BAOXIN AUTO GROUP LIMITED
寶信汽車集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code:1293)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board (the "**Board**") of directors (the "**Directors**") of Baoxin Auto Group Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**", "**our Group**", "**we**" or "**us**") for the year ended 31 December 2016, as well as comparative figures for the corresponding period in 2015.

FINANCIAL HIGHLIGHTS
For the year ended 31 December 2016:

- Total revenue was RMB25,703.7 million (representing an increase of 8.1% as compared to that for the year ended 31 December 2015), in which the automobile sales was RMB22,862.4 million, and the after-sales revenue was RMB2,836.9 million.
- Gross profit was RMB2,034.7 million and the gross profit margin was 7.9%.
- EBITDA was RMB1,458.0 million, representing an increase of 15.0% as compared to that for the year ended 31 December 2015 and an EBITDA margin of 5.7%.
- Profit attributable to owners of the parent was RMB417.2 million, representing an increase of 89.6% as compared to that for the year ended 31 December 2015.
- Earnings per share attributable to ordinary equity holders of the parent were RMB0.16.

SUMMARY FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December

	Notes	**2016** *RMB'000*	2015 *RMB'000*
REVENUE	*3*	**25,703,687**	23,776,461
Cost of sales and services provided		**(23,668,945)**	(21,587,955)
Gross profit		**2,034,742**	2,188,506
Other income and gains, net	*3*	**523,990**	357,311
Selling and distribution expenses		**(877,890)**	(977,024)
Administrative expenses		**(607,515)**	(643,434)
Profit from operations		**1,073,327**	925,359
Finance costs	*5*	**(486,540)**	(540,111)
Share of profits and losses of:			
A joint venture		**5,795**	5,830
Associates		**(137)**	(16,151)
Profit before tax	*4*	**592,445**	374,927
Income tax expense	*6*	**(172,583)**	(150,656)
Profit for the year		**419,862**	224,271
Attributable to:			
Owners of the parent	*7*	**417,189**	220,094
Non-controlling interests		**2,673**	4,177
		419,862	224,271
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted			
— For profit for the year (RMB)	*7*	**0.16**	0.09

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2016	2015
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**419,862**	224,271
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	**(332,406)**	(268,837)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(332,406)**	(268,837)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(332,406)**	(268,837)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**87,456**	(44,566)
Attributable to:		
Owners of the parent	**84,783**	(48,743)
Non-controlling interests	**2,673**	4,177
	87,456	(44,566)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2016** **RMB'000**	31 December 2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,740,983**	3,697,075
Prepaid land lease payment		**498,706**	646,610
Intangible assets		**989,736**	882,855
Prepayments and deposits		**258,534**	256,730
Finance lease receivables		**4,589**	17,606
Goodwill		**224,776**	100,725
Derivative financial instruments		**1,421**	9,490
Investment in a joint venture		**56,641**	50,846
Investments in associates		**38,623**	–
Available-for-sale investment		**17,747**	16,621
Deferred tax assets		**121,858**	78,454
Total non-current assets		**5,953,614**	5,757,012
CURRENT ASSETS			
Inventories	*8*	**2,935,521**	2,454,946
Trade receivables	*9*	**650,830**	358,159
Finance lease receivables		**18,757**	28,231
Prepayments, deposits and other receivables		**6,118,226**	5,449,306
Amounts due from related parties		**103,797**	55,324
Equity investments at fair value through profit or loss		**12,050**	46,864
Derivative financial instruments		**24,424**	6,457
Pledged bank deposits		**2,142,842**	2,332,021
Cash in transit		**108,602**	78,224
Cash and cash equivalents		**3,721,285**	2,160,980
		15,836,334	12,970,512
Non-current asset classified as held for sale		**–**	83,902
Total current assets		**15,836,334**	13,054,414

	Notes	**31 December 2016** *RMB'000*	31 December 2015 *RMB'000*
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**4,800,609**	8,280,936
Trade and bills payables		**4,624,595**	3,945,184
Other payables and accruals		**1,202,460**	646,283
Dividends payable	*10*	**–**	–
Income tax payable		**277,260**	168,795
Total current liabilities		**10,904,924**	13,041,198
NET CURRENT ASSETS		**4,931,410**	13,216
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,885,024**	5,770,228
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**2,751,757**	–
Bonds		**–**	441,683
Senior perpetual capital securities		**2,708,415**	–
Other payables		**25,510**	30,472
Deferred tax liabilities		**357,871**	325,617
Total non-current liabilities		**5,843,553**	797,772
Net assets		**5,041,471**	4,972,456
EQUITY			
Equity attributable to owners of the parent			
Share capital		**20,836**	20,836
Reserves		**4,980,904**	4,914,094
		5,001,740	4,934,930
Non-controlling interests		**39,731**	37,526
Total equity		**5,041,471**	4,972,456

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Baoxin Auto Group Limited (the "Company") was incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 14 December 2011.

