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Sunfonda Group Holdings

SUNFONDA GROUP HOLDINGS LIMITED

新豐泰集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01771)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board of directors (the “Board”) of Sunfonda Group Holdings Limited (the “Company”) hereby announces the annual results of the Company and its subsidiaries for the year ended 31 December 2016. This announcement, containing the full text of the 2016 annual report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of annual results.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Company’s 2017 Annual General Meeting (the “2017 AGM”) will be held on Friday, 26 May 2017. In order to determine shareholders’ entitlement to attend and vote at the 2017 AGM, the register of members of the Company will be closed from Tuesday, 23 May 2017 to Friday, 26 May 2017 (both days inclusive). In order to be entitled to attend and vote at the 2017 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents together with the relevant share certificates are lodged with the Company’s Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Monday, 22 May 2017.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to propose the distribution to shareholders of the Company of a final dividend of HK\$0.022 per share for the year ended 31 December 2016 in an aggregate amount of RMB11.8 million. The proposed distribution of final dividend is subject to the consideration and approval of shareholders at the 2017 AGM of the Company to be held on Friday, 26 May 2017.

Where the proposed distribution of final dividend is approved at the 2017 AGM, the dividend will be paid on Monday, 26 June 2017 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 8 June 2017. Therefore, the register of members of the Company will be closed from Tuesday, 6 June 2017 to Thursday, 8 June 2017 (both days inclusive). In order to be entitled to the final dividend, unregistered holders of shares of the Company should ensure that the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Monday, 5 June 2017.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company's website (www.sunfonda.com.cn).

The Company's 2016 annual report will be dispatched to the shareholders of the Company and published on the websites of the Company and The Stock Exchange of Hong Kong Limited in due course.

By Order of the Board
Sunfonda Group Holdings Limited
Mr. Wu Tak Lam
Chairman

30 March 2017

As at the date of this announcement, the Board comprises four executive directors, namely, Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Jia Ruobing and Mr. Gou Xinfeng; one non-executive director, namely, Mr. Zhu Wei; and three independent non-executive directors, namely, Mr. Liu Jie, Mr. Yu Yuanbo and Mr. Fu Johnson Chi-King.

CONTENTS

Corporate Information	2
Financial Highlights	4
Chairman's Statement	6
Management Discussion and Analysis	8
Biographies of Directors, Senior Management and Secretary	24
Environmental, Social and Governance Report	30
Corporate Governance Report	37
Report of the Directors	53
Independent Auditors' Report	70
Consolidated Statement of Profit or Loss	75
Consolidated Statement of Comprehensive Income	76
Consolidated Statement of Financial Position	77
Consolidated Statement of Changes in Equity	79
Consolidated Statement of Cash Flows	81
Notes to the Consolidated Financial Statements	83
Financial Summary	151

CORPORATE INFORMATION

CHINESE NAME OF THE COMPANY

新豐泰集團控股有限公司

ENGLISH NAME OF THE COMPANY

Sunfonda Group Holdings Limited

INVESTOR INQUIRIES

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BOARD OF DIRECTORS

Executive Directors

Mr. Wu Tak Lam (*Chairman*)

Ms. Chiu Man (*Chief Executive Officer*)

Mr. Jia Ruobing

Mr. Gou Xinfeng

Non-executive Director

Mr. Zhu Wei

Independent Non-executive Directors

Mr. Liu Jie

Mr. Yu Yuanbo

Mr. Fu Johnson Chi-King

AUDIT COMMITTEE

Mr. Liu Jie (*Chairman*)

Mr. Yu Yuanbo

Mr. Fu Johnson Chi-King

NOMINATION COMMITTEE

Mr. Wu Tak Lam (*Chairman*)

Mr. Liu Jie

Mr. Yu Yuanbo

Mr. Fu Johnson Chi-King

REMUNERATION COMMITTEE

Mr. Yu Yuanbo (*Chairman*)

Mr. Liu Jie

Mr. Fu Johnson Chi-King

FINANCE AND INVESTMENT COMMITTEE

Mr. Wu Tak Lam (*Chairman*)

Ms. Chiu Man

Mr. Liu Jie

AUTHORISED REPRESENTATIVES

Mr. Wu Tak Lam

Ms. So Yee Kwan

COMPANY SECRETARY

Ms. So Yee Kwan

HEADQUARTERS

Sunfonda Automobile Center

Beichen Avenue

Chanba Ecological District

Xi'an City, Shaanxi Province

PRC

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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HONG KONG SHARE REGISTRAR

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LEGAL ADVISER

PRC Law

King & Wood Mallesons
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World Financial Center
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Chaoyang District, Beijing
PRC

Hong Kong Law

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Central, Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
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Central, Hong Kong

PRINCIPAL BANKERS

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

Bank of China Limited, Shaanxi Branch
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Xi'an City, Shaanxi Province
PRC

STOCK CODE

01771

WEBSITE

www.sunfonda.com.cn

FINANCIAL HIGHLIGHTS

Revenue for the year ended 31 December 2016 increased by 2.7% to RMB7,686.0 million as compared with the corresponding period in 2015.

Gross profit for the year ended 31 December 2016 decreased by 4.1% to RMB470.6 million as compared with the corresponding period in 2015.

Revenue from after-sales services for the year ended 31 December 2016 increased by 3.6% to RMB826.8 million as compared with the corresponding period in 2015.

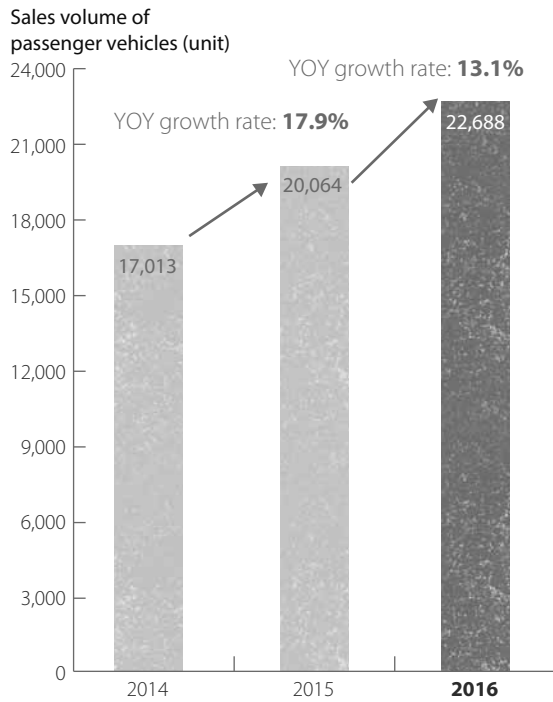
Gross profit margin for after-sales services decreased to 44.6% for the year ended 31 December 2016 from 47.5% for the year ended 31 December 2015.

Profit attributable to owners of the parent for the year ended 31 December 2016 increased by 81.1% to RMB46.9 million as compared with the corresponding period in 2015.

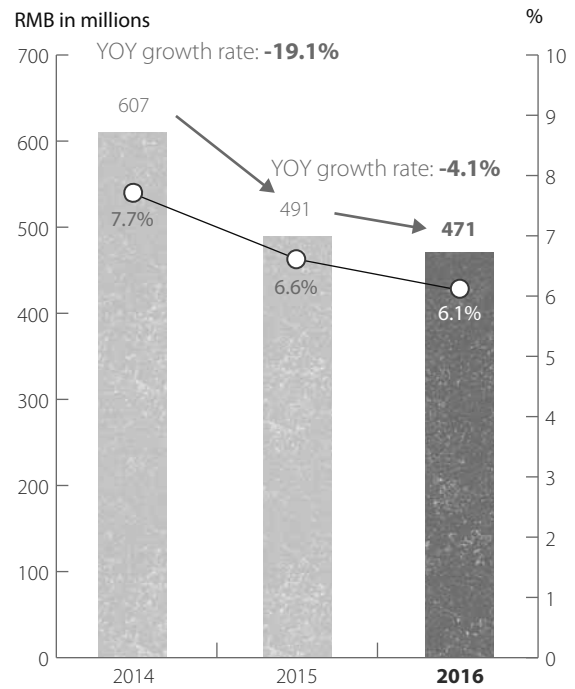
Basic and diluted earnings per share attributable to ordinary equity holders of the parent for the year ended 31 December 2016 was RMB0.08. The proposed final dividend was HK\$0.022 (equivalent to RMB0.020) per ordinary share.

FINANCIAL HIGHLIGHTS

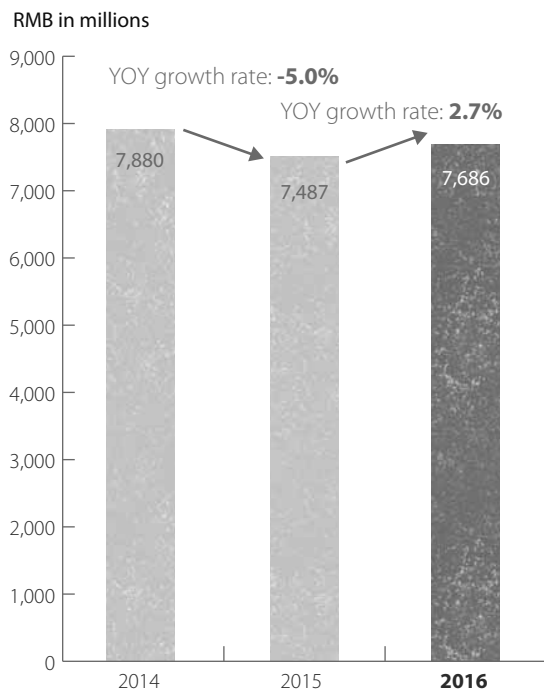
Sales volume of passenger vehicles



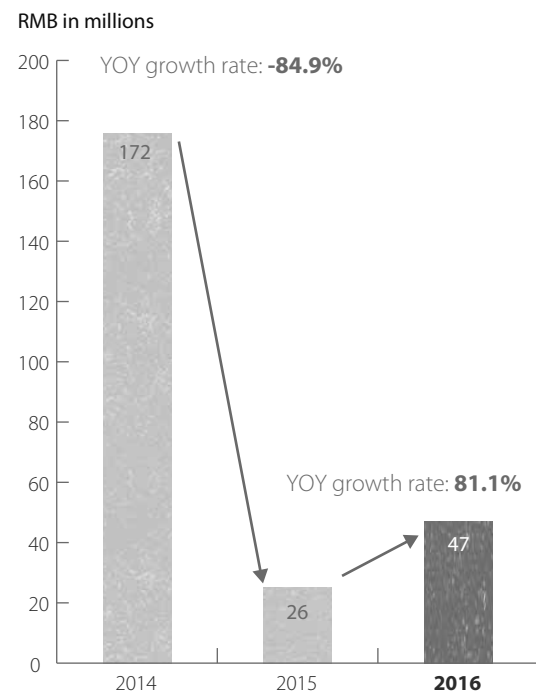
Gross profit and gross profit margin



Revenue



Profit attributable to owners of the Company



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

CHAIRMAN'S STATEMENT

Dear Shareholders,

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

In 2016, the luxury vehicle market in China recovered from last year's slump. As shown by data from China Association of Automobile Manufacturers, sales volume of the luxury vehicle market in China in 2016 exceeded 2 million units for the first time ever, up by 16% year-on-year, resulting in China replacing the United States as the largest luxury vehicle market. The rising momentum in the market continues, as reflected in positive activities at the supply end, which keeps on launching new models to attract more consumers. In 2016, the overall sales volume of passenger vehicles in China increased by 16.1% year-on-year to 24.65 million units, hitting a three-year high growth.

In view of the market upturn and leveraging on its brand strength as a leading distributor in Northwestern China, the Group actively identified new clients while securing existing clients, and continued to implement its diversified development strategies, including the development of after-sales and value-added services in multiple channels. Such measures gave full play to its strength of brand mix and further improved the market awareness of its own brand and gained more client recognition. Besides, the Group adhered to a strict and efficient internal control through optimised resource allocation, reasonable inventory management and effective control of operation cost, which further improved per-capita productivity and delivered better results performance.

A range of strategies adopted by the Group were proved to be precise and effective. All of the key luxury vehicle brands operated by the Group performed well, contributing to the substantial growth of earnings. For the year ended 31 December 2016, revenue arising from the sale of new automobiles was RMB6,859.2 million with a sales volume of 22,688 units, up by 2,624 units or 13.1% year-on-year respectively; revenue arising from after-sales services was RMB826.8 million, up by 3.6% year-on-year; gross profit amounted to RMB470.6 million, down by 4.1% year-on-year; and profit attributable to owners of the parent amounted to RMB46.9 million, representing a significant increase of 81.1%.

In respect of brand development, the Group introduced several new brands after reviewing the brand performance of automobile sector in China. In September 2016, the showroom of DENZA, a recently-introduced Xi'an-based new energy automobile brand, commenced operation, representing the expansion of the Group's operations into new energy automobile business. Meanwhile, the Group obtained the licenses of 4 new brands including 2 Lexus in 2016, which further optimized and enriched the brand mix and generating better brand synergies, enabling the Group to provide more comprehensive services to its clients. The above new licensed stores are expected to contribute new revenue to the Group in 2017. As at 31 December 2016, the Group has 26 sale points in operation.

CHAIRMAN'S STATEMENT

In response to rising momentum in the industry, the Group will continue to facilitate the stable growth of businesses including new automobiles sales, after-sales services, used automobile trading, value-added services and new energy automobiles, and accelerate the planning and development in new areas. Internally, the Group will continue to strengthen refined management, set refined operation and management as foundation, enhance the qualification of employees, reinforce talent cultivation and team building, stress collaboration, improve work efficiency and pay attention to operation cost control so as to improve the overall effectiveness of the Group. Externally, the Group will deepen cooperation and interaction with suppliers, and keep effective communication in relation to brand development and business operation. In addition, a client management department has been established at the Group level with an aim to further strengthen client management and service, foster a more effective customer service management system and provide a fairly accessible source of services for its clients, and finally to improve the brand awareness of Sunfonda, gain more client recognition and raise its overall market influence.

Looking forward, the year 2017 will witness a strong recovery in passenger vehicle market. Consumption upgrade, demand for trade-in and economy recovery are expected to jointly boost the sales volume of passenger vehicles in 2017, which is expected to maintain a steady growth. Furthermore, as the O2O faded in the past two years, and attracted by lower price for services in 4S stores, owners become more willing to seek for 4S services, which will drive broader recovery of after-sales services and related value-added businesses in 2017. The Group will continue to implement prudent development strategies. By actively analysing the movements and direction in the automobile market in China, the Group will explore new business modes to broaden market size and improve comprehensive strength in order to bring greater value for its shareholders and the society.

The year 2016 was a crucial year for the Group being the year to build a foundation for 2017 after year 2015. That the Group went through the depression in 2015 steadily and seized the recovery opportunities in 2016 was the result the hard work and dedication of all staff as well as the faith and support from its shareholders, business partners and customers. In this regard, I, on behalf of the Board, would like to express our sincere gratitude to all friends and staff of Sunfonda. The Group is confident to continue on its progress and reach new heights in 2017.

Wu Tak Lam

Chairman

30 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

I. MARKET REVIEW

According to the data published by the National Bureau of Statistics, China's GDP grew 6.7% in 2016, ranking top again among key economies in the world. The whole country adhered to the general work guideline of making progress while maintaining stability, followed the new vision of development, insisted on supply-side structural reform as the mainline, appropriately expanded the aggregate demand, properly responded to risks and challenges and shaped good social expectations. As a result, the national economy has achieved moderate yet steady and sound development. The year-on-year GDP growth was slightly above expectation and growth structure remained stable, with minor decrease in investment growth and steady rise in consumption growth. With the improvement of external environment and recovery of private investment, the growth of China's economy is expected to exceed 6.5% in 2017.

Market Sales Witnessed Steady Growth, and Categories of Upgraded Consumer Goods Enjoyed Rapid Growth

In 2016, total retail sales of consumer goods reached RMB33,231.6 billion, representing a nominal annual rise of 10.4% (a real growth of 9.6% after deducting price factors), among which, retail sales in urban areas reached RMB28,581.4 billion, up by 10.4%; income from catering industry was RMB3,579.9 billion, up by 10.8%; retail sales of goods were RMB29,651.8 billion, up by 10.4%; and retail sales of communication equipments and housing goods grew fast, seen 11.9%, 12.7% and 14.0% growth in communication equipments, furniture, and building and decoration materials respectively.

Residents' Income Increased Steadily and Rural-Urban Disparity Continued to Narrow Down

In 2016, the nationwide per capita disposable income of residents was RMB23,821, representing a nominal growth of 8.4% over last year, or a real increase of 6.3% after deducting price factors, among which, the per capita disposable income of urban households was RMB33,616, up by 7.8%, or a real growth of 5.6% after deducting price factors.

The Supply-Side Structural Reform Achieved Positive Progress and the Economic Structure Continued to be Optimized

The economic structure continued to transform and upgrade. The industrial structure was optimized and transformed. In 2016, the value added of the tertiary industry accounted for 51.6% of GDP, 1.4% higher over last year, 11.8% higher in comparison with the secondary industry. The demand structure was further improved. In 2016, the contribution of final consumption expenditure to the growth of GDP accounted for 64.6%. The strategy of innovation-driven development was further implemented, and series achievements in areas like space station, spacecraft, rockets, quantum communication, high-speed computing, space detection, and large aircraft kept emerging.

