Mainland China, from a third party on 31 January 2016 at a total consideration of RMB41,248,000. The purchase consideration for the acquisition was in the form of cash, with RMB41,248,000 paid by the end of the year of 2016.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	13,033
Intangible assets	16	12,859
Deferred tax assets	34(b)	3,323
Inventories		25,648
Trade receivables		2,611
Prepayments, deposits and other receivables		12,449
Pledged bank deposits		2,696
Cash in transit		1,461
Cash and cash equivalents		13,655
Trade and bills payables		(10,998)
Other payables and accruals		(20,211)
Bank loans and other borrowings		(25,000)
Deferred tax liabilities	34(b)	(3,215)
Total identifiable net assets at fair value		28,311
Goodwill on acquisition		12,937
Total purchase consideration		41,248

38. BUSINESS COMBINATION (continued)

(b) (continued)

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB2,611,000 and RMB11,690,000, respectively, which is equal to the gross contractual amounts.

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

	Recognised fair values on acquisition date RMB'000
Cash consideration paid	(41,248)
Cash and cash equivalents acquired	13,655
Net cash outflow	(27,593)

Since the acquisition, the acquired business contributed RMB381,899,000 to the Group's revenue and RMB15,923,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB71,633,595,000 and RMB2,043,116,000 respectively.

(c) As part of the Group's plan to expand its motor vehicle sales and service business in Sichuan and Yunnan province, the Group acquired 100% of the equity interests in the following companies, which are engaged in the motor vehicle sales and service business in China, from three third parties on 1 March 2016 at a total consideration of RMB292,925,000. The purchase consideration for the acquisition was in the form of cash, with RMB253,384,000 paid by the end of the year of 2016.

Company Name	Acquired equity interest %
遠邦攀枝花有限公司 (Prime Pan Corporation Ltd.)	100%
攀枝花遠邦之星汽車銷售服務有限公司 (Panzhihua Yuanbang Star Automobile Sales & Service Co., Ltd.)	100%
遠安有限公司 (Prime On Corporation Ltd.)	100%
雲南遠安昆星汽車維修有限公司 (Yunnan Yuan'an Kunxing Automobile Repair Co., Ltd.)	100%
躍鹿(攀枝花)有限公司 (Run Deer (PZH) Ltd.)	100%
攀枝花躍鹿汽車銷售服務有限公司 (Panzhihua Run Deer Automobile Sales & Service Co., Ltd.)	100%
西昌摩仕汽車服務有限公司 (Xichang Moshi Automobile Service Co., Ltd.)	100%

38. BUSINESS COMBINATION (continued)

(c) (continued)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	98,872
Land use rights	14	32,610
Intangible assets	16	82,584
Inventories		200,578
Trade receivables		15,536
Prepayments, deposits and other receivables		200,688
Pledged bank deposits		4,825
Cash in transit		2,883
Cash and cash equivalents		44,490
Trade and bills payables		(86,329)
Other payables and accruals		(127,267)
Bank loans and other borrowings		(190,437)
Income tax payable	34(a)	(523)
Deferred tax liabilities	34(b)	(21,481)
Total identifiable net assets at fair value		257,029
Goodwill on acquisition		35,896
Total purchase consideration		292,925

38. BUSINESS COMBINATION (continued)

(c) (continued)

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB15,536,000 and RMB184,128,000, respectively, which is equal to the gross contractual amounts.

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

	Recognised fair values on acquisition date RMB'000
Cash consideration paid	(253,384)
Cash and cash equivalents acquired	44,490
Net cash outflow	(208,894)

Since the acquisition, the acquired business contributed RMB1,636,006,000 to the Group's revenue and RMB124,832,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB71,890,942,000 and RMB2,039,669,000, respectively.

38. BUSINESS COMBINATION (continued)

(d) On 8 April 2016, Famous Great International Limited ("Famous Great International"), an indirect wholly-owned subsidiary of the Company, Teal Orchid Investment Limited ("Teal Orchid") and Mr. Patrick Hsiao-Po, Chou (周小波) ("Mr. Chou"), the ultimate controlling shareholder of Teal Orchid, entered into a reorganisation agreement ("Reorganisation Agreement") to reorganise their equity interests in B&L Motor Holding Co., Ltd. ("B&L Motor") ("the Reorganisation"). The Reorganisation Agreement involved the following transactions:

(i) Transfer of the 50% equity interests of certain companies ("Transferred-in Asset I") held by B&L Motor, or indirectly held by Mr. Chou to the Group;

(ii) Transfer of the 50% equity interests in B&L Motor (excluding the Transferred-in Asset I) ("Transferred-out Asset") to Teal Orchid by Famous Great International as disclosed in note 39;

(iii) Recognition of receivables of RMB106,321,000 from Mr. Chou by the Group, arising from the Reorganisation ("the Receivables");

(iv) Transfer of the 100% equity interests in the following companies, which are indirectly controlled by Mr. Chou to the Group ("Transferred-in Asset II").

Company Name	Acquired equity interest %
煙台百得利汽車銷售有限公司 (Yantai Betterlife Automobile Sales Co., Ltd.)	100%
煙台中升之捷汽車銷售服務有限公司 (Yantai Zhongsheng Zhijie Automobile Sales & Service Co., Ltd.)	100%
浙江中升裕迪汽車銷售服務有限公司 (Zhejiang Zhongsheng Yudi Automobile Sales & Service Co., Ltd.)	100%
石家莊中升之捷汽車銷售有限公司 (Shijiazhuang Zhongsheng Zhijie Automobile Sales Co., Ltd.)	100%

As part of Group's plan to expand its motor vehicle sales and service business in Shandong, Zhejiang and Hebei province, the Group completed the acquisition of these companies on 1 January 2016. These companies are mainly engaged in the motor vehicle sales and service business in Mainland China.

The considerations for the acquisition of Transferred-in Asset I and Transferred-in Asset II were RMB564,999,000 and RMB296,219,000, respectively, which were determined based on the net amount of the fair value of the Transferred-out Asset amounting to RMB967,363,000, offset by the Receivables, with their relative proportions of fair value allocated to Transferred-in Asset I and Transferred-in Asset II as of the acquisition date.