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

In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is China Grand Automotive Services Co. Limited ("CGA"), the shares of which are listed on the Shanghai Stock Exchange.

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

3. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

	2016	2015
	RMB'000	*RMB'000*
Revenue from the sale of motor vehicles	**22,862,434**	20,758,358
Revenue from after-sales services	**2,836,887**	3,011,922
Finance leasing services	**4,366**	6,181
	25,703,687	23,776,461

(b) Other income and gains, net:

	2016	2015
	RMB'000	*RMB'000*
Commission income	**380,191**	269,012
Advertisement support received from motor vehicle manufacturers	**4,379**	10,522
Rental income	**3,076**	1,304
Government grants	**20,693**	10,899
Interest income	**20,828**	28,262
Net (loss)/gain on disposal of items of property, plant and equipment	**(3,593)**	3,626
Net gain on disposal of items of intangible assets	**488**	109
Fair value gain/(loss), net:		
Derivative instruments	**29,203**	(1,066)
Equity investments at fair value through profit or loss	**(12,904)**	1,998
Net gain on deemed disposal of a subsidiary	**–**	19,408
Net gain on disposal of a held for sale asset	**16,098**	–
Net gain on disposal of a subsidiary	**51,174**	–
Others	**14,357**	13,237
Total	**523,990**	357,311

4. PROFIT BEFORE TAX

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

	2016	2015
	RMB'000	*RMB'000*
(a) Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**480,546**	557,806
Other welfare	**171,867**	193,145
	652,413	750,951
(b) Cost of sales and services:		
Cost of sales of motor vehicles	**22,066,505**	19,937,329
Others	**1,602,440**	1,650,626
	23,668,945	21,587,955
(c) Other items:		
Depreciation of items of property, plant and equipment	**329,828**	307,576
Amortisation of prepaid land lease payment	**10,236**	6,594
Amortisation of intangible assets	**38,998**	38,381
Advertisement and business promotion expenses	**113,134**	56,756
Auditors' remuneration	**6,800**	5,100
Bank charges	**49,608**	57,985
Foreign exchange differences, net	**20,822**	11,001
Lease expenses	**207,651**	286,210
Logistics and petroleum expenses	**44,806**	26,120
Office expenses	**27,356**	20,849
Write-down of inventories to net realisable value	**78,566**	21,662
Net loss/(gain) on disposal of items of property, plant and equipment	**3,593**	(3,626)
Net gain on disposal of items of intangible assets	**(488)**	(109)
Fair value (gain)/loss, net:		
Derivative instruments	**(29,203)**	1,066
Equity investments at fair value through profit or loss	**12,904**	(1,998)
Net gain on deemed disposal of a subsidiary	**–**	(19,408)
Net gain on disposal of a held for sale asset	**(16,098)**	–
Net gain on disposal of a subsidiary	**(51,174)**	–
Impairment of goodwill	**25,051**	–

5. FINANCE COSTS

	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts and other loans	**470,869**	552,322
Interest expense on bonds	**20,688**	20,718
Interest expense on the senior perpetual capital securities	**9,852**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**501,409**	573,040
Less: Interest capitalised	**(14,869)**	(32,929)
	486,540	540,111

6. INCOME TAX

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

	2016	2015
	RMB'000	*RMB'000*
Current:		
Mainland China corporate income tax	**213,881**	158,157
Deferred tax	**(41,298)**	(7,501)
Total tax charge for the year	**172,583**	150,656

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

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

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2015: 16.5%) 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 is 25% (2015: 25%).

According to the CIT Law and the Taxation Policies on In-depth Implementation of Western Region Development Strategy, a subsidiary of the Company has been approved by the authority to pay income tax at the reduced tax rate of 15%.

7. 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 2,557,311,429 (2015: 2,557,311,429) in issue during the year.

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

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2016 and 2015 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during 2016 and 2015.