MANAGEMENT DISCUSSION AND ANALYSIS

Passenger Vehicle Market in China Improved Steadily in 2016

As shown by data from China Automobile Dealers Association, in 2016, the sales volume of passenger vehicles in China increased by 16.1% year-on-year to 24.65 million units, with the growth rate hitting three-year high. As shown by the trend of monthly sales volume in passenger vehicle market, in 2016, sales volume for all months were higher than that in 2015 and 2014, except for February, where sales volume was leveled with that in 2015 and 2014. As shown by the type of automobile, in 2016, sales volume of sedan, SUV and MPV were 12.515 million units, 9.645 million units and 2.480 million units, up by 3.2%, 38.2% and 16.5% respectively. As shown by the type of brand, in 2016, the market share of independent domestic brands increased to 39.9%, up by 3.6% year-on-year. Share of joint venture brands and imported premium brands were 49.5% and 10.7% respectively.

Notably, sales volume of Porsche, Audi, Benz, Lexus and Cadillac, which the Group have been licensed to distribute in China, were approximately 65,000 units, 591,000 units, 472,000 units, 109,000 units and 116,000 units in 2016, representing increases of approximately 12%, 3.5%, 26%, 26% and 45%, respectively as compared with the corresponding period of 2015. Growth of Porsche, Benz, Lexus and Cadillac were particularly strong. Meanwhile, profitabilities of such brands also performed well, which were underscored by launch of new models and sound supply chain management. Selling products of such automobile brands also generated considerable income for the Group.

Greater Opportunities will Emerge in Regions Covered by our Network

Driven by pent-up demand, the automobile market in Northwestern China has vast potential to be explored. With current implementation of “One Belt, One Road” initiative in China, preferential policies for western China have been increasing. Given relevant policy support, the Group will secure greater opportunities for development in the region. Xi’an, where the Group’s headquarters lies, will speed up its development process comprehensively. With the finalization of “Big Xi’an” (大西安), a strategic planning raised by the government, gross domestic product of Xi’an is expected to reach trillion by 2020, likely with a population of 10.70 million, of which, urban population will exceed 8.5 million, and the main urban area of “Big Xi’an” will cover 2,600 square kilometres, larger than Beijing and Shanghai. In the coming three years, Xi’an will strengthen traffic construction, including 7 metro lines, 2 civil airports and 2 high-speed rail hub stations, among which, the Xi’an, North Station will become the largest train station in Asia.

The government is committed to promote the mode of developing characteristic towns. Given the development plan of local government as well as strengths of the Group, enormous opportunity for the development of the Group will emerge in the coming years. Currently, the Group has three automobile industrial parks in Xi’an, covering key areas in urban Xi’an, ready to provide convenient services to consumers. In the future, the Group will also pay close attention to the construction of characteristic towns, and make relevant planning and investment in due time.

MANAGEMENT DISCUSSION AND ANALYSIS

II. BUSINESS REVIEW

In 2016, though the overall domestic economy grew at slower pace, growth in the passenger vehicle market was slightly better than the growth in 2015, increasing by 16.1% over the corresponding period in 2015 in sales volume. The performance in the second half year was particularly well, and injected positive sentiment to the past 1 to 2 years depressed automobile market. Riding the market rebound, the Group put more efforts in marketing to improve its market awareness and influence in each region, and organized diversified marketing campaigns to attract client flows and boost sales volume while securing sales quality. Furthermore, the Group reinforced its operation management and demanded management efficiency through the following measures mainly in enhancing the quality of the Group's internal management:

1. Continuous upgrade of operation management system and further optimization of management tools of the Group, helping the Group to manage each operation index in a refined manner, significantly improving the management efficiency and decision-making ability of the Group, and making the Group capable of providing more tailored effective support and assistance to each 4S store;
2. Reinforcement of supervision and inspection on routine management practices in each store. In particular, the Group irregularly reviewed the implementation practices of standard procedures, 5S routine maintenance and implementation of internal management system, urging each store to improve management efficiency continuously; and
3. Establishment of performance-linked motivation system. The Group ensured the performance of its business in conformity with employee motivation reasonably and gave full play to the initiative and creativity of its employees, which greatly improved the overall profitability of the Group and contributed to the substantial growth of total revenue of the Group in 2016.

Benefited from the refined management and a range of effective strategies, all of the key luxury vehicle brands operated by the Group performed well, contributing to the substantial growth of earnings. For the year ended 31 December 2016, revenue arising from the sale of new automobiles was RMB6,859.2 million with a sales volume of 22,688 units, up by 2,624 units or 13.1% year-on-year; revenue arising from after-sales services was RMB826.8 million, up by 3.6% year-on-year; gross profit amounted to RMB470.6 million, down by 4.1% year-on-year; and profit attributable to owners of the parent amounted to RMB46.9 million, representing a significant increase of 81.1%.

MANAGEMENT DISCUSSION AND ANALYSIS

In relation to new auto sales, in 2016, in spite of the slightly higher growth in the passenger vehicle market compared with 2015, movement of sales price remained challenging, as detracted by over capacity of some manufacturers, which affected total revenue of the Group to a large extent. In response, the Group took decisive steps in the second half of the year, ranging from strict control over sales price, reinforcement of standard procedures and optimization and innovation of management tools. These were proved to be productive, in some degree mitigating the downward pressure of the Group's gross profit.

In regard to financial business, the Group strengthened financial cooperation with manufacturers. Given the manufacturers' supportive policies toward relevant products, the Group actively guided client demand. Meanwhile, financial channels were further expanded through development of new products by the Group together with financial institutions in order to satisfy different client needs. In 2016, the Group's financial performance was significantly improved with concerted effort in comparison with 2015.

In respect of decoration business, through tighter supplier management, the Group further reduced its product costs in 2016. Besides, it put greater efforts in the development of new products to satisfy practical needs of each store under the Group and achieved satisfactory results. Revenue arising from and gross profit of decoration business for 2016 increased substantially as compared with that of 2015.

For used automobile business, the Group placed great value on the prospect of used automobile business and strategically re-positioned it as a new principle business segment of 4S stores. It is expected to change the profit structure and become the most potential source of profit of 4S stores. In this regard, the Group already made a future development plan for used automobile business in 2015 and implemented it throughout 2016. With joint efforts from all members of the Group, each performance indicator of used automobile business beat expectation in 2016, getting close to the performance of its competitors and greatly increasing morale and confidence of the team of used automobile trading business.

In terms of after-sales services business, affected by the industry slump in 2015, after-sales services business of the Group still faced downward pressure. In 2016, the Group adopted the following measures in a bid to maintain and improve the performance of such business:

1. Diversification of attractive products. The purpose is to attract, maintain clients and reduce the risk of loss of clients;
2. Increase of active invitation. The active invitation rate increased from 11% in 2015 to 22% in 2016, and the measure effectively improved customer experience and reduced customer turnover; and

MANAGEMENT DISCUSSION AND ANALYSIS

3. Strengthening accident repair business and accident outreach business in the second half of 2016. The Group endeavoured to optimize income structure, improve awareness of positive competition of its after-sales services team and increase the comprehensive income from after-sales services business.

Given the three measures above, during the Reporting Period, income from after-sales services amounted to RMB826.8 million, increasing by 3.6% over 2015. Client turnover improved to a certain extent, the total clients base increased moderately and number of clients increased by 11% over 2015, all contributing to steady improvement of the after-sales services business in 2017.

In respect of brand development, the Group introduced several new brands after actively reviewing the brand performance of automobile sector in China. In September 2016, the showroom of DENZA, a recently-introduced Xi'an-based new energy automobile brand, commenced operation, representing the expansion of the Group's operations into new energy automobile business. Meanwhile, the Group obtained the licenses of 4 new brands including 2 Lexus in 2016, which further optimized and enriched the brand mix and generated better brand synergies, enabling the Group to provide more comprehensive services to its clients. The above new licensed stores are expected to contribute new revenue to the Group in 2017. As at 31 December 2016, the Group has 26 sale points in operation.

III. FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2016 was RMB7,686.0 million, representing an increase of RMB198.9 million or 2.7% as compared with the corresponding period in 2015. Of which, revenue arising from the sale of new automobiles was RMB6,859.2 million, representing an increase of RMB170.0 million or 2.5% as compared to that for the corresponding period in 2015. The increase in revenue arising from sale of new automobiles was attributable to the increase in sales volume of new automobiles. In addition, revenue arising from after-sales services was RMB826.8 million, representing an increase of RMB28.9 million or 3.6% as compared to that for the corresponding period in 2015. The increase in revenue arising from aftersales services was attributable to the increase in business volume through the strengthening of after-sales customer management system and the development of sticky products.

MANAGEMENT DISCUSSION AND ANALYSIS

A substantial portion of revenue of the Group was generated from sales of new automobiles, accounting for 89.2% of our revenue for the year ended 31 December 2016 (2015: 89.3%). During the year, the remaining part of revenue of the Group was generated from after-sale services, accounting for 10.8% of our revenue for the year ended 31 December 2016 (2015: 10.7%). Revenue of the Group is mainly derived from our operations in the PRC.

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

	For the year ended 31 December					
	Amount (RMB'000)	2016 Sales volume (Unit)	Average selling price (RMB'000)	Amount (RMB'000)	2015 Sales volume (Unit)	Average selling price (RMB'000)
Sales of passenger automobiles						
Luxury and ultra-luxury brands	6,072,377	16,951	358.2	6,165,520	16,494	373.8
Mid-end market brands	786,791	5,737	137.1	523,671	3,570	146.7
Sub-total	6,859,168	22,688	302.3	6,689,191	20,064	333.4
After-sales services	826,826			797,888		
Total	7,685,994			7,487,079		

Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2016 was RMB7,215.4 million, representing an increase of RMB219.0 million or 3.1% as compared to that for the corresponding period in 2015. Cost of sales of new automobiles for the year ended 31 December 2016 was RMB6,757.5 million, representing an increase of RMB180.2 million or 2.7% as compared to that for the corresponding period in 2015. The increase in cost of sales of new automobiles was attributable to the fact that the sales volume of new automobiles increased as revenue arising from sale of new automobiles increases. Cost of after-sales services for the year ended 31 December 2016 was RMB457.9 million, representing an increase of RMB38.8 million or 9.3% as compared to that for the corresponding period in 2015. The increase in cost of after-sales services was attributable to the fact that the cost of after-sales services increases as the business volume of after-sales services increased, while gross profit decreased slightly.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit

Gross profit for the year ended 31 December 2016 was RMB470.6 million, representing a decrease of RMB20.1 million or 4.1% as compared to that for the corresponding period in 2015. Of which, gross profit of sales of new automobiles was RMB101.7 million, representing a decrease of RMB10.2 million or 9.1% as compared to that for the corresponding period in 2015; gross profit of after-sales services was RMB368.9 million, representing a decrease of RMB9.9 million or 2.6% as compared to that for the corresponding period in 2015. For the year ended 31 December 2016, gross profit of after-sales services accounted for 78.4% of our total gross profit (2015: 77.2%).

Gross profit margin for the year ended 31 December 2016 was 6.1% (2015: 6.6%). Of which, gross profit margin for sales of new automobiles was 1.5% (2015: 1.7%) and gross profit margin for after-sales services was 44.6% (2015: 47.5%).

Other Net Income and Gains

For the year ended 31 December 2016, other net income and gains amounted to RMB150.5 million, representing an increase of 27.3% as compared with the RMB118.2 million for the year ended 31 December 2015, which was attributable to the fact that commission income from automobile value-added services sustained steady growth.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Distribution Expenses

Selling and distribution expenses for the year ended 31 December 2016 amounted to RMB258.9 million, representing a decrease of 3.1% as compared with the RMB267.2 million for the year ended 31 December 2015, mainly due to reasonable cost control.

As a percentage of revenue, the selling and distribution costs decreased from 3.6% for the year ended 31 December 2015 to 3.4% for the year ended 31 December 2016.

Administrative Expenses

Administrative expenses for the year ended 31 December 2016 amounted to RMB182.7 million, representing an increase of 2.5% as compared with the RMB178.3 million for the year ended 31 December 2015. The increase was mainly attributable to the rise in average wage of our staff. As a percentage of revenue, the administrative expenses accounted for 2.4% for the year ended 31 December 2016, which was leveled with the 2.4% for the year ended 31 December 2015.

Finance Costs

Finance costs for the year ended 31 December 2016 amounted to RMB87.5 million, representing a decrease of 28.2% as compared with the RMB121.8 million for the year ended 31 December 2015. The decrease was mainly attributable to: 1) the decrease in capital occupied by inventories which was caused by higher inventory turnover rate; 2) the decline in interest rate as compared with the corresponding period last year. The scale of financing decreased from RMB1,625.7 million as at 31 December 2015 to RMB1,287.5 million as at 31 December 2016, among which the balance of bank borrowings decreased by RMB273.9 million, and the balance of other financing (including financing from automobile manufacturers and bank commercial bills) decreased by RMB64.3 million.

Profit Before Tax

As a result of the foregoing, profit before tax for the year ended 31 December 2016 amounted to RMB92.0 million, representing an increase of 121.2% as compared with the RMB41.6 million for the year ended 31 December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax Expense

Income tax expense for the year ended 31 December 2016 amounted to RMB45.6 million, representing an increase of 176.4% as compared with the RMB16.5 million for the year ended 31 December 2015. The effective income tax rate of the Group for the year ended 31 December 2016 was approximately 49.6%, which was mainly due to the impact of tax losses not recognised as deferred tax assets for some loss-making subsidiaries.

Profit for the Year

As a result of the foregoing, profit for the year ended 31 December 2016 was RMB46.4 million, representing an increase of 84.9% as compared with the RMB25.1 million for the year ended 31 December 2015.

Profit for the Year Attributable to Owners of the Parent

For the year ended 31 December 2016, profit for the year attributable to owners of the parent was RMB46.9 million, representing an increase of 81.1% as compared with the RMB25.9 million for the year ended 31 December 2015.

IV. LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

For the year ended 31 December 2016, our net cash flow generated from operating activities was RMB424.0 million, as compared with the RMB613.6 million of net cash flow generated from operating activities for the year ended 31 December 2015. The decrease in net cash inflow of operating activities was mainly attributable to a relatively stable inventory in 2016 as compared with a significant increase in cash inflow of operating activities resulting from our efforts focusing on destocking in 2015.

For the year ended 31 December 2016, our net cash outflow for investing activities was RMB98.5 million, as compared with the RMB225.3 million of net cash outflow for investing activities for the year ended 31 December 2015. The decrease in net cash outflow of investing activities was mainly due to the fact that the pace of opening new stores slowed down and the related capital expenditure was reduced in 2016.

For the year ended 31 December 2016, our net cash outflow for financing activities was RMB425.7 million, as compared with RMB363.7 million of net cash outflow for financing activities for the year ended 31 December 2015. The increase in the net cash outflow of financing activities was mainly attributable to the fact that the procurement pace and stock level was controlled in an effective manner and the inventory financing requirements were reduced.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Current Assets

As at 31 December 2016, our net current assets amounted to RMB388.3 million, as compared with RMB372.1 million of net current assets as at 31 December 2015. The increase in net current assets was mainly attributable to the decrease in short-term loans and other borrowings.

Inventories

Our inventories primarily consist of new automobiles, spare parts and decoration accessories. As at 31 December 2016, our inventories amounted to RMB681.8 million, representing a decrease of 1.6% as compared with the RMB692.6 million as at 31 December 2015, mainly due to the decrease in the amount of inventories as at the end of the period.

In 2016, our average inventory turnover days (the average inventory turnover days = the average of opening and closing inventory balances divided by the cost of sales and services for that year and multiplied by 360 days) were 34.3 days, as compared to 45.7 days in 2015. The higher turnover rate was mainly attributable to our further enhanced inventory management by controlling our procurement pace and average stock.

Bank Loans and Other Borrowings

As at 31 December 2016, our bank loans and other borrowings were RMB1,287.5 million, representing a decrease of 20.8% as compared with RMB1,625.7 million as at 31 December 2015, which was mainly attributable to higher inventory turnover rate and better efficiency in capital utilization. The Company has also supplemented its daily working capital through funds from listing, which has resulted in decreased demand for funding from bank loans.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 31 December			
	2016 Effective interest rate (%)	Amount RMB'000	2015 Effective interest rate (%)	Amount RMB'000
CURRENT				
Bank loans	1.4-7.0	1,099,160	1.4-7.4	1,336,512
Other borrowings	5.6-7.9	128,831	5.6-7.9	193,163
Sub-total		1,227,991		1,529,675
NON-CURRENT				
Bank loans	5.0-7.4	59,500	6.9-7.4	96,000
Total		1,287,491		1,625,675
Among which:				
Secured loans		1,197,491		1,191,839
Unsecured loans		90,000		433,836
Total		1,287,491		1,625,675

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

Pledge of Assets

As at 31 December 2016, certain of our bank loans were secured by charges or pledges over our assets. Our assets subject to these charges or pledges as at 31 December 2016 consisted of: (i) inventories amounting to RMB282.0 million; (ii) building amounting to RMB297.4 million; and (iii) land use rights amounting to RMB153.8 million.

As at 31 December 2016, certain of our inventories amounting to RMB318.3 million and pledged bank deposits amounting to RMB190.3 million were pledged as securities for bills payable.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Expenditures and Investment

Our capital expenditures comprise primarily expenditures on property, plant and equipment, land use rights and intangible assets. For the year ended 31 December 2016, our total capital expenditures were RMB230.3 million, representing a decrease of approximately RMB91.9 million as compared with the RMB322.2 million for the year ended 31 December 2015.