38. BUSINESS COMBINATION (continued)

(d) (continued)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	**Recognised fair values on acquisition date** RMB'000
Property, plant and equipment	13	357,234
Land use rights	14	54,160
Intangible assets	16	106,676
Inventories		122,889
Trade receivables		6,111
Prepayments, deposits and other receivables		122,865
Pledged bank deposits		48,917
Cash in transit		3,340
Cash and cash equivalents		86,577
Trade and bills payables		(149,087)
Other payables and accruals		(422,376)
Bank loans and other borrowings		(147,682)
Deferred tax liabilities	34(b)	(31,269)
Total identifiable net assets at fair value		158,355
Goodwill on acquisition		137,864
Total purchase consideration		296,219

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB6,111,000 and RMB85,319,000, respectively, which is equal to the gross contractual amounts.

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

Cash consideration paid	–
Cash and cash equivalents acquired	86,577
Net cash inflow	86,577

Since the acquisition, the acquired business contributed RMB1,531,917,000 to the Group's revenue and RMB40,900,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB71,599,221,000 and RMB2,041,738,000 respectively.

38. BUSINESS COMBINATION (continued)

(e) As part of the Group's plan to expand its motor vehicle sales and service business, the Group acquired 55% of the equity interests in the following companies, which are engaged in the motor vehicle sales and service business in Mainland China, from a third party on 8 January 2016 at a total consideration of RMB351,876,000. The purchase consideration for the acquisition was in the form of cash, with RMB351,876,000 paid by the end of the year of 2016.

Company Name	Acquired equity interest %
沛興有限公司 (Pei Xing Ltd.)	55%
金彥有限公司 (Golden Basic Limited)	55%
大連星之寶汽車銷售服務有限公司 (Dalian Xingzhibao Automobile Sales & Service Co., Ltd.)	55%
大連星之翼汽車銷售服務有限公司 (Dalian Xingzhiyi Automobile Sales & Service Co., Ltd.)	55%
南京星之寶汽車銷售服務有限公司 (Nanjing Xingzhibao Automobile Sales & Service Co., Ltd.)	55%
合肥星之寶汽車銷售服務有限公司 (Hefei Xingzhibao Automobile Sales & Service Co., Ltd.)	55%
福建星之寶汽車銷售服務有限公司 (Fujian Xingzhibao Automobile Sales & Service Co., Ltd.)	55%
湛江星之寶汽車銷售服務有限公司 (Zhanjiang Xingzhibao Automobile Sales & Service Co., Ltd.)	55%
大連寶順行汽車銷售服務有限公司 (Dalian Baoshunhang Automobile Sales & Service Co., Ltd.)	55%

38. BUSINESS COMBINATION (continued)

(e) (continued)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	232,325
Land use rights	14	3,242
Intangible assets	16	463,400
Deferred tax assets	34(b)	5,006
Inventories		377,765
Trade receivables		32,926
Prepayments, deposits and other receivables		392,550
Pledged bank deposits		178,837
Cash in transit		9,712
Cash and cash equivalents		87,885
Trade and bills payables		(454,316)
Other payables and accruals		(324,597)
Bank loans and other borrowings		(534,749)
Income tax payable	34(a)	(3,060)
Deferred tax liabilities	34(b)	(115,072)
Total identifiable net assets at fair value		351,854
Non-controlling interests		158,334
Goodwill on acquisition		158,356
Total purchase consideration		351,876

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB32,926,000 and RMB159,446,000, respectively, which is equal to the gross contractual amounts.

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

Cash consideration paid	(351,876)
Cash and cash equivalents acquired	87,885
Net cash outflow	(263,991)

Since the acquisition, the acquired business contributed RMB3,198,388,000 to the Group's revenue and RMB52,639,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB71,599,221,000 and RMB2,041,738,000, respectively.

38. BUSINESS COMBINATION (continued)

(f) As part of the Group's plan to expand its motor vehicle sales and service business in Hainan province, the Group acquired the equity interests in the following companies, which are engaged in the motor vehicle sales and service business in Mainland China, from a third party on 1 January 2016 at a total consideration of RMB455,000,000. The purchase consideration for the acquisition was in the form of cash, with RMB355,000,000 paid by the end of the year of 2016.

Company Name	Acquired equity interest %
海南嘉華偉業投資有限公司 (Hainan Jiahua Weiye Investment Co.,Ltd)	65%
海口中升捷豐汽車銷售服務有限公司 (Haikou Zhongsheng Jiefeng Sales & Service Co., Ltd.)	65%
海口中升豐田汽車銷售服務有限公司 (Haikou Zhongsheng Toyota Automobile Sales & Service Co., Ltd.)	65%
海南嘉翔貿易有限公司 (Hainan Jiaxiang Trading Co., Ltd.)	65%
海口中升裕豐汽車銷售服務有限公司 (Haikou Zhongsheng Yufeng Automobile Sales & Service Co., Ltd.)	65%
海南嘉翔基業商貿有限公司 (Hainan Jiaxiang Jiye Commercial & Trading Co., Ltd.)	65%
海南嘉華之星汽車銷售服務有限公司 (Hainan Jiahua Star Automobile Sales & Service Co., Ltd.)	65%
海口中升東本汽車銷售服務有限公司 (Haikou Zhongsheng Dongfeng Honda Automobile Sales & Service Co., Ltd.)	52%
海口中升英菲尼迪汽車銷售服務有限公司 (Haikou Zhongsheng Infiniti Automobile Sales & Service Co., Ltd.)	65%
海南嘉華美蘭汽車銷售服務有限公司 (Hainan Jiahua Meilan Automobile Sales & Service Co., Ltd.)	65%
海口中升雷克薩斯汽車銷售服務有限公司 (Haikou Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	65%
瓊海嘉華永興汽車銷售服務有限公司 (Qionghai Jiahua Yongxing Automobile Sales & Service Co., Ltd.)	65%
三亞中升汽車銷售服務有限公司 (Sanya Zhongsheng Automobile Sales & Service Co., Ltd.)	65%
三亞中升宏達汽車銷售服務有限公司 (Sanya Zhongsheng Hongda Automobile Sales & Service Co., Ltd.)	65%
長春中升匯達汽車銷售服務有限公司 (Changchun Zhongsheng Huida Automobile Sales & Service Co., Ltd.)	65%
吉林市創嘉貿易有限公司 (Jilin Chuangjia Trading Co., Ltd.)	65%
北京中升奧通汽車銷售服務有限公司 (Beijing Zhongsheng Aotong Automobiles Sales & Service Co., Ltd.)	52%
北京森華創業豐田汽車銷售服務有限公司 (Beijing Senhua Venture Toyota Automobile Sales & Service Co., Ltd.)	65%
海南竭誠二手車鑒定評估有限公司 (Hainan Jiecheng Second-hand Automobile Assessment Co., Ltd.)	65%
北京嘉華騰遠車業有限公司 (Beijing Jiahua Tengyuan Automobile Co., Ltd.)	65%
海口嘉華永信汽車銷售服務有限公司 (Haikou Jiahua Yongxin Automobile Sales & Service Co., Ltd.)	65%