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

	2016	2015
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	**417,189**	220,094

	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year	**2,557,311,429**	2,557,311,429

	2016	2015
	RMB	*RMB*
Earnings per share		
Basic and diluted	**0.16**	0.09

8. INVENTORIES

	31 December 2016 RMB'000	31 December 2015 RMB'000
Motor vehicles	**2,692,247**	2,143,756
Spare parts and accessories	**243,274**	311,190
	2,935,521	2,454,946

Certain of the Group's inventories with an aggregate carrying amount of RMB188,393,000 (2015: RMB121,554,000) as at 31 December 2016 were pledged as security for the Group's interest-bearing bank loans and other borrowings.

Certain of the Group's inventories with an aggregate carrying amount of RMB2,149,384,000 (2015: RMB1,482,774,000) as at 31 December 2016 were pledged as security for the Group's bills payable.

As at 31 December 2016, the carrying amount of inventories carried at net realisable value was RMB919,355,000 (2015: RMB206,244,000).

9. TRADE RECEIVABLES

	31 December 2016 RMB'000	31 December 2015 RMB'000
Trade receivables	**650,830**	358,159

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. The Group does not offer any credit to the Group's customers for automobile purchases or for out-of-warranty repairs that are not covered by insurance. However, the Group generally provides a credit term of two to three months to automobile manufacturers for the reimbursement of costs relating to the in-warranty repair services. 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.

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

	31 December 2016 RMB'000	31 December 2015 RMB'000
Within 3 months	**611,148**	313,814
More than 3 months but less than 1 year	**39,682**	42,177
Over 1 year	**–**	2,168
	650,830	358,159

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

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Neither past due nor impaired	**650,830**	355,991
Over 1 year past due	**–**	2,168
	650,830	358,159

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. The Group does not hold any collateral or other credit enhancements over these balances.

10. DIVIDENDS

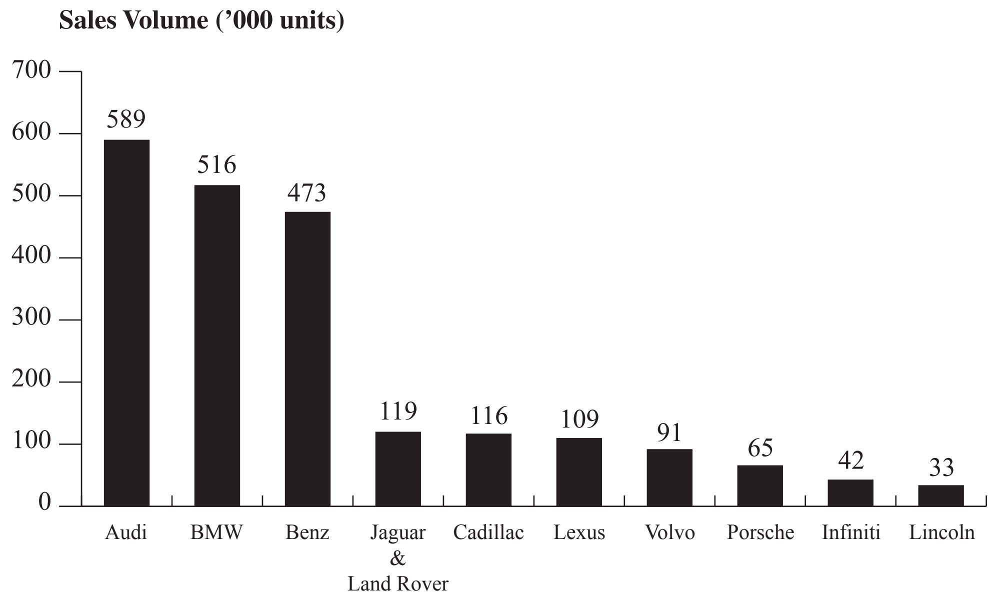
No final dividend was proposed for 2016 and 2015.