Contingent Liabilities

As at 31 December 2016, the Group did not have any material contingent liabilities or guarantees.

Staff Cost and Employee Remuneration Policy

As at 31 December 2016, the Group had 2,348 employees. Staff cost of the Group increased by 5.7% from RMB183.0 million for the year ended 31 December 2015 to RMB193.5 million for the year ended 31 December 2016. The increase was mainly attributable to the improvement in staff performance as a result of the increase in sales volume. The Group offers attractive remuneration packages, including competitive fixed salaries and performance-based bonuses. The Group provides its automobile sales and after-sales staff with performance-based bonuses based on their contribution to revenue, technical skills, customer satisfaction and other results of their performance assessment according to their job nature. The performance bonuses are calculated on a monthly basis. Our employees are subject to regular job reviews which determine their promotion prospects and remuneration packages. In order to keep up with the rapid development of the Group's network, the Group also continued to build up its quality talent pool and prudently manage its human resources and made corresponding adjustments to the arrangement of positions based on the changes in overall business volume. Meanwhile, the Group attaches great importance to the reserve of talent and teambuilding. Regular trainings in respect of business skills, expertise and professional qualifications have been provided to key personnel. The Group also pays close attention to the career development of its employees, so as to provide primary drivers for the future development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Principal Risks

Business Risk

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

Interest Rate Risk

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

Exchange Rate Risks

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

V. FUTURE STRATEGY AND PROSPECTS

“Client First” Project

The Group has resolved to further enhance its customer service quality and pay more attention to maintaining customers' loyalty. A series of online and offline activities were carried out in a customer oriented manner. In 2016, the Group's Customer Relationship Management (CRM) Department established the “Client First” project to conduct big data analysis on our existing clients and conduct classified management based on clients demands, preferences, living areas, occupational attributes, spending habits and car models in use, thus offering customized interaction activities that can cater to clients' needs. In 2017, the Group will further step up its investments in the “Client First” project, so as to reduce client outflow through the proven interactive and recreational activities with existing customers. According to our estimation to the effectiveness of the project, it is expected that our Group will decrease the client outflow by at least 5% in 2017.

Marketing via Internet and We-media

The Group will enhance the exploration of the channels for acquisition of online customers, pay more attention to maintaining these new clients and increase the transaction conversion rate of such clients. The Group will formulate accurate marketing plans by conducting sophisticated analysis on the effects of online channels, and will continue to enhance clients' attention to the Group's own brands through popular We-media channels, such as WeChat, TouTiao.com (今日頭條), Sohu News app (搜狐新聞移動端), etc. In addition, we will expand channels for acquisition of online customers through platforms, including autohome.com.cn (汽車之家), yiche.com (易車), CHESHI.COM (網上車市), xin.com (優信), etc. In 2017, the Group anticipated a further increase in the proportion of online orders by 10% year-on-year.

Continuous Growth of Insurance as well as Financing and Credit Agency Businesses

The Group further strengthened its management and supervision over the insurance coverage ratio of new automobile and warranty renewal. In 2016, the average insurance coverage ratio of new automobile had exceeded 95% and the warranty renewal rate of all brand stores had also increased steadily. In 2017, we will attach further attention to the business in order to further enhance customers' loyalty. It is estimated that the total scale of China's automobile finance market will reach approximately RMB1.5 trillion in 2020. The estimated penetration rate of automobile finance industry will reach 50%. The Group will also step up its efforts in the management of the automobile financing business. In 2017, the average penetration rate of the Group's financing business will be further increased.

MANAGEMENT DISCUSSION AND ANALYSIS

Used Automobile Business

At present, the number of automobile ownership in China has reached 194 million, representing a growing potential in the market of used automobile. In 2016, the government gradually relaxed and lifted the restrictions on relocation of used automobiles, providing strong support for the circulation of the same and indicating great potential for business development in the future. The Group also established professional management teams for developing the used automobile business and has commenced to comprehensively cooperate with renowned and professional used automobile websites in China, including yiche.com (易車網), xin.com (優信二手車) and 58.com (58同城), aiming to establish Sunfonda as a professional brand for used automobiles, so as to better satisfy the demand of consumers and ensure steady growth of our customer base. It is expected the business will make greater breakthrough in 2017.

E-commerce Projects

As a strategic development project, “Tai Auto Mall (泰愛車商城)” App has now entered the phase of specialized research and development by focusing on the app of whole transaction procedures of used automobiles. It is expected that, upon completion of the research and development, this app will attract more customers to complete the procedures of assessment, replacement and transfer of used automobiles online. Furthermore, the Group will commence social cooperation in this regard.

The Famous Trademark of Sunfonda

After 17 years of hard work, “Sunfonda” has been recognized as a Shaanxi famous trademark. In 2017, the Group will put in intensified effort to market the Sunfonda brand with a view to further improve the Group’s brand reputation in the regions it operates. Three-dimensional marketing will be implemented in active and effective ways and channels including media communication, customer care and cross-border cooperation. The Group will further enhance the refined management of use of marketing expenses in the market, reduce the costs of purchase through centralized procurement, and select the best partners. In 2016, the Group was stringently compliant with budget management to avoid expense overrun in an effective manner. Meanwhile, through coordination, the Group substantially improved its performance in terms of acquiring resources from brand-crossover cooperation, streamlining marketing expenses and enhancing management transparency. In 2017, the Sunfonda brand as well as the principle and vision of “People – Automobile – Health” will serve as important guidances for marketing efforts.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking into 2017, the gross domestic product growth rate in China is expected to reach 6.5%. A stable economic growth will offer great support to underlying industries. The Group will continue to leverage on its brand mix and geographical advantages, and exert sustained efforts in enhancing new business models on the basis of the steady development in traditional businesses to boost profitability. The Group will also continue to pay attention to customers' needs, so as to proactively enhance customers' satisfaction. Consistent efforts will also be made to monitor and manage the depth of inventories of new automobiles and spare parts to accelerate inventory turnover and reduce finance costs. Moreover, the Group will focus on improving the performance of various key indicators for derivative businesses, and strive to maintain and further enhance performance of key business objectives such as penetration rate of insurance business, replacement rate of used automobiles, penetration rate of financing and credit business and penetration rate of decoration services.

Meanwhile, more development opportunities will be available for our presence against the background of the strategic planning of "One Belt One Road" initiative in China. Concurrently, the Group will also steadily carry out network layout and planning in Jiangsu Province, so as to gradually establish the position of strategic development of Jiangsu Province. The Group will also pay close attention on and consider the opportunities for acquisition or merger as appropriate, with an aim to further enhance the overall profitability of the Group, create greater returns for the shareholders and realize sustainable and solid development of the Group.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND SECRETARY

Directors

Executive Directors

Mr. Wu Tak Lam (胡德林), aged 55, was appointed as the Chairman and an executive director of the Company on 13 January 2011. He is the Chairman of the Nomination Committee of the Company, and was appointed as the Chairman of the Finance and Investment Committee of the Company in December 2016. Mr. Wu founded the Group with Ms. Chiu Man in November 2000 and has been primarily responsible for the strategic management, planning and business development of the Group as well as development and maintenance of relationship with automobile suppliers of the Group. Mr. Wu serves as the chairman of the board and a director of each of the subsidiaries of the Company, and he has also been a director of Sunfonda (Hong Kong) Limited since April 1997. Prior to the establishment of the Group, Mr. Wu worked at China National Automotive Industry Sales Corp. (中國汽車工業銷售總公司) from July 1986 to December 1992. From August 1993 to March 1997, Mr. Wu was the managing director of Sunfonda Limited (新豐泰有限公司), which conducted import and export trade business and was dissolved in September 2002. He graduated from Wuhan Institute of Technology (武漢工學院, currently known as Wuhan University of Technology (武漢理工大學)) in Wuhan, China, majoring in automobile and tractor studies and obtained a bachelor's degree in engineering in July 1986. He is also the sole shareholder and director of Golden Speed Enterprises Limited ("**Golden Speed**", a controlling shareholder of the Company), a director of Top Wheel Limited ("**Top Wheel**", a controlled corporation of Golden Speed and a controlling shareholder of the Company), and the husband of Ms. Chiu Man (the chief executive officer of the Group, an executive director and a controlling shareholder of the Company).

Ms. Chiu Man (趙敏), aged 53, was appointed as the chief executive officer of the Group and an executive director of the Company on 13 January 2011. She was also appointed as a member of the Finance and Investment Committee of the Company in December 2016. Ms. Chiu founded the Group with Mr. Wu Tak Lam in November 2000 and has been primarily responsible for the overall management and financial control of the Group. Ms. Chiu serves as a director in each of the subsidiaries of the Company and has also been a director of Sunfonda (Hong Kong) Limited since April 1997. Ms. Chiu graduated from Wuhan Institute of Technology (武漢工學院, currently known as Wuhan University of Technology (武漢理工大學)) in Wuhan, China, majoring in automobile and tractor studies and obtained a bachelor's degree in engineering in July 1986. She is also the sole shareholder and director of Win Force Enterprises Limited ("**Win Force**", a controlling shareholder of the Company), a director of Top Wheel (a controlled corporation of Win Force and a controlling shareholder of the Company), and the wife of Mr. Wu Tak Lam (the Chairman, an executive director and a controlling shareholder of the Company).

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND SECRETARY

Mr. Jia Ruobing (賈若冰), aged 43, was appointed as an executive director of the Company on 11 June 2012. Mr. Jia joined the Group in October 2011 and served as the chief operating officer of the Group from October 2011 to June 2015, primarily responsible for the overall operation of the Group. He has been the vice president of the Group since July 2015, primarily responsible for the strategic development, e-commerce, marketing and public relations of the Group. Mr. Jia also serves as a director of Grand Forever Enterprises Limited and Sunfonda (Hong Kong) Limited, both are subsidiaries of the Company. Prior to joining the Group, he served as the luxury brand general manager of China ZhengTong Auto Services Holdings Limited (中國正通汽車服務控股有限公司), a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 01728), from September 2010 to September 2011, and as the Beijing regional sales director of Beijing Yan De Bao Automobile Sales Co., Ltd. (北京燕德寶汽車銷售有限公司) from June 2005 to August 2010, during which he was awarded the title of General Manager of Outstanding Mini Team 2009 and granted a Top Sales Performance Award from BMW China on 20 January 2010. Mr. Jia graduated from South China University of Technology (華南理工大學) in Guangzhou, China, majoring in international trade in July 1996. He obtained an executive diploma in management from the School of Business and Management of the Hong Kong University of Science and Technology (香港科技大學) in February 2008.

Mr. Gou Xinfeng (苟新峰), aged 43, was appointed as an executive director of the Company on 9 November 2016. Mr. Gou has over 16 years of experience in the operation and management of automobile brands. Mr. Gou joined the Group in July 2002, and successively served the following positions in the subsidiaries of the Company: the sales deputy manager of Shaanxi Sunfonda Automobile Co., Ltd. (陝西新豐泰汽車有限責任公司) from July 2002 to February 2006 and the Sales Director of Xi'an Xinmingyang Toyota Automobile Sales Services Co., Ltd. (西安新銘洋豐田汽車銷售服務有限公司) from March 2006 to March 2009. Mr. Gou was the general manager of Shaanxi Sunfonda Automobile Technology Development Co., Ltd. (陝西新豐泰汽車技術開發有限責任公司) from April 2009 to September 2014, during which the store and the team were awarded a number of honors from Volkswagen Group under his leadership, including World Diamond Dealers 2014 (2014年度全球鑽石經銷商), Five-starred Management Team Award 2014 (2014年度五星級管理團隊獎) and Sales Excellence Award 2014 (2014年度卓越銷售獎). From October 2014 to the present, he has been the general manager of Shaanxi Sunfonda Boao Automobile Co., Ltd. (陝西新豐泰博奧汽車有限責任公司) and is responsible for the sales operation and daily management of various brands under the Group. Mr. Gou specializes in sales operation and overall store management. Mr. Gou graduated from Wuhan Automotive Industry University (武漢汽車工業大學) (now known as Wuhan University of Technology (武漢理工大學)) and obtained a bachelor's degree in Automotive Applied Engineering in July 1998.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND SECRETARY

Non-executive Director

Mr. Zhu Wei (朱偉), aged 55, was appointed as a non-executive director of the Company on 21 April 2011. Mr. Zhu also serves as a director of Sunfonda (Hong Kong) Limited, a subsidiary of the Company. Since December 2014, Mr. Zhu has been an independent director of Jason Furniture (Hangzhou) Co., Ltd. (顧家家居股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 603816) since 14 October 2016. Mr. Zhu joined Standard Chartered PLC (HKEx: 02888; LSE: STAN; NSE: STAN) in September 2009 as a managing director, primarily responsible for the bank's direct investment business in the Greater China Region. Prior to joining Standard Chartered PLC, he was a senior managing director of CVC Asia Pacific Ltd. (CVC亞太投資有限公司) from July 2008 to July 2009, responsible for investments in China. He served as the managing director of Goldman Sachs Gao Hua Securities Company Limited. (高盛高華證券有限責任公司) from November 2005 to July 2008, responsible for investment banking business in Shanghai. He was the president of the China Region of Roland Berger Strategy Consultants (羅蘭貝格管理諮詢有限公司) from April 2004 to November 2005. He joined A.T. Kearney, Inc. (科爾尼管理顧問有限公司) in April 1993 and served as the vice president of A.T. Kearney, Inc. and managing director of its Greater China Region from October 2001 to January 2004. Mr. Zhu obtained a bachelor's degree in foreign affairs from Georgetown University (喬治城大學) in Washington, DC in the US in 1986 and a master's degree in business administration from The University of Chicago (芝加哥大學) in Chicago, Illinois in the US in 1992.

Independent non-executive Directors

Mr. Liu Jie (劉傑), aged 54, was appointed as an independent non-executive director of the Company on 19 June 2012. He is also the Chairman of the Audit Committee, a member of both the Nomination Committee and the Remuneration Committee of the Company. In December 2016, he was also appointed as a member of the Finance and Investment Committee of the Company. Mr. Liu has been a director of Shanghai Dian Software Tech Co., Ltd. (上海締安科技股份有限公司), a company whose shares are quoted on the National Equities Exchange and Quotations (stock code: 834047), since May 2015, and has since April 2016 been an independent director of the following two companies listed on the Shenzhen Stock Exchange, namely Tatwah Smartech Co., Ltd. (中山達華智能科技股份有限公司) (stock code: 002512) and Jiangsu Changbao Steeltube Co., Ltd. (江蘇常寶鋼管股份有限公司) (stock code: 002478). Mr. Liu has been a professor and supervisor of Ph.D candidates at the School of Economics and Management of Tongji University (同濟大學) since July 2000, a professor and supervisor of Ph.D candidates at the School of Management of Fudan University (復旦大學) since April 2004, a part-time professor and supervisor of Ph.D candidates at the School of Economics and Management of Tongji University (同濟大學) since September 2005, and a honorary professor in the Faculty of Business and Economics of the University of Hong Kong (香港大學) since September 2011. Mr. Liu has been a director and the general manager of Shanghai Fuli Management Consulting Co., Ltd. (上海複理管理諮詢有限公司) since January 2015 and has been an independent director of Shanghai Milkyway International Chemical Supply Chain Service Co., Ltd. (上海密爾克衛國際化工

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND SECRETARY

供應鏈服務股份有限公司) since September 2015. From October 1995 to January 1998, Mr. Liu was the deputy general manager of Shanghai Tongji Science & Technology Industrial Co., Ltd. (上海同濟科技實業股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600846). Mr. Liu has also served as the chairman of the board and general manager of Shanghai Tongji Travel Agency Co., Ltd. (上海同濟旅行社有限公司) since February 1997 and as the chairman of the board and general manager of Shanghai Tongji Biological Products Co., Ltd. (上海同濟生物製品有限公司) since April 1997. He was a director of Shanghai Tongji Science & Technology Industrial Co., Ltd. from May 1997 to June 2005, an independent director of Shanghai Material Trading Co., Ltd. (上海物資貿易股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600822) from October 2001 to June 2007, and an independent non-executive director of China Cyber Port (International) Company Limited (神州奧美網絡(國際)有限公司), a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 08206) from February 2007 to October 2008. Mr. Liu graduated from Tongji University (同濟大學) in Shanghai, China, majoring in industrial automation, and obtained a bachelor's degree and a master's degree in engineering in July 1987 and December 1990, respectively. He graduated from the same university majoring in management science and engineering and obtained a doctoral degree in engineering in July 1995.