38. BUSINESS COMBINATION (continued)

(f) (continued)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	230,451
Land use rights	14	6,829
Intangible assets	16	407,898
Deferred tax assets	34(b)	8,860
Inventories		359,688
Trade receivables		47,396
Prepayments, deposits and other receivables		87,784
Pledged bank deposits		149,699
Cash in transit		8,013
Cash and cash equivalents		147,901
Trade and bills payables		(379,344)
Other payables and accruals		(104,417)
Bank loans and other borrowings		(311,480)
Income tax payable	34(a)	(728)
Deferred tax liabilities	34(b)	(105,374)
Total identifiable net assets at fair value		553,176
Non-controlling interests		207,696
Goodwill on acquisition		121,886
Cash consideration		455,000
Put option over non-controlling shareholders		12,366
Total purchase consideration		467,366

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB47,396,000 and RMB22,381,000, respectively, which is equal to the gross contractual amounts.

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

Cash consideration paid	(355,000)
Cash and cash equivalents acquired	147,901
Net cash outflow	(207,099)

Since the acquisition, the acquired business contributed RMB4,198,140,000 to the Group's revenue and RMB170,020,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB71,599,221,000 and RMB2,041,738,000, respectively.

38. BUSINESS COMBINATION (continued)

(g) As part of the Group's plan to expand its motor vehicle sales and service business in Jilin province, the Group acquired 100% of the equity interest in the following companies, which are engaged in the motor vehicle sales and service business in Mainland China, from four third parties on 31 July 2016 at a total consideration of RMB35,074,000. The purchase consideration for the acquisition was in the form of cash, with RMB35,074,000 paid by the end of the year of 2016.

Company Name	Acquired equity interest %
長春市成邦汽車銷售服務有限公司 (Changchun Chengbang Automobile Sales & Service Co., Ltd.)	100%
吉林省成田汽車銷售服務有限公司 (Jilin Chengtian Automobile Sales & Service Co., Ltd.)	100%

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	21,068
Land use rights	14	7,000
Intangible assets	16	21,851
Inventories		36,503
Trade receivables		10,999
Prepayments, deposits and other receivables		14,975
Pledged bank deposits		5,950
Cash in transit		1,244
Cash and cash equivalents		53,500
Trade and bills payables		(77,333)
Other payables and accruals		(28,958)
Bank loans and other borrowings		(57,729)
Deferred tax liabilities	34(b)	(7,452)
Total identifiable net assets at fair value		1,618
Goodwill on acquisition		33,456
Total purchase consideration		35,074

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB10,999,000 and RMB12,964,000, respectively, which is equal to the gross contractual amounts.

38. BUSINESS COMBINATION (continued)

(g) (continued)

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

	Recognised fair values on acquisition date RMB'000
Cash consideration paid	(35,074)
Cash and cash equivalents acquired	53,500
Net cash inflow	18,426

Since the acquisition, the acquired business contributed RMB191,761,000 to the Group's revenue and RMB734,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB71,812,338,000 and RMB2,040,899,000, respectively.

(h) As part of the Group's plan to expand its motor vehicle sales and service business in Yunnan province, the Group acquired 100% of the equity interest in 昆明嘉程鴻源汽車銷售服務有限公司 (Kunming Jiachenghongyuan Automobile Sales & Service Co., Ltd.), which is engaged in the motor vehicle sales and service business in Mainland China, from a third party on 1 July 2016 at a total consideration of RMB21,000,000. The purchase consideration for the acquisition was in the form of cash, with RMB21,000,000 paid by the end of the year of 2016.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	4,869
Intangible assets	16	6,500
Inventories		24,605
Trade receivables		437
Prepayments, deposits and other receivables		6,788
Cash in transit		530
Cash and cash equivalents		12,564
Trade and bills payables		(21,744)
Other payables and accruals		(20,069)
Deferred tax liabilities	34(b)	(1,625)
Total identifiable net assets at fair value		12,855
Goodwill on acquisition		8,145
Total purchase consideration		21,000

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB437,000 and RMB3,969,000, respectively, which is equal to the gross contractual amounts.

38. BUSINESS COMBINATION (continued)

(h) (continued)

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

	Recognised fair values on acquisition date RMB'000
Cash consideration paid	(21,000)
Cash and cash equivalents acquired	12,564
Net cash outflow	(8,436)

Since the acquisition, the acquired business contributed RMB97,597,000 to the Group's revenue and RMB1,902,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the period would have been RMB71,632,548,000 and RMB2,039,727,000, respectively.