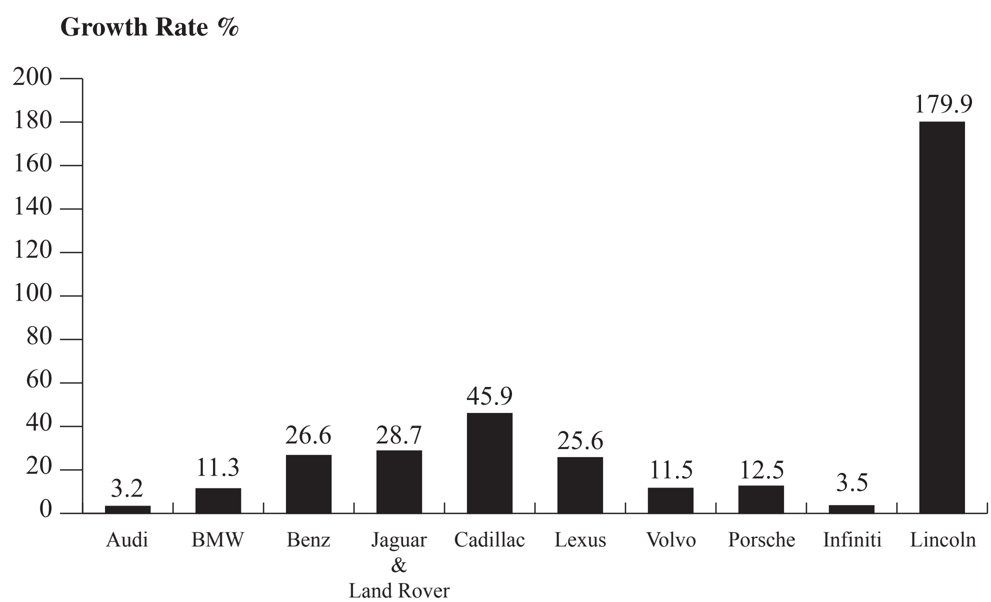
INDUSTRY OVERVIEW

The year of 2016, being the first year of China's 13th Five-Year Plan, witnessed mixed international and domestic economic conditions. Overall, China's economy ran steadily this year, with a gross domestic product (GDP) growth at 6.7%, implicating a shift of China's economy from high speed growth to medium- to high-speed growth. Despite a somewhat slow-down in 2016, China's economic growth outperformed the average growth of the developed countries as affected by a global slow and unbalanced economic recovery. Driven by continuous encouragement from the government, consumption has contributed the most to China's economic growth. Final consumption expenditure in 2016 contributed to 71% of the GDP growth as compared with 66.4% in 2015, representing the transition of China's economy from a growth model based on investment towards primary reliance on consumption. In 2016, China's automobile industry continued with accelerated development through intensified supply-side reformation and product restructuring and update. According to statistics from the China Association of Automobile Manufacturers, the automobile production and sales volume recorded 28,118,800 units and 28,028,200 units in 2016, representing a year-on-year growth of 14.46% and 13.65%, respectively, which were 11.21 percentage points and 8.97 percentage points higher, respectively, as compared with the previous year. The production and sales volume of passenger vehicles amounted to 24,420,700 units and 24,376,900 units, representing a year-on-year growth of 15.50% and 14.93%, respectively. Such sound growth in China's automobile market in 2016 was mainly attributable to a range of favourable policies including preferential policy on vehicle purchase tax and subsidy for new energy vehicles.

Similar to the general trend of China's automobile market, the luxury automobile market was also on a high curve, with the growth of most luxury brands beyond expectation. As indicated in the statistics published by the State Information Center, the year-on-year growth of sales volume of luxury automobile in 2016 was 15.8% (Note: representing the comparison of the aggregated sales volume of the top 10 luxury automobile brands, in the order of Audi, BMW, Benz, Jaguar & Land Rover, Cadillac, Lexus, Volvo, Porsche, Infiniti and Lincoln). Sales volume of all the above luxury automobiles in China showed different growth, with the leading ABB German brands (i.e. Audi, BMW and Benz) contributing 73.3% to the total sales volume of the top 10 luxury automobile brands.

Sales volume and year-on-year growth rate of top ten luxury automobile brands in China in 2016





Source: Automobile manufacturers

FAW Audi realized sales of 589,088 units in China during the year, representing a year-on-year growth of 3.2%. BMW hit historic high in terms of its new automobile sales of exceeding 500,000 units (including MINI) in China, representing a year-on-year growth of 11.3%, higher than its growth in the global market. In 2016, Benz recorded a year-on-year growth of 26.6% in China in terms of its new automobile sales, and sales of domestically manufactured sedans were also satisfactory. Among the second-tier luxury brands, each of Jaguar & Land Rover, Cadillac and Lexus recorded sales of more than 100,000 units in 2016, among which Jaguar & Land Rover was in a leading position.