Mr. Yu Yuanbo (于元渤), aged 49, was appointed as an independent non-executive director of the Company on 19 June 2012. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Yu has been the general manager of Beijing Used Cars Network Technology Co., Ltd (北京中古車網科技有限公司) since November 2015. Mr. Yu was the vice chairman of China Automobile Dealers Association (中國汽車流通協會) from January 2005 to October 2015, mainly responsible for collection and publication of statistics related to the China automobile industry. From September 2003 to October 2005, Mr. Yu served as the vice president of China Huahai Investment & Guaranty Co., Ltd. (中國華海投資擔保有限公司), and served as the vice general manager of Huaxing South Automobile Trading Co., Ltd. (華星南方汽車貿易有限公司) from July 2001 to September 2003. Prior to this, he worked in various government agencies, including as the supervisor (at the director level) of the Supervisory Board of Central Enterprise Work Commission (中央企業工委監事會) from February 2001 to July 2001, the secretary (at the deputy-director level) of the Office of the State Bureau of Internal Trade (國家國內貿易局辦公室) from September 1997 to February 2001, the deputy director of the consumer product circulation department and the general office of the Ministry of Internal Trade (國內貿易部) from September 1993 to September 1997, and a cadre of the Infrastructure Storage and Transportation Division of Department of Commerce (商業部基建儲運司) from July 1991 to September 1993. Mr. Yu graduated from Tianjin Business School (天津商學院, currently known as Tianjin University of Commerce (天津商業大學)) located in Tianjin, China, majoring in packaging engineering, and obtained a bachelor's degree in engineering in July 1991. He graduated from a postgraduate class at Beijing Technology and Business University (北京工商大學) in Beijing, China, majoring in industrial economics in July 2000.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND SECRETARY

Mr. Fu Johnson Chi-King (符致京), aged 63, was appointed as an independent non-executive director of the Company on 18 January 2014. He is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Mr. Fu was the chief executive officer of Kingold Group Companies Ltd in Guangzhou, China, and has investments in real estate, hotels, resorts, media, education and IT. He was an independent non-executive director of China Hanking Holdings Limited, a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 03788) from February 2011 to May 2015, where he served as a member of the audit committee and therefore extensively participated in reviewing and analyzing the company's financial reports and diligently supervised and assessed the company's internal controls. Mr. Fu's major recent work experience in the financial industry is summarized below. From January 2011 to February 2013, he served as the regional manager (China) for Rabobank Netherland. From February 2010 to August 2010, he served as a director and the chief executive officer of ChemChina Finance Co., Ltd. (中國化工財務有限公司), a wholly-owned subsidiary of the Chinese state-owned China National Chemical Corporation (中國化工集團公司), where he was fully responsible for managing the cashflow and investment of ChemChina Finance Co., Ltd.. From August 2005 to May 2009, he worked for Hang Seng Bank Limited, Hong Kong, held the position of an executive director and the chief executive officer of Hang Seng Bank (China) Limited (恒生銀行(中國)有限公司) during the period, and participated in the preparation and review of the financial information that are consolidated into the public financial statements of Hang Seng Bank Limited, a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 00011). Prior to August 2005, Mr. Fu held various management positions in a number of financial institutions and other companies. Mr. Fu obtained a bachelor's degree in business administration from Loyola University (洛約拉大學) in New Orleans, Louisiana in the US in 1975 and a master's degree in business administration from the University of California, Berkeley (加州大學柏克萊分校) in Berkeley, California in the US in 1976.

SENIOR MANAGEMENT

Mr. Liu Zhanli (劉戰利), aged 44, was appointed as the general manager of the Audi brand segment of the Group on 1 January 2012, responsible for Audi brand management and network development. Mr. Liu joined the Group in October 2003 and has been the department manager and the general manager of Shaanxi Sunfonda Automobile Co., Ltd. (陝西新豐泰汽車有限責任公司) since then. Prior to joining the Group, he worked as a salesman in Xi'an Jiuyuan High Voltage Capacitor Factory (西安九元高壓電容器廠) from December 1995 to October 2003. Mr. Liu graduated from Xi'an Statistical Institute (西安統計學院, currently known as Xi'an University of Finance and Economics (西安財經學院)) in Xi'an, China with a college diploma in economics in July 1995.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND SECRETARY

Mr. Ma Xiao Dong (馬曉東), aged 50, was appointed as the vice president of the Group on 13 August 2014, responsible for daily operational management of the Group. Prior to joining the Group, Mr. Ma worked in the Port of Dalian Authority as a staff from July 1990 to December 1997, and worked as the general manager of Nianshi Investment Club (USA) (美國年氏投資公司會所) from January 1998 to February 2000. He served as sales director of business division in Fuzhou Shenlong Group (福州神龍集團) from March 2000 to February 2004 and as the general manager of the 4S stores of Changchun NISSAN Kaishen (長春日產凱紳) from April 2004 to October 2005. From December 2005 to June 2014, Mr. Ma worked in Zhongsheng Group Holdings Limited (中升集團控股有限公司) and served as the general manager of Nissan brand, Audi brand, Toyota brand, the general manager of Southwestern region for Toyota brand and the general manager of Yunnan region, respectively. Mr. Ma graduated from Dalian Maritime Transportation Institute ((大連海運學院), currently known as Dalian Maritime University (大連海事大學)) in Dalian, PRC in July 1990 and obtained a bachelor's degree in ship electrical management engineering.

COMPANY SECRETARY

Ms. So Yee Kwan (蘇漪筠), aged 35, was appointed as the company secretary of the Company on 18 January 2014. Ms. So is a manager of the corporate services division of Tricor Services Limited, which is a global professional services provider specializing in integrated business, corporate and investor services. She has extensive experience in a diversified range of corporate services and has been providing professional secretarial services to many companies listed on the Hong Kong Stock Exchange for the past twelve years. Ms. So is a Chartered Secretary and an Associate of both the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. So received a bachelor's degree in international business management from Oxford Brookes University (牛津布魯克斯大學) in the United Kingdom and a Master of Arts in Professional Accounting and Information Systems from City University of Hong Kong (香港城市大學).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

During the year, the Group has focused on improving its environmental and social performance, strengthened its understanding of the environment and society, and actively responded to environmental and social issues. The Group strives to implement various energy-saving and waste reduction measures in its business operations, endeavours to reduce the waste of natural resources, advocates the use of environmentally-friendly products, and works to reduce environmental pollution as much as possible. On social issues, the Group has established management systems for talent training and development, supply chain, product responsibility and others. We actively promote awareness of environmental and social responsibility amongst our employees through e-mail, announcement, training and so on, and are committed to the involvement of all employees. Furthermore, the Group's General Administration Department regularly evaluates and assesses performance outcomes.

Reporting Scope: This is Sunfonda Group Holdings Limited's (hereafter referred to as "the Group" or "Us/We") first overview report of its environmental, social and governance performance. The contents of this Report cover the Group's environmental, social and governance performance with respect to the operation of automotive sales, and report data was principally collected at the Group's Head Office in Xi'an City. This Report is compiled in accordance with the requirements of Appendix 27, "Environmental, Social and Governance (ESG) Reporting Guide" of the listing rules ("Main Board Listing Rules") of the Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange").

Reporting Period: This is an annual report covering the period from 1 January 2016 to 31 December 2016.

COMMUNICATION WITH STAKEHOLDERS

The Group values its relationship with stakeholders and maintains good levels of communication with them. The Group provides the opportunity for communication with shareholders through the holding of annual general meetings and extraordinary general meetings at regular intervals, in accordance with the relevant provisions of the Hong Kong Stock Exchange. We communicate with suppliers in the course of specific projects we undertake in our business operations via telephone and letter from time to time so as to maintain a smooth cooperation. We frequently hold customer-focused activities and conduct satisfaction surveys in order to maintain communication and interaction with our customers. At the same time, we gladly communicate with investors; the Group arranges to meet with investors and the media both before and after the publication of our results announcement in order to present the direction of business development and its highlights.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ENVIRONMENT

1.1 Green Operation – Reducing Emissions

The Group supplies battery electric vehicles (BEV) with after-sales service, closely adhering to the country's strategic direction for environmental protection. We promote a number of environmental protection policies in our operations in order to reduce greenhouse gas emissions; these include policies on energy saving, business travel reduction, procurement policy to support local suppliers, indoor air quality, water reduction & sewage discharge, water reduction for daily operation, waste reduction, office waste reduction, solid waste recycling and others. Specific practices implemented by the Group include:

- 1) The banning of smoking in all public areas to reduce air pollution and improve indoor air quality;
- 2) The use of products with better energy-efficiency;
- 3) The use of telephone or video conferencing as a substitute for holding long-distance, in-person meetings, to reduce carbon emissions arising from transportation;
- 4) We prioritise the selection and use of local suppliers in our operations as it reduces carbon emissions produced by long-distance haulage;
- 5) We use water-saving equipment in our everyday operations, and remind all employees and visitors to conserve water;
- 6) Office areas use recyclable and reusable resources to reduce the use of disposable products. Employee canteens propose reusing dining utensils to reduce waste;
- 7) We are reducing the use of plastic products in our construction work;
- 8) We adopt green policies in our everyday office operations such as reducing office waste, avoiding wasting paper, reusing ink cartridges and collecting discarded and surplus metal parts and fittings for other production uses;
- 9) We require that collaborative suppliers comply with relevant environmental protection standards and regulations.

The Group strictly complies with emissions laws and regulations and there were no relevant violation that had a significant impact on the Group during the 2016 financial year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1.2 Use of Resources

The Group practices resource-saving and green documentation management in order to efficiently use natural resources, achieve reductions in waste and safeguard the ecosystem. We promote the concept of “Think before you use it” in our offices by encouraging employees to save water, electricity and paper, and through the establishment of computer filing systems as a replacement for printed document filing. Our vehicle repair business also uses environmentally-friendly paint and materials, and all employees must adhere to the principle of “saving water and electricity” when repairing vehicles in order to reduce environmental pollution and reduce the use of natural resources.

1.3 Environment and Natural Resources

In order to reduce the impact we have on the environment and natural resources, as well as safeguard the planet and the health of the next generation, we work to implement green education policies and advocate environmental protection amongst our employees and stakeholders. In 2016, we did the following:

- 1) Counselling on green travel, used staff shuttles to transport employees and reduced the frequency of private car use amongst employees, thereby reducing the amount of gasoline consumed and exhaust gas emissions;
- 2) Set an example by prioritising the selection of green organisations to provide products and services, and extended our influence by supporting environmental protection groups in their work. We promoted the use of clean energy amongst our customers by providing BEVs and helped them to understand the environmental benefits of electrically-powered vehicles;
- 3) In partnership with Environmental Protection Departments, we taught our employees how to put environmental protection into practice in their work and daily lives.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. PEOPLE ORIENTED – CHERISHING TALENT

2.1 Employment

Employees are the Group's capital and the key to maintaining its operations. The Group actively protects an employee's basic rights, pays close attention to employee demands and improves their health and happiness, thus forging a professional and effective team.

To ensure employees are given their legal and reasonable rights, the Group has established employment management systems which include "Recruitment Policy", "Employee Change Policy", "Compensation and Benefit Policy", "Staff Appraisal Policy", "Accident and Injury Compensation Policy", "Staff Resignation Policy", and "Labour Contracts". In terms of employee recruitment, promotion, labour relations, employee diversification, treatment and equal opportunity, benefits and anti-discrimination as well as others, we have developed regulatory guidelines in an effort to protect an employee's legal rights.

The Group has implemented equal opportunity, a balance between work and life, anti-discrimination, as well as employee diversity and multiculturalism, and is dedicated to creating a "happy and discrimination-free" work environment.

The Group's aim is corporate citizenship, and does not permit violations of employment regulations. During the reporting period, we had no such cases occurred.

2.2 Health and Safety

The health and safety of employees is the focus of the Group's development. The Group provides its employees with a safe working environment, ensures the safety of employees during working hours and protects employees from occupational hazards. We view adherence to the occupational health and safety laws and regulations of Hong Kong and China as a requirement for responsible corporate behavior, establishing a foundation for safe operations. The Group has established a number of policies which cover occupational health and safety, the provision of personal protection equipment, safety measure and training for employees, safety controls for outsourcers, and other areas. We arrange physical check-ups for employees as well as teaching them safety awareness. We are concerned with employee safety and, as a result, strictly require workshop employees to put "Safety First", regularly reminding them to carry protection equipment. Our managers control work safety performance, effectively implement safety measures and ensure continuous improvement in this area. During the reporting period, we had no case of violation of health and safety measures occurred.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.3 Development and Training

The Group focuses on occupational development and has thus formulated occupational development and employee development policies in order to improve an employee's knowledge and skills in relation to his/her role, and to provide further learning opportunities. With respect to occupational development, we have a policy whereby senior employees lead junior employees in their development. This improves mutual communication between employees and improves work ability and skill through practical application and mutual exchange. When a vacancy arises, we first consider promotion from within, meaning that employees have better occupational development paths open to them. The Group has put trainers in place who provide new employees with induction training and job skills training directed at their adaptation and development.

2.4 Labour Standards

We do not engage child labour or forced labour under any circumstances, in strict compliance with Hong Kong's Employment Ordinance, China's Labour Contract Law, and with relevant labour standards. In terms of preventing child labour, the Group requires employees to be high-school graduates at a minimum which puts an end to job applications from minors. In preventing forced labour, we make use of open workplaces meaning that the opportunity for forced labour does not exist. In 2016, there were no violations of labour standards, which confirms the solidity of our measures in this regard.

3. SUPPLIER MANAGEMENT

The Group's General Administration Department promotes green procurement, provides effective supplier management, and ensures the quality and safety of all products. The Group has formulated management processes for the bulk of supplied products and services in accordance with relevant national and local regulations, including supplier rules, mechanisms for supplier bidding and evaluation, and the taking of social responsibility as a criterion for supplier selection. These processes ensure that procurement complies with laws and regulations, and ensures that the chosen supplier is effective in their management of quality, environmental protection, social responsibility, safety and in other areas. Thus, we did not have violation of health and safety cases in 2016.

4. PRODUCT RESPONSIBILITY

The Group attaches great importance to product responsibility and has established relevant management policies and measures over and above those required by laws and regulations. This safeguards the quality and safety of products, the accuracy of product descriptions in promotional information, as well as the quality of after sales service.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Product quality assurance policy: Sales and service operations are conducted in strict compliance with the warranty policy of the corresponding brand manufacturer.

Product safety assurance policy: We strictly undertake safety and quality inspections and tests prior to product sold.

Fair marketing policy: It is stipulated that all sales staff must provide the customer with true and accurate information when selling a product.

After-sales service policy: Providing after-sales service offers a customer an interactive, open platform for detailed product enquiries and customer feedback.

The implementation of product responsibility management policy is a key factor in our having no violation of service responsibility regulations in 2016.

5. HONEST OPERATIONS

The Group has high regard for corporate governance and an honest political framework. We have formulated policies in the areas of anti-corruption, disclosure of conflict of interest, fraud prevention, tendering, whistleblowing, third party financial audit and so on. In addition, designated supervision by the Ministry of Justice Department and Audit Department firmly ends all forms of corruption, including extortion and anti-money laundering. In 2016, there were no case of corruption, or other cases relating to violations of honest business practices.

6. COMMUNITY CARE

The Group actively integrates itself into the community, with which it has good communication and interaction. The General Administration Department is responsible for matters relating to community involvement, and actively responds to and participates in locally-organised activities such as charity sponsorship, environmental protection activities, and so on. This allows employees to improve their corporate and personal sense of social responsibility which cultivates both community contributions and accomplishments in environmental protection. We undertake evaluation of important community events once they have finished, allowing us to make constant improvements to similar projects we hold in the future.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

7. BRAND INTEGRITY

The Group constantly aspires to the concept of “Innovative Service – Prestigious Brands” and has won awards in its operations; these include yiche.com’s 2015 “Star of the Car Market Award – Country’s Best Car Sales Group”; China Automobile Dealers Association 2015 “Industry Operations and Service Model Innovation Award”; Xi’an Administration for Industry and Commerce 2015 “Xi’an City Famous Brand” award; and Shaanxi Administration for Industry and Commerce 2016 “Shaanxi Province Famous Brand” award.

PROSPECT

Looking to 2017, the Group will continue to strictly enforce all management systems we currently have, as well as effectively supervise and inspect these systems. In terms of environmental protection, we will pay closer attention to the issues of energy-saving and emissions reduction, and reduce the use of natural resources as much as possible. At the same time, we will continue to focus on the management of employee health and safety, hold regular training in professionalism and business skills, focus on long-term employee development and provide employees with sustainable development in their career paths. In terms of operations management, we will further strengthen management and supervision of suppliers, maintain reasonable control of operating costs and improve efficiency in our operations. With respect to customer care, the Group will continue to focus on customer satisfaction and organise targeted customer care activities directed at different customer preferences. In addition, the Group will continue to strengthen communication and interaction with its stakeholders and investors, continue to participate in social and charitable activities, and improve its sense of corporate social responsibility. The Group has confidence that the aforementioned measures will lead to improved performance in the 2017 ESG report, as well as ensure that we are in line with the relevant requirements of Appendix 27, “Environmental, Social and Governance Reporting Guide” of Hong Kong Stock Exchange’s listing rules.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE OF THE COMPANY

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

The Board is of the view that the Company has complied with the code provisions set out in the CG Code during the year ended 31 December 2016 (the “**Reporting Period**”). The major corporate governance principles and practices of the Company are summarised as below.

BOARD

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

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

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The board composition of the Company as at 31 December 2016 and the date of this report were as follows:

Executive Directors:

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

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

Mr. Jia Ruobing

Mr. Gou Xinfeng

Non-executive Director:

Mr. Zhu Wei

Independent Non-executive Directors:

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

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

Mr. Fu Johnson Chi-King (*Member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee*)

The biographical details of the current directors and the relationship among them, if any, are set out on pages 24 to 29 of this annual report.