39. DISPOSAL OF SUBSIDIARIES

	Notes	2016 RMB'000
Net assets disposed of:		
Property, plant and equipment	13	**638,763**
Land use rights	14	**652,050**
Investment properties		**47,086**
Intangible assets	16	**597,407**
Deferred tax assets	34(b)	**51,398**
Prepayments		**193,546**
Inventories		**539,655**
Prepayments, deposits and other receivables		**391,659**
Trade receivables		**85,121**
Pledged bank deposits		**416,340**
Cash and cash equivalents		**516,873**
Cash in transit		**8,195**
Bank loans and other borrowings		**(2,457,617)**
Trade and bills payables		**(64,154)**
Other payables and accruals		**(206,601)**
Income tax payable	34(a)	**(23,382)**
Deferred tax liabilities	34(b)	**(182,477)**
Non-controlling interests		**(633,058)**
		570,804
Goodwill	17	**397,852**
Loss on disposal of subsidiaries	5(b)	**(1,293)**
Total consideration		**967,363**

39. DISPOSAL OF SUBSIDIARIES (continued)

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

	2016 RMB'000
Cash consideration received	–
Cash and bank balances disposed of	(516,873)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(516,873)

40. FINANCIAL INSTRUMENTS BY CATEGORY

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

2016

FINANCIAL ASSETS

	Available-for-sale investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Available-for-sale investments	25,850	–	25,850
Trade receivables	–	1,149,141	1,149,141
Financial assets included in prepayments, deposits and other receivables	–	4,729,060	4,729,060
Amounts due from related parties	–	952	952
Pledged bank deposits	–	1,241,999	1,241,999
Cash in transit	–	320,223	320,223
Cash and cash equivalents	–	4,157,264	4,157,264
	25,850	11,598,639	11,624,489

FINANCIAL LIABILITIES

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	4,057,369
Financial liabilities included in other payables and accruals	631,160
Amounts due to related parties	820
Bank loans and other borrowings	15,275,572
Convertible bonds	2,753,130
Other liabilities	245,000
	22,963,051

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2015

FINANCIAL ASSETS

	Available-for-sale investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Available-for-sale investments	23,880	–	23,880
Trade receivables	–	936,326	936,326
Financial assets included in prepayments, deposits and other receivables	–	4,578,986	4,578,986
Amounts due from related parties	–	1,185	1,185
Pledged bank deposits	–	1,295,865	1,295,865
Cash in transit	–	210,920	210,920
Cash and cash equivalents	–	4,464,517	4,464,517
	23,880	11,487,799	11,511,679

FINANCIAL LIABILITIES

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	3,494,918
Financial liabilities included in other payables and accruals	571,414
Amounts due to related parties	4,493
Bank loans and other borrowings	15,721,774
Bonds payable	622,646
Short term bonds	414,977
Convertible bonds	2,502,201
	23,332,423

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

ASSETS MEASURED AT FAIR VALUE:

The Group did not have any financial assets measured at fair value as at 31 December 2016 and 2015, respectively.

LIABILITIES MEASURED AT FAIR VALUE:

The Group did not have any financial liabilities measured at fair value as at 31 December 2016 and 2015, respectively.

42. CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no significant contingent liabilities.

43. COMMITMENTS

(a) CAPITAL COMMITMENTS

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

	2016 **RMB'000**	2015 RMB'000
Contracted, but not provided for land use rights and buildings	**278,064**	190,008
Contracted, but not provided for potential acquisitions	**359,617**	199,590
	637,681	389,598

(b) OPERATING LEASE COMMITMENTS

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

	2016		2015	
	Properties **RMB'000**	**Land** **RMB'000**	Properties RMB'000	Land RMB'000
Within one year	**106,807**	**124,341**	86,214	75,788
After one year but within five years	**304,158**	**501,991**	284,991	328,068
After five years	**286,184**	**964,036**	291,864	635,369
	697,149	**1,590,368**	663,069	1,039,225

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

44. PLEDGE OF ASSETS

Details of the Group's bank loans and other borrowings, which are secured by the assets of the Group, are included in note 13, note 14, note 19 and note 23 to the consolidated financial statements.

45. RELATED PARTY TRANSACTIONS AND BALANCES

Mr. Li Guoqiang and Mr. Huang Yi are collectively the Controlling Shareholders of the Group. They are also considered to be related parties of the Group.

(a) TRANSACTIONS WITH RELATED PARTIES

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

		2016 **RMB'000**	2015 RMB'000
(i)	Sales of goods to a joint venture:		
	– Xiamen Zhongsheng	**10,750**	11,418
(ii)	Purchase of goods or services from joint ventures:		
	– Xiamen Zhongsheng	**10,165**	2,764
	– TAC	**885**	1,218
		11,050	3,982

The terms of sales and purchases were mutually agreed between the parties with reference to the ordinary course of business.

(b) BALANCES WITH RELATED PARTIES

The Group had the following significant balances with its related parties at the end of the reporting period:

		2016 **RMB'000**	2015 RMB'000
(i)	Due from related parties:		
	Trade related		
	Joint ventures		
	– Xiamen Zhongsheng	**882**	1,185
	– Zhongsheng Tacti	**70**	–
		952	1,185
(ii)	Due to related parties:		
	Trade related		
	Joint ventures		
	– Xiamen Zhongsheng	**–**	4,000
	– Zhongsheng Tacti	**172**	173
	– TAC	**648**	320
		820	4,493

45. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	2016 RMB'000	2015 RMB'000
Short term employee benefits	**18,592**	21,818
Post-employee benefits	**509**	545
Total compensation paid to key management personnel	**19,101**	22,363

Further details of directors' and the chief executive officer's emoluments are included in note 9 to the financial statements.