BMW and Jaguar & Land Rover are major brands distributed by the Group. The launch of new X1 and domestically manufactured 2 Series in China in 2016 further diversified the brand portfolio of BMW. In 2016, X1 realized sales of 53,486 units in China during the year, representing a year-on-year growth of 27.3%. 5 Series Sedan and 3 Series Sedan remained a major driving force of the brand, accounting for 52% market share of BMW's sales in China, among which the sales of 3 Series hit a new high of more than 100,000 units in 2016. Looking forward to 2017, BMW will further implement its operating strategies in China, devote greater efforts in brand development, product improvement and localization, and adjust business policy in order to improve profitability of its distributors. Several new models of BMW and MINI will be launched in China in 2017, such as 1 Series Sport Sedan and the seventh-generation 5 Series. The 1 Series Sport Sedan is a model tailored specifically to meet the needs of Chinese customers and the new 5 Series is a global-oriented strategic model of BMW, which will be launched in China with a longer wheelbase to meet the needs of Chinese customers. Meanwhile, MINI will launch a new MINI COUNTRYMAN in 2017, following a brand restructuring strategy.

Given its key models like F-PACE and new XFL, Jaguar & Land Rover recorded a year-on-year sales growth of 28.7% in 2016. China has become the single largest market for Jaguar & Land Rover, of which more than half were taken up by models made in China. The launch of domestically manufactured XE sports sedan and the fifth-generation Discovery in 2017 will further enrich the product portfolio of Jaguar & Land Rover and play as a foundation for sustainable sales growth of the brand, apart from support to the brand's further development in China from its management team adjustment.

In 2016, various new policies were published in relation to China's automobile industry, including cutting of vehicle purchase tax by half until abolition, incorporating auto parts into recalling system, lifting limits on inflows of pre-owned automobiles from other regions and encouraging parallel imports, all of which will have profound influences on the trend of China's automobile industry. The automobile industry has improved the comprehensive economic strength of China and played an important role in national economy. It is not only a pioneer industry that contributes to the sustained healthy development of national economy, but also a crucial factor in China's industry restructuring. By the end of 2016, China's vehicle inventory reached 194 million units. With the increasing income of Chinese citizens and the growing automobile consumption ability and level, China's automobile market has a vast potential for future automobile consumption growth in China.

BUSINESS OVERVIEW

The year of 2016 is a milestone for the development of the Group. During the year, China Grand Automotive Services Co., Ltd. (廣匯汽車服務股份公司) (together with its subsidiaries, the "**CGA Group**") officially completed its offer for the Group, followed by an all-round integration. As the integration progressed well and the luxury automobile market gradually picked up in the second half of the year, each segment of the Group's business gradually improved.

Completion of high-efficiency integration with the CGA Group

100-day Integration Plan

The "100-day Integration Plan" was implemented by the CGA Group in a systematic manner immediately after the completion of its offer for the Group. It conducted consolidation in each aspect of business operation, management, finance, human resources, service standards and store layout of each dealership store in order to render standardized and high-quality services to customers across our distribution networks, while developing systematic approach to control costs, improve sales strategy and management efficiency. The CGA Group assigned 700 employees to work in each dealership store of the Group for asset checking and handover in respect of financial management, operating mode and ERP system within three months so as to realize a full-scale deployment of its management model within the Group. By way of refined management, it aims to improve the management level and operating efficiency as well as profitability of the Group.

Management restructuring

Management restructuring enabled the Group to optimize its personnel structure and management model. The Group has completed its transition from department-oriented management style to region-oriented management style. The prevailing "headquarter-regional platform-4S stores" hierarchy adopted by the Group allows higher executive capacity and efficiency. The headquarter is mainly responsible for overall strategic planning, unified financial management, comprehensive human resource management and performance assessment, expansion of business network, brand management and promotion of value-added businesses, etc. The headquarter sets performance target for each regional management platform which determines and finalizes specific plans to be implemented by local 4S stores towards fixed goals. The Group classifies its business network into six regions. The director of each region and chief store manager monitor and understand the operation conditions of each dealership store and make adjustments to operating strategies in view of market condition and operating performance in a timely manner.

Management system handover

The CGA Group is the first automobile dealership group who adopts SAP, a system for the management of dealership business, to manage business operations and determine the standards for automobile dealership business. Such system handover has been completed initially in each dealership store of the Group. The application of such system allows us to maintain reasonable control over standardized business procedure and key internal control elements, and improve the transparency and efficiency of the Group's management.