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

CORPORATE GOVERNANCE REPORT

Board Meeting

During the Reporting Period, the Board has convened five meetings to discuss and approve the overall strategies and policies of the Company, review and approve the audited annual results of the Group for the year ended 31 December 2015, review and approve the unaudited interim results of the Group for the six months ended 30 June 2016, discuss/approve on the reporting and proposals of all Board committees, consider whether the continuing connected transactions for the year 2016 exceeded the annual cap set, consider and approve the renewal of the Company's continuing connected transactions, review the risk management and internal control systems of the Group, discuss the Company's preparation for publication of the Environmental, Social and Governance Report under the requirements of the "Environmental, Social and Governance Reporting Guide" as set out in Appendix 27 to the Listing Rules, consider and approve the adjustments to the remuneration of the Company's independent non-executive directors, and consider and approve the resignation of Mr. Xia Kun and the appointment of Mr. Gou Xinfeng as the Company's executive director.

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

Name of Directors	Attendance/ No. of meetings held	Attendance rate (%)
Executive Directors:		
Mr. Wu Tak Lam	5/5	100
Ms. Chiu Man	5/5	100
Mr. Jia Ruobing	5/5	100
Mr. Gou Xinfeng (note 1)	1/1	100
Mr. Xia Kun (note 2)	4/4	100
Non-executive Director:		
Mr. Zhu Wei	5/5	100
Independent Non-executive Directors:		
Mr. Liu Jie	5/5	100
Mr. Yu Yuanbo	5/5	100
Mr. Fu Johnson Chi-King	5/5	100

Notes:

1. Mr. Gou Xinfeng was appointed as an executive director with effect from 9 November 2016. After his appointment, 1 Board meeting was held during the Reporting Period.
2. Mr. Xia Kun resigned as an executive director with effect from 9 November 2016. Prior to his resignation, 4 Board meetings were held during the Reporting Period.

CORPORATE GOVERNANCE REPORT

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

Pursuant to the provisions of the Articles of Association as mentioned above, Mr. Zhu Wei, Mr. Yu Yuanbo and Mr. Fu Johnson Chi-King shall retire by rotation at the 2017 annual general meeting of the Company (the **"2017 AGM"**), whereas Mr. Gou Xinfeng, who has been appointed as an executive director of the Company with effect from 9 November 2016, will hold office until the 2017 AGM. All of the aforesaid directors are eligible for re-election at the 2017 AGM.

Mr. Zhu Wei, Mr. Yu Yuanbo and Mr. Fu Johnson Chi-King have indicated to the Board that since they want to devote more time to their other business commitments, they will not offer themselves for re-election and will therefore retire at the 2017 AGM. Mr. Gou Xinfeng has indicated that he will offer himself for re-election at the 2017 AGM. The Board and the Nomination Committee recommended the re-appointment of Mr. Gou Xinfeng standing for re-election at the 2017 AGM. The Company's circular, sent together with this annual report, contains detailed information of Mr. Gou Xinfeng pursuant to the requirements of the Listing Rules.

CORPORATE GOVERNANCE REPORT

TRAINING FOR DIRECTORS

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

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

- All directors (being Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Jia Ruobing, Mr. Gou Xinfeng, Mr. Zhu Wei, Mr. Liu Jie, Mr. Yu Yuanbo, Mr. Fu Johnson Chi-King and Mr. Xia Kun) received regular briefings and updates from the senior management on the Group's business, operating position and corporate governance matters.
- All directors (being Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Jia Ruobing, Mr. Gou Xinfeng, Mr. Zhu Wei, Mr. Liu Jie, Mr. Yu Yuanbo, Mr. Fu Johnson Chi-King and Mr. Xia Kun) read technical bulletins, periodicals and other publications in relation to the Group and those in relation to directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2016. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required by the Listing Rules and other regulatory requirements. The senior management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company in order to put forward such information to the Board for approval.

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

CORPORATE GOVERNANCE REPORT

DIRECTORS' LIABILITY INSURANCE

The Company has purchased director liability insurance for all directors.

POLICY ON DIVERSIFICATION OF THE BOARD

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

CORPORATE GOVERNANCE REPORT

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

We have established the Audit Committee with written terms of reference in accordance with Rule 3.21 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of the three independent non-executive directors, namely Mr. Liu Jie (Chairman of the committee), Mr. Yu Yuanbo and Mr. Fu Johnson Chi-King. The primary duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal control systems of the Group.

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

Members of the Audit Committee	Attendance/ No. of meetings held	Attendance rate (%)
Mr. Liu Jie	3/3	100
Mr. Yu Yuanbo	3/3	100
Mr. Fu Johnson Chi-King	3/3	100

CORPORATE GOVERNANCE REPORT

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

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

- Reviewed and discussed the annual financial statements, results announcement and report for the year ended 31 December 2015, relevant accounting principles and practices adopted by the Group and internal controls related matters, and the proposed re-appointment of the external auditors;
- Reviewed and discussed the interim financial statements, results announcement and interim report for the six months ended 30 June 2016, and relevant accounting principles and practices adopted by the Group;
- Reviewed the Group's continuing connected transactions, and discussed and reviewed the renewal of continuing connected transactions;
- Reviewed and inspected the performance and effectiveness of risk management and internal control systems;
- Listened to and discussed the internal audit situation and proposed remedial measures of the Company reported by the internal audit department;
- Discussed the Company's preparation for publication of the Environmental, Social and Governance report under the requirements of the "Environmental, Social and Governance Reporting Guide" as set out in Appendix 27 to the Listing Rules; and
- Reviewed the annual audit plan, which included the nature and scope of audit, fees payable to the auditors, their reporting obligations and working plans.

REMUNERATION COMMITTEE

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

CORPORATE GOVERNANCE REPORT

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

Members of the Remuneration Committee	Attendance/ No. of meeting held	Attendance rate (%)
Mr. Liu Jie	2/2	100
Mr. Yu Yuanbo	2/2	100
Mr. Fu Johnson Chi-King	2/2	100

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

- Generally reviewed and discussed the remuneration packages and benefits policies for the directors and senior management of the Group;
- Discussed the adjustments to the remuneration of the Company's independent non-executive directors; and
- Discussed Mr. Gou Xinfeng's remuneration package after his appointment as the Company's executive director.

Pursuant to Code Provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2016 is set out below:

Remuneration bands (RMB)	Number of individuals
250,000-500,000	1
500,001-750,000	1

Details of the remuneration of all directors of the Company for the year ended 31 December 2016 are set out in Note 8 to the consolidated financial statements in this annual report.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

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

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

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

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

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

- Reviewed the structure, size, composition and diversity of the Board;
- Considered and made recommendation to the Board on the re-election of the retiring directors at the 2016 annual general meeting;
- Assessed the independence of the independent non-executive directors; and
- Considered and proposed the appointment of Mr. Gou Xinfeng as an executive director in place of Mr. Xia Kun.

CORPORATE GOVERNANCE REPORT

FINANCE AND INVESTMENT COMMITTEE

On 1 December 2016, the Company established the Finance and Investment Committee under the Board with written terms of reference. The Finance and Investment Committee consists of the Chairman of the Board (who is an executive director), an executive director and an independent non-executive director, namely Mr. Wu Tak Lam (Chairman of the committee), Ms. Chiu Man and Mr. Liu Jie. Major duties of the Finance and Investment Committee are to arrange, consider, review and approve banking facilities, loans of the Group and the provisions of guarantees and indemnities by the Company to its subsidiaries, to take any action to enable the Committee exercise the powers and functions delegated by the Board, and to comply with any requirements, directives and regulations that are specified by the Board, the Articles of Association of the Company or the relevant legislation from time to time.

MODEL CODE ON SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding the directors’ dealings in the Company’s securities. Specific enquiry has been made to all the directors of the Company and each director has confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

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

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

TRAINING FOR COMPANY SECRETARY

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

During the year ended 31 December 2016, Ms. So Yee Kwan has received relevant professional trainings of no less than 15 hours.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on pages 70 to 74. The external auditors of the Company will be invited to attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, and auditors' independence.

The fees paid/payable to Ernst & Young, the Company's auditors, in respect of audit services and non-audit services provided for the year ended 31 December 2016 are analysed below:

Types of service provided by the external auditors	Fees paid/payable RMB
Audit services – audit fee for the year ended 31 December 2016	2,120,000
Non-audit services	–
Total:	2,120,000

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility towards risk management and internal control systems and that it is responsible for reviewing their effectiveness, to safeguard shareholders' investments and the Company's assets. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board reviews the effectiveness of the risk management and internal control systems as well as internal audit department on an annual basis through the Audit Committee of the Company. The internal audit department of the Group is under the leadership of the Board with independent monitoring authority. During the Reporting Period, the internal audit department has formulated internal control systems in compliance with the principles of comprehensiveness, importance and applicability as well as cost-effective. Thereby, it is able to carry out effective risk management and internal control through internal control measures including routine supervision, special supervision, prior approval, in-process control and post verification. Generally, the measures are as follows:

1. Introducing the Measures for Bidding and Tendering of the Group and the Company (《集團公司招投標辦法》) to process tender management on the projects with qualified capital;
2. Developing appraisal rules of suppliers and carrying out management and control to admittance qualification of suppliers to maintain a strict standard of quality and price;

CORPORATE GOVERNANCE REPORT

3. Optimizing assets management practices by thoroughly monitoring assets safety from approval of their purchases until their disposals;
4. Enhancing the management and auditing of operation system. During the year, the Group redeveloped and improved report exaction of the OA and EAS operation systems operated by the Group's subsidiaries to ensure the accuracy, completeness and timeliness of corporate operation data; and
5. Controlling risks within a tolerable level by adopting a series of risk management measures, including property protection control, authorization and approval control, operation analysis control, performance appraisal control and budget control.

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

According to the findings of the internal audit department, the conclusions made by the Board and the Audit Committee on risk management and internal control of the Group for the year ended 31 December 2016 are as follows: (i) the Group's risk management and internal control systems have been highly efficient and adequate; (ii) the Group has necessary control system in place for monitoring and rectifying any non-compliance incidents; and (iii) the Group has complied with the requirements as set out in the CG Code in respect of risk management and internal control.

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

CORPORATE GOVERNANCE REPORT

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

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

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

During the year ended 31 December 2016, the Company held one shareholders' meeting, being the 2016 annual general meeting held on 31 May 2016. Details of individual attendance of each director at the aforesaid shareholders' meeting are set out below:

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

Note: As at the date of 2016 annual general meeting of the Company, Mr. Xia Kun (a former executive director of the Company) remained as a director of the Company, while Mr. Gou Xinfeng (an existing executive director of the Company) has not been appointed as a director of the Company.

CORPORATE GOVERNANCE REPORT

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

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

RIGHTS OF SHAREHOLDERS

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

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

1. Pursuant to Article 12.3 of the Articles of Association of the Company, shareholders holding no less than one-tenth of the paid up capital of the Company as at the date of lodgement of the requisition may lodge a written requisition to the Board or Company Secretary at the head office/principal place of business in Hong Kong of the Company to request the Board to convene an extraordinary general meeting. The written requisition must state the purposes of the meeting.
2. If a shareholder wishes to propose a person other than a retiring director for election as a director at the general meeting, pursuant to Article 16.4 of the Articles of Association of the Company, the shareholder (other than the person to be proposed) eligible for attending and voting at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's principal place of business in Hong Kong to the Company Secretary. The period for lodgement of such proposal notices shall be 7 days from the day after the despatch of the notice of such general meeting (or such other period being a period commencing on the day after the despatch of the notice of such general meeting as determined by the Board from time to time) and end no later than 7 days prior to the date of such general meeting.

CORPORATE GOVERNANCE REPORT

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

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

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

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

- (i) sale of automobiles, both imported and domestically manufactured;
- (ii) after-sales services, including:
 - a. maintenance and repair services;
 - b. sales of spare parts; and
 - c. automobile detailing services; and
- (iii) other value-added services, including:
 - a. automobile insurance agency services;
 - b. automobile financing services;
 - c. automobile licensing services; and
 - d. automobile survey services.

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

ANALYSIS ON RESULTS AND FINANCIAL KEY PERFORMANCE INDICATORS

The Group’s profits for the year ended 31 December 2016 and the financial position of the Company and the Group as at that date are set out in Financial Statements on page 75 and pages 77 to 78 of this annual report.

A review of the Group’s business during the year, which includes a discussion on the principal risks and uncertainties faced by the Group, an analysis on the Group’s performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group’s business, can be found in this Report of the Directors and the Management Discussion and Analysis as set out on pages 8 to 23 of this annual report. The business review forms part of this Report of the Directors.

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

Please refer to the Environmental, Social and Governance Report as set out on pages 30 to 36 of this annual report for the details of environmental policies and performance of the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

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

For the year ended 31 December 2016, as far as the Board is aware, there was no material breach of the laws or regulations that have a significant impact on the Company's business and operation by the Company.

REPORT OF THE DIRECTORS

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Company's 2017 AGM will be held on Friday, 26 May 2017. In order to determine shareholders' entitlement to attend and vote at the 2017 AGM, the register of members of the Company will be closed from Tuesday, 23 May 2017 to Friday, 26 May 2017 (both days inclusive). In order to be entitled to attend and vote at the 2017 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Monday, 22 May 2017.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to propose the distribution of a final dividend of HK\$0.022 per share for the year ended 31 December 2016 in an aggregate amount of RMB11.8 million. The proposed distribution of final dividend is subject to the consideration and approval of shareholders at the 2017 AGM of the Company to be held on Friday, 26 May 2017.

Where the proposed distribution of final dividend is approved at the 2017 AGM, the dividend will be paid on Monday, 26 June 2017 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 8 June 2017. Therefore, the register of members of the Company will be closed from Tuesday, 6 June 2017 to Thursday, 8 June 2017 (both days inclusive). In order to be entitled to the final dividend, unregistered holders of shares of the Company should ensure that the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Monday, 5 June 2017.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

As of the date of this report, the authorised share capital of the Company was US\$100,000.00, divided into 1,000,000,000 shares of a par value of US\$0.0001 each. There were no movements in the issued shares of the Company during the year. Details of the Company's share capital are set out in Note 30 to the Financial Statements.

RESERVES

Details of changes in the reserves of the Company and the Group during the year are set out in Notes 43 and 32 to the Financial Statements and in the consolidated statement of changes in equity, respectively. Of which, details of reserves available for distribution to shareholders are set out in Notes 43 and 32 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the distributable reserves of the Company available for distribution, calculated based on the Companies Law of Cayman Islands, amounted to approximately RMB347.1 million in aggregate, among which RMB11.8 million was proposed for the payment of annual final dividend.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

USE OF PROCEEDS

For the year ended 31 December 2016, the Group utilized the proceeds raised cautiously based on the development of the market and the Group's businesses. During 2016, the Group made a further capital contribution of US\$20.0 million, with an accumulated capital contribution of US\$40.0 million, for the establishment of Sunfonda (China) Investment Company Limited (新豐泰(中國)投資有限公司) in Shanghai Free-Trade Zone as a holding platform for the diversification of our business in China, which will provide working capital for our business development and thus reduce bank loans and lower the Group's overall finance costs.

MAJOR CUSTOMERS AND SUPPLIERS

Transaction amounts with five largest customers of the Company for 2016 accounted for less than 30% of the operating income of the Company for 2016. None of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year. The Group's business is of retail nature with customers being relatively dispersed.

The purchase attributable to the Group's five largest suppliers and the largest supplier accounted for approximately 88.3% and 32.1% respectively of the Group's total purchase for the year ended 31 December 2016. The Group has established long-term cooperation relationships with automobile suppliers. The Group believes that its strong performance demonstrates its excellent capability and in-depth market knowledge of the automobile distribution business in Northwestern China. The Group is confident that its operating capability and professional knowledge is conducive for the automobile suppliers to gain market shares in China and win customer loyalty. Therefore, the automobile suppliers have maintained close contact with the Group and sought out recommendations in respect of their development strategies in Northwestern China.

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

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and its subsidiaries as at 31 December 2016 are set out in Note 25 to the Financial Statements.

REPORT OF THE DIRECTORS

CHARITABLE DONATIONS

For the year ended 31 December 2016, the Group made charitable donations of approximately RMB50,000 in aggregate.

DIRECTORS

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

Executive Directors

Mr. Wu Tak Lam

Ms. Chiu Man

Mr. Jia Ruobing

Mr. Gou Xinfeng (appointed on 9 November 2016)

Mr. Xia Kun (resigned on 9 November 2016)

Non-executive Director

Mr. Zhu Wei

Independent Non-executive Directors

Mr. Liu Jie

Mr. Yu Yuanbo

Mr. Fu Johnson Chi-King

Pursuant to Article 16.2 of the Articles of Association of the Company, Mr. Gou Xinfeng, who was newly appointed as a director on 9 November 2016, shall retire at the 2017 AGM. In addition, pursuant to Article 16.18 of the Articles of Association of the Company, Mr. Zhu Wei, Mr. Yu Yuanbo and Mr. Fu Johnson Chi-King shall retire as directors of the Company by rotation at the 2017 AGM. All the four retiring directors mentioned above are eligible to be re-elected at the 2017 AGM.

It is noted that Mr. Gou Xinfeng will offer himself for re-election at the 2017 AGM; whereas Mr. Zhu Wei, Mr. Yu Yuanbo and Mr. Fu Johnson Chi-King will not offer themselves for re-election and they will therefore retire at the 2017 AGM.

REPORT OF THE DIRECTORS

BIOGRAPHIES OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the directors and the senior management are set out on pages 24 to 29 of this annual report.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into a service contract with each of the directors, the major particulars of which are as follows: (1) Except for Mr. Gou Xinfeng, the service contracts entered into between other directors of the Company and the Company are for a term of three years starting from 15 May 2014, and the service contract entered into between Mr. Gou Xinfeng and the Company is for a term of three years starting from 9 November 2016; and (2) being terminable in accordance with the respective terms of the contracts.