The above related party transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

46. SUBSIDIARIES

The following is a list of the Group's principal subsidiaries, all of which are unlisted, at 31 December 2016:

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
中升(大連)集團有限公司* (Zhongsheng (Dalian) Group Co., Ltd.)	Dalian, the PRC 1998	Registered and paid-in capital of RMB1,900,000,000	–	100%	Investment holding
昆明中升汽車銷售服務有限公司** (Kunming Zhongsheng Automobile Sales & Service Co., Ltd.)	Kunming, the PRC 2005	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
昆明中升豐田汽車銷售服務有限公司** (Kunming Zhongsheng Toyota Automobile Sales & Service Co., Ltd.)	Kunming, the PRC 2002	Registered and paid-in capital of RMB5,000,000	–	100%	Sale and service of motor vehicles
大連迎賓中升豐田汽車銷售服務有限公司** (Dalian Yingbin Zhongsheng Toyota Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2004	Registered and paid-in capital of USD6,000,000	–	100%	Sale and service of motor vehicles
大連中升之星汽車銷售服務有限公司** (Dalian Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2005	Registered and paid-in capital of RMB90,000,000	–	100%	Sale and service of motor vehicles
廣州中升凌志汽車銷售服務有限公司** (Guangzhou Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Guangzhou, the PRC 2002	Registered and paid-in capital of US$10,000,000	–	100%	Sale and service of motor vehicles
大連中升凌志汽車銷售服務有限公司** (Dalian Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2004	Registered and paid-in capital of US$17,500,000	–	100%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Proportion of ownership interest Held by a subsidiary %	Principal activities
大連中升汽車銷售服務有限公司* (Dalian Zhongsheng Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2006	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
大連中升搏通汽車銷售服務有限公司* (Dalian Zhongsheng Botong Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2007	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
Zhongsheng Holdings Co., Ltd.	Hong Kong 1996	Registered and paid-in capital of HK$32,000,000	–	100%	Investment holding
HOKURYO (Hong Kong) Co., Ltd.	Hong Kong 1997	Registered and paid-in capital of HK$10,000	–	100%	Investment holding
大連新盛榮豐田汽車銷售服務有限公司* (Dalian Xinshengrong Toyota Automobile Sales & Service Co., Ltd.)	Yunnan, the PRC 2003	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
大連中升宏達汽車銷售服務有限公司* (Dalian Zhongsheng Hongda Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2002	Registered and paid-in capital of RMB11,000,000	–	100%	Sale and service of motor vehicles
東莞中升雷克薩斯汽車銷售服務有限公司* (Dongguan Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Dongguan, the PRC 2008	Registered and paid-in capital of USD10,000,000	–	100%	Sale and service of motor vehicles
SUPER CHARM Limited	Hong Kong 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding
BILLION GREAT CORPORATION Limited	Hong Kong 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding
OLYMPIA WELL Limited	Hong Kong 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding
佛山中升之星汽車銷售服務有限公司** (Foshan Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Foshan, the PRC 2009	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
南京中升之星汽車銷售服務有限公司** (Nanjing Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Nanjing, the PRC 2009	Registered and paid-in capital of RMB140,000,000	–	100%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
常熟中升之星汽車銷售服務有限公司** (Changshu Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Changshu, the PRC 2008	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
沈陽中升豐田汽車銷售服務有限公司* (Shenyang Zhongsheng Toyota Automobile Sales & Service Co., Ltd.)	Shenyang, the PRC 2009	Registered and paid-in capital of USD6,000,000	–	100%	Sale and service of motor vehicles
沈陽中升越通汽車銷售服務有限公司* (Shenyang Zhongsheng Yuetong Automobile Sales & Service Co., Ltd.)	Shenyang, the PRC 2009	Registered and paid-in capital of USD20,000,000	–	100%	Sale and service of motor vehicles
遼寧中升捷通汽車銷售服務有限公司** (Liaoning Zhongsheng Jietong Automobile Sales & Service Co., Ltd.)	Shenyang, the PRC 2007	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
無錫中升之星汽車銷售服務有限公司** (Wuxi Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Wuxi, the PRC 2009	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
哈爾濱中升豐田汽車銷售服務有限公司* (Harbin Zhongsheng Toyota Automobile Sales & Service Co., Ltd.)	Harbin, the PRC 2004	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
NOBLE VILLA Investments Limited	BVI 2008	Registered and paid-in capital of US$1	100%	–	Investment holding
成都中升之星汽車銷售服務有限公司** (Chengdu Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Chengdu, the PRC 2010	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
上海中升之星汽車銷售服務有限公司** (Shanghai Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Shanghai, the PRC 2010	Registered and paid-in capital of RMB200,000,000	–	100%	Sale and service of motor vehicles
福州中升福新汽車銷售服務有限公司** (Fuzhou Zhongsheng Fuxin Automobile Sales & Service Co., Ltd.)	Fuzhou, the PRC 2002	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles
上海中升艦馳汽車銷售服務有限公司** (Shanghai Zhongsheng Jianchi Automobile Sales & Service Co., Ltd.)	Shanghai, the PRC 2011	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of automobile accessories