Distribution network layout

Mergers and acquisitions among domestic automobile dealers intensified in 2016. The Group expanded its distribution network into regions with great market potential based on its brand and regional strategies. In 2016, in addition to a new 4S store of Jaguar & Land Rover and a 4S store of Audi opened in Shanghai, the Group newly acquired thirteen 4S stores through the acquisition of the entire equity interests of Sichuan Ganghong Enterprise Management Co., Ltd. （四川港宏企業管理有限公司）("**Sichuan Ganghong**"). Through the first expansion in Sichuan, the Group will acquire high-quality automobile dealership service assets in southwest region and commence its business layout in such region, which will in turn generate sound synergies with existing business of the Group in terms of brand coverage, geographic locations and services, and improve the nationwide dealership service networks of the Group.

After consolidation with the CGA Group, the Group conducted a revaluation in relation to the profitability of each dealership store and closed 3 under-performing stores, including a BMW showroom in Qingdao and Jaguar & Land Rover showrooms in Wuxi and Jiangyin to improve its capital efficiency and overall profitability. As at 31 December 2016, the Group had 103 automobile dealership stores, including 79 stores for luxury brands, 19 stores for mid- to high-end brands, 2 independent repair centers and 3 decoration and damage assessment centers.

Stable recovery of new car sales and after-sale services

In the second half of 2016, the management of the Group reset detailed performance evaluation goal for each dealership store in each region, and analyzed, monitored and made necessary adjustment to sales strategy in a timely manner through regionalized management and in response to the statistics from SAP system. Further, the Group placed great value on digital sales, reflected by closer cooperation with both internal and external e-commerce platforms of the Group, in a bid to identify potential customers and improve the percentage of internet and telephone sales. In such case, new car sales of the Group showed steady growth. For the year ended 31 December 2016, the Group sold 72,315 units of new automobiles, representing a year-on-year increase of 17.1%, among which, sales of luxury brand automobiles and mid- to high-end automobiles amounted to 56,380 units and 15,935 units, respectively, representing a year-on-year increase of 9.7% and 53.3%, respectively.

In 2016, gross margin of the Group's new cars faced pressure to certain extent due to product cycle of major distributed brands. While enhancing new car sales, the Group was also committed to protecting sales profit by taking various measures to control gross margin of new car sales. Benefiting from the strict price control system and based on the gross margin appraisal indicators set for new cars in 4S stores, together with multi-level price approval authority and diversified sales channels, gross margin of the Group's new cars still reached 3.2% despite a year-on-year decline.

In the second half of 2016, the Group formulated a range of customer solicitation and maintenance schemes throughout the regions where it operates, including regular client visits, potential client identification, service improvement for in-store clients, etc., which were required to be implemented in each stores. At the same time, the Group continuously worked on the innovation of new car decoration products and after-sales services and introduced various new products and services to render effective and quality services to customers. Hence, the Company improved customer loyalty, as well as the value of after-sales services. The Group stresses and maintains a strict standard for the quality of after-sales services of each store, and establishes a comprehensive training system for its staff to improve their repair and maintenance skills to ensure the strict requirements on services rendered as well as the quality of after-sales services. At the BMW National Aftersales Skills Competition organized in China in December 2016, employees of the Group stood out from other after-sales service personnel from more than 500 authorized BMW dealers and won the championship. Through various measures taken, the Group's after-sales and repair and maintenance businesses gradually improved in the second half of the year, with a rising customer retention rate. In 2016, gross margin of the Group's after-sales services was 46%, representing a slight year-on-year growth.

More profit contribution from automobile value-added services

From the second half of 2016, the Group has made more efforts on automobile value-added services, including automobile decoration, automobile insurance, warranty extension, insurance renewal, pre-owned automobile and automobile finance, etc. For the year ended 31 December 2016, commission income from automobile value-added services recorded a year-on-year increase of 41.3% to RMB380.2 million.

Insurance business

Apart from maintaining cooperation with three major insurance companies, the Group also established close cooperation with the strategic partners of the CGA Group in the second half of 2016 to enrich its insurance products for customers. Higher retail ratio of new automobiles not only led to a 5.2% increase in insurance ratio, but also improved the insurance renewal rate. The Group proactively develops innovative insurance products to improve penetration rate and commission income and reduce customer churn rate. In addition to extension products from manufacturers, the Group co-launched its own warranty extension products with insurance companies, which witnessed quick improvement in penetration rate and great potential for future development. In 2016, commission income from the Group's automobile insurance business increased by 56.0% as compared with the same period in 2015.