None of the directors who are proposed for re-election at the 2017 AGM has entered into a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF THE DIRECTORS

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

REMUNERATION OF THE FIVE HIGHEST PAID INDIVIDUALS

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

PERMITTED INDEMNITY PROVISION

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

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

REPORT OF THE DIRECTORS

PENSION SCHEME

Details of pension scheme of the Company are set out in Note 28 to the Financial Statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries or parent companies, or any subsidiaries of the parent companies of the Company was a party and in which any director of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2016.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2016, none of the directors nor their associates has competing interests in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Company.

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

As at 31 December 2016, the interests of the Company's directors in the shares of the Company or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "**SFO**")) which were required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or as were required to be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:

REPORT OF THE DIRECTORS

(A) Long position in ordinary shares of the Company

Name of Director	Capacity/nature of interest	Notes	Number of shares	Approximate percentage* of shareholding in the Company
Mr. Wu Tak Lam	Interest held by controlled corporations	1	359,134,000	59.86%
Ms. Chiu Man	Interest held by controlled corporations	1	359,134,000	59.86%
Mr. Jia Ruobing	Beneficiary of a trust Beneficial owner	2	218,000	0.04%
			92,000	0.01%
			310,000	0.05%
Mr. Gou Xinfeng	Beneficiary of a trust Beneficial owner	3	90,000	0.01%
			10,000	0.01%
			100,000	0.02%

Notes:

- (1) These shares are held as to 351,000,000 shares by Top Wheel and 8,134,000 shares by Westernrobust Company Limited ("**Westernrobust**").

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

The entire issued share capital of Westernrobust is owned by a revocable discretionary trust (the "**Management Trust**") established for the purposes of recognizing and rewarding the contribution and performance of certain directors and senior management of the Group pursuant to the Pre-IPO Share Award Scheme adopted by the Company on 8 January 2014 (the "**Pre-IPO Share Award Scheme**"). Top Wheel is the settlor of the Management Trust and possesses all voting rights attached to the unawarded shares and awarded shares which have not been vested under the Management Trust. Thus, the Management Trust and Top Wheel are deemed to be interested in the 8,134,000 shares held by Westernrobust. As Top Wheel is a controlled corporation of Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed and Win Force, are also deemed to be interested in the 8,134,000 shares of the Company held by Westernrobust pursuant to Part XV of the SFO.

- (2) Mr. Jia Ruobing is deemed to be interested in these 218,000 awarded shares, which have been granted to him (but not yet vested) pursuant to the Pre-IPO Share Award Scheme.
- (3) Mr. Gou Xinfeng is deemed to be interested in these 90,000 awarded shares, which have been granted to him (but not yet vested) pursuant to the Pre-IPO Share Award Scheme.

* The percentage represents the number of ordinary shares involved divided by the number of the Company's issued shares as at 31 December 2016.

REPORT OF THE DIRECTORS

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

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

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

* The percentage represents the number of ordinary shares interested divided by the number of issued shares of the associated corporation as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, none of the directors or chief executive of the Company had an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 31 December 2016, the following corporations had interests of 5% or more of the issued share capital of the Company which were required to be recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

Long position in ordinary shares of the Company

Name of shareholder	Capacity/Nature of Interest	Notes	Number of shares	Approximate percentage* of shareholding in the Company
Top Wheel Limited	Beneficial owner	1	351,000,000	58.50%
	Founder of a discretionary trust	1	8,134,000	1.36%
			359,134,000	59.86%
Win Force Enterprises Limited	Interest held by a controlled corporation	1	359,134,000	59.86%
Golden Speed Enterprises Limited	Interest held by a controlled corporation	1	359,134,000	59.86%
Standard Chartered PLC	Interest held by a controlled corporation	2	90,000,000	15.00%

REPORT OF THE DIRECTORS

Notes:

- (1) The above interests of Top Wheel, Win Force and Golden Speed were also disclosed as the interests of each of Mr. Wu Tak Lam and Ms. Chiu Man in the above section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures".
 - (2) Standard Chartered PLC, a bank listed on the stock exchanges of London, Hong Kong and India, indirectly wholly owns Standard Chartered Private Equity (Mauritius) III Limited through a series of wholly-owned subsidiaries, including Standard Chartered Holdings Limited, Standard Chartered Bank, SCMB Overseas Limited, Standard Chartered Holdings (International) B.V., Standard Chartered M.B. Holdings B.V., Standard Chartered Asia Limited and Standard Chartered Private Equity Limited, and is therefore deemed to be interested in the shares of the Company held by Standard Chartered Private Equity (Mauritius) III Limited.
- * The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, no person, other than the directors whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had a registered interest or short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

MANAGEMENT CONTRACTS

During the year ended 31 December 2016, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed.

SHARE OPTION SCHEME

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

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

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

REPORT OF THE DIRECTORS

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

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

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

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

Details of the Share Option Scheme were disclosed in the Company's prospectus and Note 31(b) to the Financial Statements. The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 60,000,000, representing 10% of the shares of the Company in issue as at the date of approval of this report. No options have been granted under the Share Option Scheme since its adoption.

REPORT OF THE DIRECTORS

PRE-IPO SHARE AWARD SCHEME

The Pre-IPO Share Award Scheme was adopted by the Company on 8 January 2014. For the implementation of the Pre-IPO Share Award Scheme, the Management Trust was established on the same date for the benefit of certain employees with Cantrust (Far East) Limited acting as the trustee. 9,000,000 shares of the Company were transferred to the Management Trust for nil consideration on the same date pursuant to the Pre-IPO Share Award Scheme. As at 31 December 2016, the Company has granted an aggregate of 3,090,000 shares to grantees in accordance with the Pre-IPO Share Award Scheme. Details of the Pre-IPO Share Award Scheme were disclosed in the Company's prospectus and Note 31(a) to the Financial Statements.

EQUITY-LINKED AGREEMENTS

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

CONTRACT OF SIGNIFICANCE

No contract of significance has been entered into between the Company, or any of its subsidiaries and the controlling shareholder or any of its subsidiaries during the year ended 31 December 2016.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in Note 28 to the Financial Statements.

CORPORATE GOVERNANCE

Please refer to the Corporate Governance Report on pages 37 to 52 of this annual report for details.

PUBLIC FLOAT

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

REPORT OF THE DIRECTORS

MATERIAL LITIGATION

During the year ended 31 December 2016, the Group was neither involved in any material litigation or arbitration, nor may be brought up or accused of any pending material litigation or claims.

AUDIT COMMITTEE

The Audit Committee (consisting of the three independent non-executive directors of the Company) has reviewed the consolidated financial statements for the year ended 31 December 2016, and is of the view that the Group's consolidated financial statements for the year ended 31 December 2016 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2016 and up to the date of this annual report, the controlling shareholders of the Company, namely Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed Enterprises Limited, Win Force Enterprises Limited and Top Wheel Limited (collectively referred to as the **"Controlling Shareholders"**), have no interests in any business which competes with or is likely to compete with the businesses of the Group.

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

Based on the information and confirmations provided by or obtained from the Controlling Shareholders, the independent non-executive directors of the Company reviewed the compliance conditions in respect of the Deed of Non-Competition for the year ended 31 December 2016 and up to the date of this annual report, and believed that the Controlling Shareholders had fully complied with the Deed of Non-Competition.

CONNECTED TRANSACTIONS

Among the related party transactions disclosed in Note 40 to the Financial Statements, the following transaction constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules and is required to be disclosed in this annual report in accordance with the requirements set out in Chapter 14A of the Listing Rules. Please see the below information disclosed in compliance with Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

On 24 February 2014, Shaanxi Sunfonda Automobile Technology Development Co., Ltd. ("**Shaanxi Sunfonda Technology**"), a subsidiary of the Company, entered into an automobile sales and purchase agreement ("**Automobile Sales and Purchase Agreement**") with Yangzhou Sunfonda Automobile Co., Ltd. ("**Yangzhou Sunfonda**"), pursuant to which Yangzhou Sunfonda agreed to purchase Volkswagen Imported automobiles from Shaanxi Sunfonda Technology. Pursuant to the Automobile Sales and Purchase Agreement, Yangzhou Sunfonda purchased Volkswagen Imported automobiles from us at the unit price equivalent to our purchase price, which is in compliance with our pricing policy for our wholesale business with other independent automobile dealers.

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

The annual cap of sales under the Automobile Sales and Purchase Agreement was RMB74 million and 133 units for the year ended 31 December 2016. For the year ended 31 December 2016, Shaanxi Sunfonda Technology sold 21 units with an aggregate amount of sales of approximately RMB9.5 million to Yangzhou Sunfonda, which was within the above-mentioned annual cap. For more information, please also see Note 40 to the Financial Statements.

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

In view of the fact that the Automobile Sales and Purchase Agreement has expired on 31 December 2016, and in consideration of the benefits to the Company from the transactions mentioned above, the Company has entered into a new automobile sales agreement ("**New Automobile Sales Agreement**") with Yangzhou Sunfonda on 1 December 2016. Pursuant to the New Automobile Sales Agreement, the Group would sell Volkswagen Imported automobiles to Yangzhou Sunfonda over the three years in 2017, 2018 and 2019. Directors of the Company (including independent non-executive directors) have confirmed that the transaction under the New Automobile Sales Agreement will be conducted in the ordinary and usual course of business of the Group. The transaction under the New Automobile Sales Agreement is also fair and reasonable and is in the interests of the Company and the shareholders as a whole, and the relevant annual caps are fair and reasonable and are in the interests of the Company and the shareholders as a whole. Please refer to the announcement of the Company dated 1 December 2016 for more details.

REPORT OF THE DIRECTORS

Ernst & Young, the Company's independent auditors, were engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued a letter containing their findings and conclusions in respect of the continuing connected transaction disclosed above by the Group in accordance with relevant clauses of Rule 14A.56 of the Listing Rules. A copy of the auditors' letter will be provided by the Company to the Stock Exchange.

AUDITORS

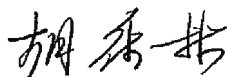
The consolidated financial statements have been audited by Ernst & Young who will retire and, being eligible, offer themselves for re-appointment at the 2017 AGM. A resolution for the re-appointment of Ernst & Young as the auditors of the Company is to be proposed at the 2017 AGM.

SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR END DATE

There were no significant subsequent events that had occurred from 1 January 2017 to the date of this annual report.

By order of the Board

Sunfonda Group Holdings Limited



Mr. Wu Tak Lam

Chairman

Hong Kong, 30 March 2017

INDEPENDENT AUDITORS' REPORT



Ernst & Young
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To the shareholders of Sunfonda Group Holdings Limited

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

OPINION

We have audited the consolidated financial statements of Sunfonda Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 75 to 150, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITORS' REPORT

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

Key audit matter

How our audit addressed the key audit matter

Accrual of rebates

The Group recognise volume-related vendor rebates on an accrual basis according to the terms of the supplier contracts. As at 31 December 2016, the rebate receivables recognised were RMB178,325,000. The balance of rebate receivables is significant and the process of accruing the rebates is complex.

Our audit procedures included, among others, checking the rebate policies adopted against the terms of the relevant supplier contracts and checking the calculation of the rebate receivables based on the rebate policies. We have also checked subsequent receipts of the rebates.

Information of the rebates receivables is disclosed in note 20 to the financial statements.

Deferred tax assets

As at 31 December 2016, deferred tax assets recognised were RMB20,774,000. The deferred tax assets were recognised based on management's estimation of future taxable profits that would be available for utilising the deferred tax assets. As at 31 December 2016, deferred tax assets had not been recognised on accumulated tax losses of RMB142,681,000. The process of estimating the amount of the future taxable profits is complex, and involves estimates and judgements that would be affected by future actual operations, tax regulations, market or economic conditions.

We assessed management's assumptions to evaluate the probability that deferred tax assets recognised in the statement of financial position will be recovered through taxable income in future years and available tax planning strategies. We analysed the assumptions used by management to determine tax positions and we evaluated the assumptions with reference to supporting evidence. In addition, we assessed the historical accuracy of management's assumptions. We also checked the appropriateness of the relevant disclosures of deferred tax assets and unrecognised temporary differences.

Information of the deferred tax assets and the unrecognised tax losses is disclosed in note 29 to the financial statements.

INDEPENDENT AUDITORS' REPORT

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.

INDEPENDENT AUDITORS' REPORT

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, 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.

INDEPENDENT AUDITORS' REPORT

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

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

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

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

Ernst & Young

Certified Public Accountants

Hong Kong

30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5(a)	7,685,994	7,487,079
Cost of sales and services	6(b)	(7,215,366)	(6,996,371)
Gross profit		470,628	490,708
Other income and gains, net	5(b)	150,455	118,212
Selling and distribution expenses		(258,890)	(267,229)
Administrative expenses		(182,678)	(178,298)
Profit from operations		179,515	163,393
Finance costs	7	(87,482)	(121,759)
Profit before tax	6	92,033	41,634
Income tax expense	10	(45,624)	(16,507)
Profit for the year		46,409	25,127
Attributable to:			
Owners of the parent		46,863	25,916
Non-controlling interests		(454)	(789)
		46,409	25,127
Earnings per share attributable to ordinary equity holders of the parent	12		
Basic and diluted (RMB)		0.08	0.04

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2016

	2016 RMB'000	2015 RMB'000
Profit for the year	46,409	25,127
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	15,656	19,419
Other comprehensive income for the year, net of tax	15,656	19,419
Total comprehensive income for the year	62,065	44,546
Attributable to:		
Owners of the parent	62,519	45,335
Non-controlling interests	(454)	(789)
	62,065	44,546

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	921,450	928,746
Land use rights	14	290,683	259,531
Intangible assets	15	3,151	3,525
Prepayments	16	97,643	100,461
Goodwill	17	510	510
Deferred tax assets	29	20,774	29,809
Total non-current assets		1,334,211	1,322,582
CURRENT ASSETS			
Inventories	18	681,809	692,609
Trade receivables	19	63,375	51,064
Prepayments, deposits and other receivables	20	539,231	638,119
Amount due from a related party	40(b)(i)	21,662	28,672
Available-for-sale investments	21	–	33,512
Pledged bank deposits	22	190,260	269,400
Cash in transit	23	21,526	29,288
Cash and cash equivalents	24	846,206	933,157
Total current assets		2,364,069	2,675,821
CURRENT LIABILITIES			
Bank loans and other borrowings	25	1,227,991	1,529,675
Trade and bills payables	26	426,393	466,689
Other payables and accruals	27	297,825	281,173
Income tax payable		23,534	26,136
Total current liabilities		1,975,743	2,303,673
NET CURRENT ASSETS		388,326	372,148
TOTAL ASSETS LESS CURRENT LIABILITIES		1,722,537	1,694,730

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	25	59,500	96,000
NET ASSETS		1,663,037	1,598,730
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	377	377
Reserves	32	1,658,566	1,593,805
		1,658,943	1,594,182
Non-controlling interests		4,094	4,548
Total equity		1,663,037	1,598,730

Director
Wu Tak Lam

Director
Chiu Man

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2016

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

* These reserve accounts comprise the consolidated reserves of RMB1,658,566,000 (2015: RMB1,593,805,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2016

	Attributable to owners of the parent										Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000		
At 1 January 2015	377	347,058	125,420	55,521	157,947	1,512	4,766	854,510	29,819	1,576,930	5,337	1,582,267
Profit for the year	-	-	-	-	-	-	-	25,916	-	25,916	(789)	25,127
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	19,419	-	-	19,419	-	19,419
Total comprehensive income for the year	-	-	-	-	-	-	19,419	25,916	-	45,335	(789)	44,546
Transfer from retained profits	-	-	-	4,812	-	-	-	(4,812)	-	-	-	-
Final 2014 dividend declared	-	-	-	-	-	-	-	-	(29,819)	(29,819)	-	(29,819)
Equity-settled share award expense (note 31)	-	-	-	-	-	1,736	-	-	-	1,736	-	1,736
At 31 December 2015	377	347,058	125,420	60,333	157,947	3,248	24,185	875,614	-	1,594,182	4,548	1,598,730

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before tax		92,033	41,634
Adjustments for:			
Depreciation of items of property, plant and equipment	13	97,335	103,961
Amortisation of land use rights	14	7,342	6,022
Amortisation of intangible assets	15	642	638
Interest income	5(b)	(6,899)	(9,514)
Net loss on disposal of items of property, plant and equipment	5(b)	11,263	22,921
Impairment of inventories		–	732
Equity-settled share award expense	6(a)	2,242	1,736
Finance costs	7	87,482	121,759
Investment income	5(b)	–	(600)
		291,440	289,289
Decrease in pledged bank deposits		79,140	46,690
Decrease in cash in transit		7,762	6,184
Increase in trade receivables		(12,311)	(9,210)
Decrease/(increase) in prepayments, deposits and other receivables		101,364	(29,144)
Decrease/(increase) in an amount due from a related party		7,010	(12,242)
Decrease in inventories		10,800	390,316
Decrease in trade and bills payables		(40,296)	(51,756)
Increase in other payables and accruals		18,298	22,251
Cash generated from operations		463,207	652,378
Tax paid		(39,191)	(38,757)
Net cash generated from operating activities		424,016	613,621