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
南京中升恒岳汽車銷售服務有限公司** (Nanjing Zhongsheng Hengyue Automobile Sales & Service Co., Ltd.)	Nanjing, the PRC 2010	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
濰坊中升仕豪汽車銷售服務有限公司** (Weifang Zhongsheng Shihao Automobile Sales & Service Co., Ltd.)	Weifang, the PRC 2012	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
東莞中升之星汽車銷售服務有限公司** (Dongguan Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Dongguan, the PRC 2008	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
深圳中升星輝汽車銷售服務有限公司** (Shenzhen Zhongsheng Xinghui Automobile Sales & Service Co., Ltd.)	Shenzhen, the PRC 2013	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
中升(大連)汽車保險銷售服務有限公司** (Zhongsheng (Dalian) Automobile Insurance Sales & Service Co., Ltd.)	Dalian, the PRC 2013	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of automobile insurance
無錫中升星輝汽車銷售服務有限公司** (Wuxi Zhongsheng Xinghui Automobile Sales & Service Co., Ltd.)	Wuxi, the PRC 2012	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
福建省泉州閩星汽車銷售服務有限公司** (Fujian Quanzhou Minxing Automobile Sales & Service Co., Ltd.)	Quanzhou, the PRC 2005	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
武漢中升聚星汽車銷售服務有限公司** (Wuhan Zhongsheng Juxing Automobile Sales & Service Co., Ltd.)	Wuhan, the PRC 2014	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
安徽得佳汽車銷售有限公司** (Anhui Dejia Automobile Sales Co., Ltd.)	Anhui, the PRC 2012	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
鄭州中升匯迪汽車銷售服務有限公司** (Zhengzhou Zhongsheng Huidi Automobile Sales & Service Co., Ltd.)	Zhengzhou, the PRC 2011	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
濟南中升仕豪汽車銷售服務有限公司** (Jinan Zhongsheng Shihao Automobile Sales & Service Co., Ltd.)	Jinan, the PRC 2001	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
青島中升傑豪汽車銷售服務有限公司** (Qingdao Zhongsheng Jiehao Automobile Sales & Service Co., Ltd.)	Qingdao, the PRC 2009	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
大連中升星耀汽車銷售服務有限公司** (Dalian Zhongsheng Xinghui Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2014	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
北京中升之星汽車銷售服務有限公司** (Beijing Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Beijing, the PRC 2007	Registered and paid-in capital of RMB10,000,000	–	75%	Sale and service of motor vehicles
黑龍江中升之星汽車銷售服務有限公司** (Heilongjiang Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Heilongjiang, the PRC, 2014	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
上海中升奉星汽車銷售服務有限公司** (Shanghai Zhongsheng Fengxing Automobile Sales & Service Co., Ltd.)	Shanghai, the PRC 2014	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
天津百得利之迪汽車銷售有限公司** (Tianjin Betterlife Zhidi Automobile Sales Co., Ltd.)	Tianjin, the PRC 2007	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
成都百得利汽車貿易有限公司** (Chengdu Betterlife Automobile Trading Co., Ltd.)	Chengdu, the PRC 2010	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
杭州百得利之星汽車銷售有限公司** (Hangzhou Betterlife Star Automobile Sales & Service Co., Ltd.)	Hangzhou, the PRC 2010	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
深圳中升雷克薩斯汽車有限公司* (Shenzhen Zhongsheng Lexus Automobile Co., Ltd.)	Shenzhen, the PRC 2003	Registered and paid-in capital of HK$30,000,000	–	100%	Sale and service of motor vehicles
惠州中升雷克薩斯汽車服務有限公司* (Huizhou Zhongsheng Lexus Automobile Service Co., Ltd.)	Huizhou, the PRC 2008	Registered and paid-in capital of HK$30,000,000	–	100%	Sale and service of motor vehicles
佛山市順德區中升雷克薩斯汽車銷售服務有限公司* (Foshan Shunde Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Foshan, the PRC 2008	Registered and paid-in capital of HK$30,000,000	–	100%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
盤錦奧通汽車銷售服務有限公司** (Panjin Aotong Automobile Sales & Service Co., Ltd.)	Panjin, the PRC 2005	Registered and paid-in capital of RMB6,000,000	–	55%	Sale and service of motor vehicles
龍華汽車有限公司 (Loong Wah Motors Limited)	Hong Kong 1978	Registered and paid-in capital of HK$10,000,000	–	100%	Investment holding
浙江華策汽車有限公司* (Zhejiang Huace Automobile Co., Ltd.)	Hangzhou, the PRC 1993	Registered and paid-in capital of USD13,980,000	–	100%	Sale and service of motor vehicles
浙江華策北控汽車有限公司** (Zhejiang Huace Beikong Automobile Co., Ltd.)	Hangzhou, the PRC 2006	Registered and paid-in capital of USD20,067,700	–	100%	Sale and service of motor vehicles
雲南聯慶汽車銷售服務有限公司** (Yunnan Lianqing Automobile Sales & Service Co., Ltd.)	Kunming, the PRC 2005	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
攀枝花遠邦之星汽車銷售服務有限公司* (Panzhihua Yuanbang Star Automobile Sales & Service Co., Ltd.)	Sichuan, the PRC 2013	Registered and paid-in capital of RMB53,684,100	–	100%	Sale and service of motor vehicles
雲南遠安昆星汽車維修有限公司* (Yunnan Yuan'an Kunxing Automobile Repair Co., Ltd.)	Kunming, the PRC 2004	Registered and paid-in capital of USD8,000,000	–	100%	Sale and service of motor vehicles
攀枝花躍鹿汽車銷售服務有限公司* (Panzhihua Run Deer Automobile Sales & Service Co., Ltd.)	Sichuan, the PRC 2013	Registered and paid-in capital of USD73,093,050	–	100%	Sale and service of motor vehicles
長春市成邦汽車銷售服務有限公司** (Changchun Chengbang Automobile Sales & Service Co., Ltd.)	Changchun, the PRC 2002	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
吉林省成田汽車銷售服務有限公司** (Jilin Chengtian Automobile Sales & Service Co., Ltd.)	Changchun, the PRC 2012	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
煙台百得利汽車銷售有限公司* (Yantai Betterlife Automobile Sales Co., Ltd.)	Yantai, the PRC 2011	Registered and paid-in capital of USD7,500,000	–	100%	Sale and service of motor vehicles
煙台中升之捷汽車銷售服務有限公司* (Yantai Zhongsheng Zhijie Automobile Sales & Service Co., Ltd.)	Yantai, the PRC 2012	Registered and paid-in capital of USD10,000,000	–	100%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
浙江中升裕迪汽車銷售服務有限公司* (Zhejiang Zhongsheng Yudi Automobile Sales & Service Co., Ltd.)	Hangzhou, the PRC, 2010	Registered and paid-in capital of USD10,000,000	–	100%	Sale and service of motor vehicles
石家莊中升之捷汽車銷售有限公司** (Shijiazhuang Zhongsheng Zhijie Automobile Sales Co., Ltd.)	Shijiazhuang, the PRC, 2013	Registered and paid-in capital of RMB18,200,000	–	100%	Sale and service of motor vehicles
海口中升捷豐汽車銷售服務有限公司** (Haikou Zhongsheng Jiefeng Automobile Sales & Service Co., Ltd.)	Haikou, the PRC 2005	Registered and paid-in capital of RMB12,000,000	–	65%	Sale and service of motor vehicles
海口中升豐田汽車銷售服務有限公司** (Haikou Zhongsheng Toyota Automobile Sales & Service Co., Ltd.)	Haikou, the PRC 2010	Registered and paid-in capital of RMB25,000,000	–	65%	Sale and service of motor vehicles
海南嘉翔貿易有限公司** (Hainan Jiaxiang Trading Co., Ltd)	Haikou, the PRC 2000	Registered and paid-in capital of RMB10,000,000	–	65%	Sale and service of motor vehicles
海口中升裕豐汽車銷售服務有限公司** (Haikou Zhongsheng Yufeng Automobile Sales & Service Co., Ltd.)	Haikou, the PRC 2009	Registered and paid-in capital of RMB12,000,000	–	65%	Sale and service of motor vehicles
海南嘉翔基業商貿有限公司** (Hainan JiaXiang Jiye Commercial and Trading Co.,Ltd.)	Haikou, the PRC 2008	Registered and paid-in capital of RMB22,000,000	–	65%	Sale and service of motor vehicles
海南嘉華之星汽車銷售服務有限公司** (Hainan Jiahua Star Automobile Sales & Service Co., Ltd.)	Haikou, the PRC 2013	Registered and paid-in capital of RMB25,000,000	–	65%	Sale and service of motor vehicles
海口中升東本汽車銷售服務有限公司** (Haikou Zhongsheng Dongfeng Honda Automobile Sales & Service Co., Ltd.)	Haikou, the PRC 2009	Registered and paid-in capital of RMB10,000,000	–	52%	Sale and service of motor vehicles
海口中升雷克薩斯汽車銷售服務有限公司** (Haikou Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Haikou, the PRC 2008	Registered and paid-in capital of RMB10,000,000	–	65%	Sale and service of motor vehicles
三亞中升汽車銷售服務有限公司** (Sanya Zhongsheng Automobile Sales & Service Co., Ltd.)	Sanya, the PRC 2010	Registered and paid-in capital of RMB12,000,000	–	65%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
三亞中升宏達汽車銷售服務有限公司** (Sanya Zhongsheng Hongda Automobile Sales & Service Co., Ltd.)	Sanya, the PRC 2006	Registered and paid-in capital of RMB10,000,000	–	65%	Sale and service of motor vehicles
長春中升匯達汽車銷售服務有限公司** (Changchun Zhongsheng Huida Automobile Sales & Service Co., Ltd.)	Changchun, the PRC 1998	Registered and paid-in capital of RMB5,000,000	–	65%	Sale and service of motor vehicles
吉林市創嘉貿易有限公司** (Jilin Chuangjia Trading Co., Ltd.)	Jilin, the PRC 2001	Registered and paid-in capital of RMB7,000,000	–	65%	Sale and service of motor vehicles
北京中升奧通汽車銷售服務有限公司** (Beijing Zhongsheng Aotong Automobile Sales & Service Co., Ltd.)	Beijing, the PRC 2003	Registered and paid-in capital of RMB8,675,000	–	52%	Sale and service of motor vehicles
北京森華創業豐田汽車銷售服務有限公司** (Beijing Senhua Venture Toyota Automobile Sales & Service Co., Ltd.)	Beijing, the PRC 2001	Registered and paid-in capital of RMB12,000,000	–	65%	Sale and service of motor vehicles
海口嘉華永信汽車銷售服務有限公司** (Haikou Jiahua Yongxin Automobile Sales & Service Co., Ltd.)	Haikou, the PRC 2011	Registered and paid-in capital of RMB30,000,000	–	65%	Sale and service of motor vehicles
大連星之寶汽車銷售服務有限公司* (Dalian Xingzhibao Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2008	Registered and paid-in capital of RMB100,000,000	–	55%	Sale and service of motor vehicles
大連星之翼汽車銷售服務有限公司** (Dalian Xingzhiyi Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2011	Registered and paid-in capital of RMB20,000,000	–	55%	Sale and service of motor vehicles
南京星之寶汽車銷售服務有限公司** (Nanjing Xingzhibao Automobile Sales & Service Co., Ltd.)	Nanjing, the PRC 2008	Registered and paid-in capital of RMB80,000,000	–	55%	Sale and service of motor vehicles
合肥星之寶汽車銷售服務有限公司** (Hefei Xingzhibao Automobile Sales & Service Co., Ltd.)	Hefei, the PRC 2009	Registered and paid-in capital of RMB40,000,000	–	55%	Sale and service of motor vehicles
福建星之寶汽車銷售服務有限公司** (Fujian Xingzhibao Automobile Sales & Service Co., Ltd.)	Fujian, the PRC 2010	Registered and paid-in capital of RMB30,000,000	–	55%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operations	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
湛江星之寶汽車銷售服務有限公司** (Zhanjiang Xingzhibao Automobile Sales & Service Co., Ltd.)	Zhanjiang, the PRC 2010	Registered and paid-in capital of RMB10,000,000	–	55%	Sale and service of motor vehicles
大連寶順行汽車銷售服務有限公司** (Dalian Baoshunhang Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	55%	Sale and service of motor vehicles