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Investing activities			
Purchase of items of property, plant and equipment		(189,507)	(265,355)
Proceeds from disposal of items of property, plant and equipment		91,377	110,336
Purchase of land use rights		(40,494)	(56,785)
Purchase of intangible assets		(268)	(66)
Purchase of available-for-sale investments		–	(33,512)
Proceeds from disposal of available-for-sale investments		33,512	20,000
Interest received		6,899	9,514
Disposal of a subsidiary	33	–	96
Acquisition of a subsidiary	34	–	(10,096)
Investment income	5(b)	–	600
Net cash used in investing activities		(98,481)	(225,268)
Financing activities			
Proceeds from bank loans and other borrowings		5,477,693	5,573,635
Repayment of bank loans and other borrowings		(5,815,877)	(5,785,803)
Interest paid		(87,482)	(121,759)
Dividends paid	11	–	(29,819)
Net cash used in financing activities		(425,666)	(363,746)
Net (decrease)/increase in cash and cash equivalents		(100,131)	24,607
Cash and cash equivalents at the beginning of year		933,157	886,966
Effect of foreign exchange rate changes, net		13,180	21,584
Cash and cash equivalents at the end of year	24	846,206	933,157

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

Particulars of the Company’s principal subsidiaries as at 31 December 2016 are as follows:

Company name	Place and date of registration/ incorporation and place of business	Registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
新豐泰(香港)有限公司 (Sunfonda (Hong Kong) Limited)	Hong Kong, the PRC 1997	Issued capital of HK\$1,501,000	–	100%	Investment holding
Grand Forever Enterprises Limited	Tortola, the BVI 2011	Registered capital of US\$50,000 and paid-in capital of US\$2,001	100%	–	Investment holding
陝西新豐泰汽車有限責任公司* (Shaanxi Sunfonda Automobile Co., Ltd.)	Xi'an, the PRC 2000	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
陝西新豐泰汽車技術開發有限責任公司* (Shaanxi Sunfonda Automobile Technology Development Co., Ltd.)	Xi'an, the PRC 2001	Registered capital of RMB531,284,500 and paid-in capital of RMB521,284,500	–	100%	Sale and service of motor vehicles
西安新銘洋豐田汽車銷售服務有限公司* (Xi'an Xinmingyang Toyota Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2003	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
陝西凱盛汽車銷售服務有限公司* (Shaanxi Kaisheng Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2016 are as follows (continued):

Company name	Place and date of registration/ incorporation and place of business	Registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
陝西信捷汽車有限責任公司* (Shaanxi Xinjie Automobile Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of RMB13,000,000	–	100%	Sale and service of motor vehicles
西安鈞盛雷克薩斯汽車銷售服務有限公司* (Xi'an Junsheng Lexus Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of HK\$20,000,000	–	100%	Sale and service of motor vehicles
山西盈捷汽車銷售服務有限公司* (Shanxi Yingjie Automobile Sales Services Co., Ltd.)	Taiyuan, the PRC 2009	Registered and paid-in capital of RMB13,204,500	–	100%	Sale and service of motor vehicles
鄂爾多斯市新豐泰信捷汽車有限責任公司* (Ordos Sunfonda Xinjie Automobile Co., Ltd.)	Ordos, the PRC 2010	Registered and paid-in capital of RMB26,846,750	–	100%	Sale and service of motor vehicles
陝西新豐泰博奧汽車有限責任公司* (Shaanxi Sunfonda Boao Automobile Co., Ltd.)	Xi'an, the PRC 2010	Registered and paid-in capital of RMB55,199,805	–	100%	Sale and service of motor vehicles
鄂爾多斯市新豐泰凱盛汽車有限責任公司* (Ordos Sunfonda Kaisheng Automobile Co., Ltd.)	Ordos, the PRC 2010	Registered and paid-in capital of RMB29,733,148	–	100%	Sale and service of motor vehicles
西安新豐泰之星汽車銷售服務有限公司*** (Xi'an Sunfonda Zhixing Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2009	Registered and paid-in capital of HK\$84,000,000	–	100%	Sale and service of motor vehicles
蘇州新豐泰汽車銷售服務有限公司** (Suzhou Sunfonda Automobile Sales Services Co., Ltd.)	Suzhou, the PRC 2011	Registered capital of HK\$52,000,000 and paid-in capital of HK\$45,000,000	–	100%	Sale and service of motor vehicles
蘭州新豐泰汽車銷售有限責任公司* (Lanzhou Sunfonda Automobile Sales Co., Ltd.)	Lanzhou, the PRC 2011	Registered and paid-in capital of RMB38,104,012	–	100%	Sale and service of motor vehicles
陝西新豐泰迎賓汽車銷售服務有限公司* (Shaanxi Sunfonda Yingbin Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2011	Registered and paid-in capital of RMB27,187,450	–	100%	Sale and service of motor vehicles

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2016 are as follows (continued):

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

1. CORPORATE AND GROUP INFORMATION (*continued*)

Information about subsidiaries (*continued*)

Particulars of the Company's principal subsidiaries as at 31 December 2016 are as follows (*continued*):

Company name	Place and date of registration/ incorporation and place of business	Registered/paid-in/ issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
渭南新豐泰博奧汽車銷售服務有限公司* (Weinan Sunfonda Boao Automobile Sales Services Co., Ltd.)	Weinan, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	80%	Sale and service of motor vehicles
陝西新豐泰福生汽車銷售服務有限公司* (Shaanxi Sunfonda Fusheng Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
咸陽新豐泰瑞嘉汽車銷售服務有限公司* (Xianyang Sunfonda Ruijia Automobile Sales Services Co., Ltd.)	Xianyang, the PRC 2014	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
新豐泰(中國)投資有限公司** (Sunfonda (China) Investment Co., Ltd)	Shanghai, the PRC 2015	Registered and paid-in capital of US\$89,232,599	–	100%	Investment holding

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

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	<i>Classification and Measurement of Share-based Payment Transactions²</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts²</i>
HKFRS 9	<i>Financial Instruments²</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 15	<i>Revenue from Contracts with Customers²</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers²</i>
HKFRS 16	<i>Leases³</i>
Amendments to HKAS 7	<i>Disclosure Initiative¹</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses¹</i>

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

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

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

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 standard.

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

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

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Business combinations and goodwill (*continued*)

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

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Business combinations and goodwill (*continued*)

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

Fair value measurement

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Fair value measurement (*continued*)

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

- | | | |
|---------|---|---|
| Level 1 | – | based on quoted prices (unadjusted) in active markets for identical assets or liabilities |
| Level 2 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly |
| Level 3 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable |

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

Impairment of non-financial assets

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Impairment of non-financial assets (*continued*)

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- or
- (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;

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Related parties (*continued*)

- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The 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.

The principal estimated useful life of an intangible asset is as follows:

Software	5 years
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Leases

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

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

Land use rights

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the right to use certain land and the consideration paid for such a right is recorded as land use rights, which are amortised over the lease terms of 40 to 70 years using the straight-line method.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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

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

Subsequent measurement

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments and other financial assets (*continued*)

Subsequent measurement (*continued*)

Available-for-sale financial investments

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Impairment of financial assets (*continued*)

Financial assets carried at amortised cost

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

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Impairment of financial assets (*continued*)

Available-for-sale financial investments (*continued*)

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.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities mainly include trade and bills payables, other payables and bank loans and other borrowings.

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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, 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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

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, 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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the services are fully rendered and accepted by customers;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

Vendor rebates

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

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

Share-based payments

The Company operates a share award scheme and a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. Further details of the fair value are given in note 31 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Share-based payments (*continued*)

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Other employee benefits

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

Borrowing costs

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

Dividends

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

Foreign currencies

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Foreign currencies (*continued*)

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets was RMB20,774,000 as at 31 December 2016 (2015: RMB29,809,000). The amount of unrecognised tax losses at 31 December 2016 was RMB142,681,000 (2015: RMB65,236,000). Further details are contained in note 29 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

Useful lives of property, plant and equipment

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Net realisable value of inventories

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

4. OPERATING SEGMENT INFORMATION

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

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

Information about geographical areas

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

Information about major customers

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

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

	2016 RMB'000	2015 RMB'000
Revenue from the sale of motor vehicles	6,859,168	6,689,191
Others	826,826	797,888
	7,685,994	7,487,079

(b) Other income and gains, net:

	2016 RMB'000	2015 RMB'000
Commission income	130,120	103,262
Logistics and storage income	17,737	20,406
Interest income	6,899	9,514
Advertisement support received from motor vehicle manufacturers	3,320	1,201
Net loss on disposal of items of property, plant and equipment	(11,263)	(22,921)
Investment income	–	600
Others	3,642	6,150
	150,455	118,212

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

6. PROFIT BEFORE TAX

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

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

	2016 RMB'000	2015 RMB'000
Wages and salaries	128,947	123,533
Equity-settled share award expense	2,242	1,736
Other welfare	22,527	20,773
	153,716	146,042

(b) Cost of sales and services

	2016 RMB'000	2015 RMB'000
Cost of sales of motor vehicles	6,757,479	6,577,337
Others *	457,887	419,034
	7,215,366	6,996,371

* Employee benefit expenses of RMB39,807,000 (2015: RMB36,948,000) were included in the cost of sales and services.

(c) Other items

	2016 RMB'000	2015 RMB'000
Depreciation of items of property, plant and equipment	97,335	103,961
Amortisation of land use rights	7,342	6,022
Amortisation of intangible assets	642	638
Auditors' remuneration	2,120	2,080
Advertising and business promotion expenses	63,002	61,558
Lease expense	7,587	12,664
Bank charges	8,156	8,641
Office expenses	22,989	23,377
Logistics expenses	9,859	8,897
Net loss on disposal of items of property, plant and equipment	11,263	22,921
Investment income	–	(600)

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank borrowings and other borrowings	87,482	121,759

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

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

	Year ended 31 December 2015				
	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Equity- settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
– Mr. Wu Tak Lam	–	201	–	10	211
– Ms. Chiu Man ⁽ⁱ⁾	–	201	–	10	211
– Mr. Xia Kun ⁽ⁱⁱ⁾	–	429	122	31	582
– Mr. Jia Ruobing	–	861	223	34	1,118
	–	1,692	345	85	2,122
Non-executive director:					
– Mr. Zhu Wei	–	–	–	–	–
Independent non-executive directors:					
– Mr. Liu Jie	200	–	–	–	200
– Mr. Yu Yuanbo	200	–	–	–	200
– Mr. Fu Johnson Chi-King	235	–	–	–	235
	635	–	–	–	635
	635	1,692	345	85	2,757

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

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

(iii) Mr. Gou Xinfeng was appointed as an executive director with effect from 9 November 2016.

During the year ended 31 December 2016, certain directors were granted share awards, in respect of their services to the Group, under the share award scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of these share awards, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

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

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included two directors for the year (2015: two), details of whose remuneration are disclosed in note 8 above. Details of the remuneration for the year of the remaining three (2015: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	1,768	1,614
Pension scheme contributions	102	93
	1,870	1,707

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
Nil to HK\$1,000,000	3	3

During the year ended 31 December 2016, share awards were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such share awards, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

10. INCOME TAX

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

	2016 RMB'000	2015 RMB'000
Current Mainland China corporate income tax	36,589	31,626
Deferred tax (note 29)	9,035	(15,119)
	45,624	16,507

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

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

The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

10. INCOME TAX (*continued*)

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

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

	2016 RMB'000	2015 RMB'000
Profit before tax	92,033	41,634
Tax at the applicable tax rate (25%)	23,008	10,409
Adjustment in respect of current tax of previous periods	1,523	1,409
Expenses not deductible for tax	1,732	1,089
Tax losses not recognised	19,361	3,600
Tax charge	45,624	16,507

11. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Proposed final – HK2.2 cents (2015: Nil) per ordinary share	11,808	–
	11,808	–

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 600,000,000 (2015: 600,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2015 and 2016.

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

	2016 RMB'000	2015 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	46,863	25,916
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year	600,000,000	600,000,000
Earnings per share		
Basic and diluted (RMB)	0.08	0.04

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 31 December 2015 and at 1 January 2016:							
Cost	681,077	58,404	121,146	77,718	174,347	81,867	1,194,559
Accumulated depreciation	(110,901)	(12,021)	(52,539)	(47,500)	(42,852)	-	(265,813)
Net carrying amount	570,176	46,383	68,607	30,218	131,495	81,867	928,746
At 1 January 2016, net of accumulated depreciation	570,176	46,383	68,607	30,218	131,495	81,867	928,746
Additions	22,847	143	8,997	4,560	84,915	71,217	192,679
Disposals	(11,595)	(8,219)	(291)	(878)	(78,927)	(2,730)	(102,640)
Depreciation provided during the year	(35,689)	(4,959)	(12,814)	(10,569)	(33,304)	-	(97,335)
Transfer	2,010	-	-	-	-	(2,010)	-
At 31 December 2016, net of accumulated depreciation	547,749	33,348	64,499	23,331	104,179	148,344	921,450
At 31 December 2016:							
Cost	693,817	48,703	129,454	80,569	146,063	148,344	1,246,950
Accumulated depreciation	(146,068)	(15,355)	(64,955)	(57,238)	(41,884)	-	(325,500)
Net carrying amount	547,749	33,348	64,499	23,331	104,179	148,344	921,450
31 December 2015							
At 1 January 2015:							
Cost	544,788	68,007	101,741	68,570	223,458	94,409	1,100,973
Accumulated depreciation	(76,237)	(9,780)	(40,508)	(37,355)	(49,230)	-	(213,110)
Net carrying amount	468,551	58,227	61,233	31,215	174,228	94,409	887,863
At 1 January 2015, net of accumulated depreciation	468,551	58,227	61,233	31,215	174,228	94,409	887,863
Additions	19,483	7,737	19,307	9,951	114,477	107,237	278,192
Disposals	(648)	(12,815)	(175)	(735)	(118,411)	(473)	(133,257)
Disposal of a subsidiary (note 33(a))	-	-	-	-	-	(91)	(91)
Depreciation provided during the year	(34,664)	(8,174)	(12,111)	(10,213)	(38,799)	-	(103,961)
Transfer	117,454	1,408	353	-	-	(119,215)	-
At 31 December 2015, net of accumulated depreciation	570,176	46,383	68,607	30,218	131,495	81,867	928,746
At 31 December 2015:							
Cost	681,077	58,404	121,146	77,718	174,347	81,867	1,194,559
Accumulated depreciation	(110,901)	(12,021)	(52,539)	(47,500)	(42,852)	-	(265,813)
Net carrying amount	570,176	46,383	68,607	30,218	131,495	81,867	928,746

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

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

As at 31 December 2016, the application for the property ownership certificates of certain buildings with an aggregate net book value of approximately RMB125,345,000 (2015: RMB116,557,000) was still in progress.

At 31 December 2016, certain of the Group's buildings with an aggregate net book value of approximately RMB297,370,000 (2015: RMB258,613,000) were pledged as security for the Group's bank borrowings (note 25 (a)).

14. LAND USE RIGHTS

	2016 RMB'000	2015 RMB'000
Cost:		
At the beginning of the year	288,223	223,866
Additions	38,494	64,357
At the end of the year	326,717	288,223
Amortisation:		
At the beginning of the year	28,692	22,670
Charge for the year	7,342	6,022
At the end of the year	36,034	28,692
Net book value:		
At the end of the year	290,683	259,531

The land use rights of the Group represent the cost of the Group's land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group are from 25 to 64 years.

At 31 December 2016, certain of the Group's land use rights with an aggregate net book value of approximately RMB153,843,000 (2015: RMB160,332,000) were pledged as security for the Group's bank borrowings (note 25(a)).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

15. INTANGIBLE ASSETS

Software

	2016 RMB'000	2015 RMB'000
Cost:		
At the beginning of the year	6,781	6,715
Additions	268	66
At the end of the year	7,049	6,781
Amortisation:		
At the beginning of the year	3,256	2,618
Charge for the year	642	638
At the end of the year	3,898	3,256
Net book value:		
At the end of the year	3,151	3,525

16. PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Prepaid lease payments for buildings and land use rights	5,120	6,766
Prepayments for purchase of land use rights	63,500	61,500
Prepayments for purchase of items of property, plant and equipment	29,023	32,195
	97,643	100,461

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

17. GOODWILL

	RMB'000
At 1 January 2015	
Cost	–
Accumulated impairment	–
Net carrying amount	–
Cost at 1 January 2015, net of accumulated impairment	–
Acquisition of a subsidiary (note 34)	510
Impairment during the year	–
At 31 December 2015	510
At 31 December 2015:	
Cost	510
Accumulated impairment	–
Net carrying amount	510
Cost at 1 January 2016, net of accumulated impairment	510
Accumulated impairment	–
Cost and net carrying amount at 31 December 2016	510
At 31 December 2016	
Cost	510
Accumulated impairment	–
Net carrying amount	510

Impairment testing of goodwill

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

Goodwill acquired through business combination has been allocated to the cash-generating unit of Yinchuan Shunchi Lujie Automobile Sales & Service Co., Ltd. for impairment testing.

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

17. GOODWILL (*continued*)

Assumptions used in the value in use calculation

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

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

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

Sensitivity to changes in assumptions

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

18. INVENTORIES

	2016 RMB'000	2015 RMB'000
Motor vehicles	597,605	626,258
Spare parts	84,204	66,351
	681,809	692,609

At 31 December 2016, certain of the Group's inventories with an aggregate carrying amount of approximately RMB281,985,000 (2015: RMB312,282,000) were pledged as security for the Group's bank loans and other borrowings (note 25(a)).