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

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

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

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and other borrowings, finance leases, short term bonds, bonds payable, convertible bonds and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade payables, other payables and advances to certain companies, which arise directly from its operations.

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

INTEREST RATE RISK

The Group has no significant interest-bearing assets other than pledged bank deposits (note 23) and cash and cash equivalents (note 25).

The Group's interest rate risk arises from its borrowings, details of which are set out in note 26. Borrowings at variable rates expose the Group to the risk of changes on market interest rates.

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

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

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

INTEREST RATE RISK (continued)

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2016		
RMB	**15**	**(10,154)**
RMB	**(15)**	**10,154**
2015		
RMB	15	(4,453)
RMB	(15)	4,453

FOREIGN CURRENCY RISK

Most of the Group's assets and liabilities were denominated in RMB, except for certain cash and cash equivalents, bank loans and other borrowings and the liability component of convertible bonds denominated in Hong Kong dollars, US dollars and Euros as disclosed in note 25, note 26 and note 29, respectively.

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

CREDIT RISK

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

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

LIQUIDITY RISK

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

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

			2016			
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bank loans and other borrowings	–	3,896,915	9,831,586	1,971,648	–	15,700,149
Other liabilities	245,000	–	–	–	–	245,000
Trade and bills payables	–	3,808,531	248,838	–	–	4,057,369
Other payables	–	260,998	370,162	–	–	631,160
Amounts due to related parties	820	–	–	–	–	820
Convertible bonds	–	–	2,804,784	–	–	2,804,784
	245,820	7,966,444	13,255,370	1,971,648	–	23,439,282

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

LIQUIDITY RISK (continued)

	2015					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bank loans and other borrowings	–	5,354,075	8,712,380	2,136,791	–	16,203,246
Short term bonds	–	–	423,680	–	–	423,680
Trade and bills payables	–	3,200,783	294,135	–	–	3,494,918
Other payables	–	290,815	280,599	–	–	571,414
Amounts due to related parties	4,493	–	–	–	–	4,493
Convertible bonds	–	–	73,815	2,626,904	–	2,700,719
Bonds payable	–	–	642,000	–	–	642,000
	4,493	8,845,673	10,426,609	4,763,695	–	24,040,470

CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt includes bank loans and other borrowings, short term bonds, other liabilities, convertible bonds, bonds payable, amounts due to related parties, trade, bills and other payables and accruals, less cash and cash equivalents, cash in transit and pledged bank deposits. The gearing ratios as at each reporting date were as follows:

	2016 RMB'000	2015 RMB'000
Bank loans and other borrowings	**15,275,572**	15,721,774
Short term bonds	**–**	414,977
Other liabilities	**245,000**	–
Convertible bonds	**2,753,130**	2,502,201
Bonds payable	**–**	622,646
Trade and bills payables	**4,057,369**	3,494,918
Other payables and accruals	**2,011,732**	1,652,959
Amounts due to related parties	**820**	4,493
Less: Cash and cash equivalents	**(4,157,264)**	(4,464,517)
Cash in transit	**(320,223)**	(210,920)
Pledged bank deposits	**(1,241,999)**	(1,295,865)
Net debt	**18,624,137**	18,442,666
Total equity	**13,098,959**	12,615,995
Total equity and net debt	**31,723,096**	31,058,661
Gearing ratio	**58.7%**	59.4%

48. EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event undertaken by the Company or by the Group after 31 December 2016 to the date of approval of these financial statements.

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**2,233,720**	2,092,057
Amounts due from subsidiaries	**8,006,057**	7,342,154
Total non-current assets	**10,239,777**	9,434,211
CURRENT ASSETS		
Prepayments, deposits and other receivables	**22,042**	32,489
Cash and cash equivalents	**59,647**	152,765
Total current assets	**81,689**	185,254
CURRENT LIABILITIES		
Bank loans and other borrowings	**658,076**	–
Other payables and accruals	**258**	97
Convertible bonds, current portion	**2,753,130**	13,537
Total current liabilities	**3,411,464**	13,634
NET CURRENT (LIABILITIES)/ASSETS	**(3,329,775)**	171,620
TOTAL ASSETS LESS CURRENT LIABILITIES	**6,910,002**	9,605,831
NON-CURRENT LIABILITIES		
Convertible bonds	**–**	2,488,664
Bank loans and other borrowings	**1,176,587**	1,298,319
Total non-current liabilities	**1,176,587**	3,786,983
NET ASSETS	**5,733,415**	5,818,848
EQUITY		
Share capital	**186**	186
Reserves	**5,733,229**	5,818,662
Total equity	**5,733,415**	5,818,848

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

	Share premium RMB'000	Equity component of convertible bonds RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Proposed final dividend RMB'000	Total RMB'000
As at 1 January 2015	6,280,579	203,729	(591,806)	(187,514)	150,181	5,855,169
Total comprehensive income for the year	–	–	290,420	(173,782)	–	116,638
Cancellation of shares	(2,964)	–	–	–	–	(2,964)
Final 2014 dividend declared	–	–	–	–	(150,181)	(150,181)
Proposed final 2015 dividend	(90,153)	–	–	–	90,153	–
As at 31 December 2015	6,187,462	203,729	(301,386)	(361,296)	90,153	5,818,662
Total comprehensive income for the year	–	–	286,655	(281,935)	–	4,720
Final 2015 dividend declared	–	–	–	–	(90,153)	(90,153)
Proposed final 2016 dividend	(572,164)	–	–	–	572,164	–
As at 31 December 2016	5,615,298	203,729	(14,731)	(643,231)	572,164	5,733,229

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2017.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial information and financial statements is set out below.

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	**71,599,221**	59,142,607	54,786,660	52,527,376	50,048,288
Cost of sales and services provided	**(65,046,942)**	(54,473,414)	(50,011,837)	(47,766,636)	(45,764,357)
Gross profit	**6,552,279**	4,669,193	4,774,823	4,760,740	4,283,931
Other income and gains, net	**1,325,514**	1,104,143	944,500	759,403	689,459
Selling and distribution expenses	**(2,806,807)**	(2,609,155)	(2,373,479)	(2,130,114)	(1,951,472)
Administrative expenses	**(1,178,687)**	(1,154,254)	(981,466)	(929,548)	(838,531)
Profit from operations	**3,892,299**	2,009,927	2,364,378	2,460,481	2,183,387
Finance costs	**(1,018,020)**	(1,295,697)	(1,272,568)	(1,075,227)	(1,032,130)
Share of profits and losses of:					
Joint ventures	**4,148**	1,408	3,638	4,791	5,309
Profit before tax	**2,878,427**	715,638	1,095,448	1,390,045	1,156,566
Income tax expense	**(836,689)**	(234,329)	(314,727)	(366,958)	(291,023)
Profit for the year	**2,041,738**	481,309	780,721	1,023,087	865,543
Attributable to:					
Owners of the parent	**1,860,228**	460,964	750,905	1,010,067	750,480
Non-controlling interests	**181,510**	20,345	29,816	13,020	115,063
	2,041,738	481,309	780,721	1,023,087	865,543

	31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**39,645,059**	38,725,315	38,908,251	33,735,178	31,494,853
TOTAL LIABILITIES	**(26,546,100)**	(26,109,320)	(26,527,323)	(24,038,052)	(22,664,963)
NON-CONTROLLING INTERESTS	**(880,631)**	(1,347,484)	(1,262,131)	(1,278,154)	(1,291,173)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**12,218,328**	11,268,511	11,118,797	8,418,972	7,538,717