At 31 December 2016, certain of the Group's inventories with an aggregate carrying amount of approximately RMB318,324,000 (2015: RMB291,715,000) were pledged as security for the Group's bills payable (note 26).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

19. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	63,375	51,064

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

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

	2016 RMB'000	2015 RMB'000
Within 3 months	55,089	39,164
More than 3 months but less than 1 year	3,026	10,849
Over 1 year	5,260	1,051
	63,375	51,064

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	58,115	50,013
Over one year past due	5,260	1,051
	63,375	51,064

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments and deposits to suppliers	294,765	355,266
Vendor rebate receivables	178,325	235,307
VAT receivables (i)	6,130	11,146
Others	60,011	36,400
	539,231	638,119

Note:

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

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

21. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Available-for-sale investments, at fair value	–	33,512

As at 31 December 2015, the available-for-sale investments represented investments in investment funds and had a 3-month maturity term and no fixed coupon rate. The investments were redeemed during the year ended 31 December 2016.

As at 31 December 2015, the available-for-sale investments with an aggregate carrying amount of approximately RMB33,512,000 were pledged as security for the Group's bank loans and other borrowings (note 25(a)).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

22. PLEDGED BANK DEPOSITS

	2016 RMB'000	2015 RMB'000
Deposits pledged with banks as collateral against credit facilities granted by the banks and bills payable	190,260	269,400

Pledged bank deposits earn interest at interest rates stipulated by financial institutions. All pledged bank deposits at each reporting date were denominated in RMB.

As at 31 December 2016, certain of the Group's pledged bank deposits with an aggregate carrying amount of approximately RMB190,260,000 (2015: RMB269,400,000) were pledged as security for the Group's bills payable (note 26).

23. CASH IN TRANSIT

	2016 RMB'000	2015 RMB'000
Cash in transit	21,526	29,288

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

24. CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	754,980	711,992
Time deposits	91,226	221,165
Cash and cash equivalents	846,206	933,157

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values. Short term deposits are made for varying periods of between one day and 3 months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

24. CASH AND CASH EQUIVALENTS (continued)

As at 31 December 2016, the cash and bank balances and short term deposits of the Group denominated in RMB amounted to RMB620,310,000 (2015: RMB618,679,000) in Mainland China. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. BANK LOANS AND OTHER BORROWINGS

	2016		2015	
	Effective interest rate (%)	Amount RMB'000	Effective interest rate (%)	Amount RMB'000
CURRENT:				
Bank loans	1.4-7.0	1,099,160	1.4-7.4	1,336,512
Other borrowings	5.6-7.9	128,831	5.6-7.9	193,163
		1,227,991		1,529,675
NON-CURRENT:				
Bank loans	5.0-7.4	59,500	6.9-7.4	96,000
		1,287,491		1,625,675
Bank loans and other borrowings represent:				
– secured loans (a)		1,197,491		1,191,839
– unsecured loans		90,000		433,836
		1,287,491		1,625,675

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

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

	2016 RMB'000	2015 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	1,099,160	1,336,512
In the second year	56,500	75,500
In the third to fifth years, inclusive	3,000	20,500
	1,158,660	1,432,512
Other borrowings repayable:		
Within one year	128,831	193,163
	1,287,491	1,625,675

Notes:

- (a) As at 31 December 2016, certain of the Group's bank loans and other borrowings are secured by:
- (i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately RMB153,843,000 (2015: RMB160,332,000) (note 14);
 - (ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB297,370,000 (2015: RMB258,613,000) (note 13);
 - (iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB281,985,000 (2015: RMB312,282,000) (note 18);
 - (iv) As at 31 December 2015, certain of the Group's bank and other borrowings were secured by mortgages over the available-for-sale investments, which had an aggregate carrying value of RMB33,512,000 (note 21)
- (b) Except for the secured bank loan amounting to US\$25,000,000 (equivalent to RMB173,425,000) (2015: Nil) which is denominated in United States dollars and has been repaid in January 2017, all borrowings are in Renminbi.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

26. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	96,665	110,127
Bills payable	329,728	356,562
Trade and bills payables	426,393	466,689

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

	2016 RMB'000	2015 RMB'000
Within 3 months	392,477	418,780
3 to 6 months	31,994	37,704
6 to 12 months	639	7,993
Over 12 months	1,283	2,212
	426,393	466,689

The trade and bills payables are non-interest-bearing. The trade and bills payables are normally settled on 90-day term.

As at 31 December 2016, the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB318,324,000 (2015: RMB291,715,000) (note 18).

As at 31 December 2016, the Group's bills payable are secured by mortgages over the Group's pledged bank deposits, which had an aggregate carrying value of approximately RMB190,260,000 (2015: RMB269,400,000) (note 22).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

27. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Payables for purchase of items of property, plant and equipment	28,383	29,906
Advances from customers	130,932	112,719
Staff payroll and welfare payables	34,683	34,730
Tax payable (other than income tax)	12,834	6,850
Deposit received from a construction service provider	70,000	70,000
Others	20,993	26,968
	297,825	281,173

28. EMPLOYEE RETIREMENT BENEFITS

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

29. DEFERRED TAX

Deferred tax assets

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

	Losses available for future taxable profit RMB'000	Accrued payroll and social welfare RMB'000	Other accrual RMB'000	Total RMB'000
At 1 January 2015	8,118	6,078	495	14,691
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 10(a))	16,368	(754)	(495)	15,119
Disposal of a subsidiary (note 33(a))	(1)	–	–	(1)
At 31 December 2015	24,485	5,324	–	29,809
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 10(a))	(6,283)	(2,752)	–	(9,035)
At 31 December 2016	18,202	2,572	–	20,774

As at 31 December 2016, deferred tax assets have not been recognised in respect of tax losses arising in Mainland China of RMB142,681,000 (2015: RMB65,236,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. These tax losses will expire in one to five years.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

29. DEFERRED TAX (continued)

Deferred tax liabilities

Pursuant to the CIT 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. The Group's subsidiaries in the PRC are directly held by Sunfonda (Hong Kong) Limited, a Hong Kong tax resident.

As at 31 December 2016, the Group has not provided for withholding taxes on accumulated earnings of RMB1,034,167,000 (2015: RMB934,167,000) generated by its PRC entities, because it is not probable that these accumulated earnings will be distributed to the holding company outside the PRC in the foreseeable future.

30. SHARE CAPITAL

Authorised

	2016 No. of shares of US\$0.0001 each	2015 No. of shares of US\$0.0001 each
Ordinary shares	1,000,000,000	1,000,000,000

Shares

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

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares US\$'000	Share premium US\$'000	Equivalent nominal value of ordinary shares RMB'000	Equivalent share premium RMB'000
As at 1 January 2015 and 31 December 2015	600,000,000	60	61,446	377	376,877
As at 1 January 2016 and 31 December 2016	600,000,000	60	61,446	377	376,877

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

31. SHARE-BASED PAYMENTS

(a) PRE-IPO SHARE AWARD SCHEME

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

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

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

	2016 Number of awarded shares '000	2015 Number of awarded shares '000
At 1 January	2,002	2,040
Granted during the year	780	920
Forfeited during the year	(100)	(550)
Vested during the year	(458)	(408)
At 31 December	2,224	2,002

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

31. SHARE-BASED PAYMENTS (*continued*)

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

Particulars of awarded shares as at 31 December 2016 and 2015 are as follows:

Vesting period	Dates of grant	Market price at grant dates HK\$/share	Number of outstanding shares as at 31 December	
			2016 '000	2015 '000
5 years	15 May 2014	3.76	774	1,082
5 years	2 July 2015	2.95	680	920
5 years	6 February 2016	2.54	770	–
			2,224	2,002

The fair value of the share awards granted was RMB1,772,000 (2015: RMB2,142,000) for the year ended 31 December 2016. The Group recognised a share awards expense of RMB2,242,000 (2015: RMB1,736,000) during the year ended 31 December 2016.

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

At the end of the reporting period, the Company had 2,224,000 (2015: 2,002,000) awarded shares outstanding under the Pre-IPO Share Award Scheme.

(b) Share option scheme

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

No share options were granted under the Share Option Scheme during the year ended 31 December 2016. (2015: Nil)

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

32. RESERVES

(i) Statutory reserve

Pursuant to the relevant PRC rules and regulations, these PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 1 to the financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

(ii) Merger reserve

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

(iii) Exchange fluctuation reserve

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

(iv) Capital reserve

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

33. DISPOSAL OF A SUBSIDIARY

- (a) In March 2015, the Group disposed of its entire equity interest in Shaanxi Sunfonda Mingcheng Auto-park Industrial Development Co., Ltd. (陝西新豐泰銘誠汽車園實業開發有限公司, "Shaanxi Sunfonda Mingcheng") to Xi'an Shangge Electronic Technology Co., Ltd., an independent third party, for a consideration of RMB596,000.

Details of the net assets disposed of are as follows:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	91
Deferred tax assets	1
Prepayments, deposits and other receivables	4
Cash and cash equivalents	500
	596
Satisfied by:	
Cash	596
No gain or loss of disposal of a subsidiary is resulted.	
An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary during the year ended 31 December 2015 is as follows:	
Cash consideration	596
Cash and cash equivalents disposed of	(500)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	96

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

34. BUSINESS COMBINATION

As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, on 12 March 2015, the Group acquired 100% of the equity interests of Yinchuan Shunchi Lujie Automobile Sales & Service Co., Ltd. (銀川順馳路捷汽車銷售服務有限公司, "Yinchuan Shunchi Lujie"), which is engaged in the motor vehicle sales and service business in Mainland China, at a total consideration of RMB10,100,000. The purchase consideration for the acquisition was in the form of cash, with RMB10,100,000 paid in 2015.

The fair values of the identifiable assets and liabilities of Yinchuan Shunchi Lujie as at the date of acquisition were as follows:

	Fair values recognised on acquisition RMB'000
Prepayments for purchase of land use rights	9,586
Cash and cash equivalents	4
Total identifiable net assets	9,590
Goodwill on acquisition	510
Total purchase consideration	10,100

An analysis of the cash flows in respect of the acquisition of Yinchuan Shunchi Lujie during the year ended 31 December 2015 is as follows:

	RMB'000
Cash consideration paid	(10,100)
Cash and cash equivalents acquired	4
Net cash outflow	(10,096)

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

31 December 2016	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000
Trade receivables	–	63,375
Financial assets included in prepayments, deposits and other receivables	–	238,336
Amount due from a related party	–	21,662
Pledged bank deposits	–	190,260
Cash in transit	–	21,526
Cash and cash equivalents	–	846,206
	–	1,381,365

31 December 2015	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000
Trade receivables	–	51,064
Financial assets included in prepayments, deposits and other receivables	–	271,707
Amount due from a related party	–	28,672
Available-for-sale investments	33,512	–
Pledged bank deposits	–	269,400
Cash in transit	–	29,288
Cash and cash equivalents	–	933,157
	33,512	1,583,288

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

35. FINANCIAL INSTRUMENTS BY CATEGORY (*continued*)

Financial liabilities

	Financial liabilities at amortised cost	
	2016 RMB'000	2015 RMB'000
Trade and bills payables	426,393	466,689
Financial liabilities included in other payables and accruals	119,376	126,874
Bank loans and other borrowings	1,287,491	1,625,675
	1,833,260	2,219,238

36. CONTINGENT LIABILITIES

As at 31 December 2016 and 2015, the Group did not have any significant contingent liabilities.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The fair values of bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, which approximate to their carrying amounts. The Group's own non-performance risk for bank loans and other borrowings as at 31 December 2016 was assessed to be insignificant.

At the end of the 2015, the fair values of available-for-sales investments are based on quoted market prices (level 1).

During the year, there were no transfers between Level 1 and Level 2 fair value measurements and no transfer into or out of Level 3 fair value measurements (2015: Nil).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

38. COMMITMENTS

(a) Capital commitments

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

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for land use rights and buildings	74,248	60,091

(b) Operating lease commitments

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

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

	2016		2015	
	Properties RMB'000	Land RMB'000	Properties RMB'000	Land RMB'000
Within 1 year	3,485	3,622	5,207	3,622
After 1 year but within 5 years	6,417	14,417	11,996	14,998
After 5 years	8,221	2,833	12,833	5,874
	18,123	20,872	30,036	24,494

39. PLEDGE OF ASSETS

Details of the Group's assets pledged for its bank loans and other borrowings and bills payable are disclosed in notes 13, 14, 18, 21 and 22 to these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

40. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

(a) Transactions with related parties

During the year, revenue from the sale of motor vehicles to a related company was as follows:

		2016 RMB'000	2015 RMB'000
Yangzhou Sunfonda Automobile Co., Ltd.	(i)	9,516	23,284

(i) Yangzhou Sunfonda Automobile Co., Ltd. is controlled by Mr. Zhao Yijian.

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

(b) Balances with related parties

(i) Due from a related party:

	2016 RMB'000	2015 RMB'000
Trade related Yangzhou Sunfonda Automobile Co., Ltd.	21,662	28,672

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

40. 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	3,936	3,569
Equity-settled share award expense	705	508
Post-employment benefits	190	116
Total compensation paid to key management personnel	4,831	4,193

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and other borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade and bills payables and other payables, which arise directly from its operations.

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

Interest rate risk

The Group has no significant interest-bearing assets other than pledged bank deposits (note 22) and cash and cash equivalents (note 24).

The Group's interest rate risk arises from its borrowings, details of which are set out in note 25. Borrowings at variable rates expose the Group to the risk of changes in market interest rates.

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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

	Increase/(decrease) in basis points	Increase/(decrease) in profit before tax RMB'000
Year ended 31 December 2016		
RMB	50	(480)
RMB	(50)	480
Year ended 31 December 2015		
RMB	50	(549)
RMB	(50)	549

Foreign currency risk

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

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

Credit risk

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

	As at 31 December 2016					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bank loans and other borrowings	–	369,979	867,088	65,416	–	1,302,483
Trade and bills payables	96,665	318,182	11,546	–	–	426,393
Financial liabilities included in other payables and accruals	20,993	7,096	21,287	70,000	–	119,376
	117,658	695,257	899,921	135,416	–	1,848,252

	As at 31 December 2015					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bank loans and other borrowings	–	663,497	871,115	103,021	–	1,637,633
Trade and bills payables	110,127	325,326	31,236	–	–	466,689
Financial liabilities included in other payables and accruals	26,967	7,477	22,430	70,000	–	126,874
	137,094	996,300	924,781	173,021	–	2,231,196

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

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

	2016 RMB'000	2015 RMB'000
Bank loans and other borrowings	1,287,491	1,625,675
Net debt	1,287,491	1,625,675
Equity attributable to owners of the parent	1,658,943	1,594,182
Gearing ratio	77.6%	102.0%

42. EVENTS AFTER THE REPORTING PERIOD

There is no significant subsequent event undertaken by the Group after 31 December 2016.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

43. 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		
Interests in subsidiaries	550,888	428,168
CURRENT ASSETS		
Prepayments, deposits and other receivables	209	208
Available-for-sale investments	–	33,512
Cash and cash equivalents	109,584	237,236
Total current assets	109,793	270,956
CURRENT LIABILITIES		
Bank loans and other borrowings	–	33,512
Other payables and accruals	154	149
Total current liabilities	154	33,661
NET CURRENT ASSETS	109,639	237,295
TOTAL ASSETS LESS CURRENT LIABILITIES	660,527	665,463
NET ASSETS	660,527	665,463
EQUITY		
Share capital	377	377
Reserves (note)	660,150	665,086
Total equity	660,527	665,463

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2016

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

Note:

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

	Share premium RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2015	347,058	320,214	(8,806)	(3,773)	29,819	684,512
Total comprehensive income for the year	–	–	11,501	(1,108)	–	10,393
Final 2014 dividend declared	–	–	–	–	(29,819)	(29,819)
At 31 December 2015 and 1 January 2016	347,058	320,214	2,695	(4,881)	–	665,086
Total comprehensive income for the year	–	–	(3,242)	(1,694)	–	(4,936)
At 31 December 2016	347,058	320,214	(547)	(6,575)	–	660,150

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2017.

FINANCIAL SUMMARY

		As at 31 December			
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
REVENUE	7,685,994	7,487,079	7,879,528	7,432,699	7,205,232
Cost of sales and services	(7,215,366)	(6,996,371)	(7,272,444)	(6,787,872)	(6,642,745)
Gross profit	470,628	490,708	607,084	644,827	562,487
Other income and gains, net	150,455	118,212	201,468	93,901	64,119
Selling and distribution expenses	(258,890)	(267,229)	(249,460)	(213,292)	(176,047)
Administrative expenses	(182,678)	(178,298)	(186,624)	(152,270)	(145,559)
Profit from operations	179,515	163,393	372,468	373,166	305,000
Finance costs	(87,482)	(121,759)	(138,642)	(124,584)	(116,695)
Profit before tax	92,033	41,634	233,826	248,582	188,305
Income tax expense	(45,624)	(16,507)	(61,096)	(62,969)	(48,091)
Profit for the year	46,409	25,127	172,730	185,613	140,214
Attributable to:					
Owners of the parent	46,863	25,916	172,370	185,636	140,214
Non-controlling interests	(454)	(789)	360	(23)	-
	46,409	25,127	172,730	185,613	140,214
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	3,698,280	3,998,403	4,231,179	3,387,174	3,181,970
Total liabilities	2,035,243	2,399,673	2,648,912	2,351,093	2,337,943
Non-controlling interests	4,094	4,548	5,337	4,977	-
Equity attributable to owners of the parent	1,658,943	1,594,182	1,576,930	1,031,104	844,027