Pre-owned automobile business

The pre-owned automobile business of the CGA Group was fully imported into the Group, whereby the Group has cooperated with various e-commerce platforms to develop online and offline platforms. Meanwhile, relying on the CGA Group's trading platform of pre-owned automobiles and its regional offline service centers, the Group has expanded diversified channels to improve the trading volume and traded price of pre-owned automobiles. In the second half of 2016, the trade-in ratio and penetration rate of pre-owned automobiles steadily improved every month, with a year-on-year increase of 6.5 percentage points in trade-in ratio. To strengthen the management of evaluation system for pre-owned automobiles, the Group currently adopts the certification standard of China Automobile Dealers Association to conduct a systematic certification via standardized testing on the condition of the pre-owned automobiles to be sold in order to boost consumer confidence and, in combination with the quality assurance services of pre-owned automobiles, protect customer interests. The development of pre-owned automobiles business of the Group also promotes the growth of value-added and post-market businesses, including decoration, insurance, pre-owned automobile finance and after-sales services.

Currently, policies and economic environment in the pre-owned automobile market in China have showed some positive signs gradually. In the first half of 2016, the General Office of the State Council issued Several Opinions on Facilitating the Trading of Second-hand Vehicles （關於促進二手車便利交易的若干意見）, which prohibits local governments from formulating and imposing restrictions on the qualified inflows of pre-owned automobiles from other regions, and requires cancellation of such restrictions (if already in place) as soon as practicable. Such policy will significantly benefit the development of pre-owned automobile market. As at 31 December 2016, the restrictions on the inflows of pre-owned automobiles in certain regions including Sichuan, Hunan, Helongjiang, Xinjiang and Guangdong areas had been completely cancelled in compliance with the requirement of the State Council. We believe such policy will enable the Group to make cross-regional distribution of quality pre-owned automobiles, relying on its online sales platform and maximizes its profit through regional optimisation.

Automobile finance business

The Group's automobile finance business includes automobile financing business and automobile finance lease business. For the year ended 31 December 2016, the Group's penetration rate of automobile finance related to its new car business was 32.9%, representing an increase of three percentage points as compared with the same period in 2015. In terms of automobile financing business, the Group proactively explores its own financial products while cooperating with automobile manufacturers and related financial institutions. In respect of automobile finance lease business, from the second half of 2016, each store of the Group and Shanghai Dingxin Financial Leasing Co., Ltd (上海鼎信融資租賃有限公司) ("**Dingxin Leasing**"), a subsidiary of the Group, replicated the model of the CGA Group in managing automobile finance. Leveraging on the platform of the CGA Group, the Group is capable of providing more diversified financial products and services, and its capability in operating diversified business portfolio has also been improved.

For the purpose of facilitating the development of automobile finance industry, in 2016, the People's Bank of China and the China Banking Regulatory Commission jointly issued the Guiding Opinions on Reinforcing New Consumption Area Finance （關於加大對新消費領域金融支持的指導意見）, which encourages automobile finance companies and consumer finance companies to broaden their financing channels by allowing automobile finance companies to provide facilities in relation to products attached to the automobiles sold (intangible products and services, for example, decoration, warranty extension and insurance, etc.), in addition to automobile loans and finance lease to consumers. It will promote the development of automobile finance business in the future. To include new automobile decoration and insurance fee into the scope of finance lease will also benefit the development of other high-value-added businesses.

Strengthen cost controls to improve operating efficiency

In 2016, the Group strengthened its control over various costs to maximize the profit value to its shareholders. For the year ended 31 December 2016, sales and marketing costs, administrative expenses and finance costs of the Group amounted to RMB2.0 billion, representing a decrease of 8.7% as compared with last period and accounting for 7.7% of total revenue, representing a decrease of 1.4 percentage points as compared with last period.

With respect to control of sales and operating costs, the Group made significant adjustments to its internal policies pursuant to market trends. On the basis of efficiency improvement, the Group exercised strict control over employee costs. For example, it adjusted the management structure by abolishing the previous personnel despatch system during the process of integration, which reduced the amount of despatch allowances and rent payment.

Regarding finance cost, the Group managed to decrease the cost of fund utilization by stringent control of inventory to reduce turnover cost, and strengthening management and control of cash flows by employing centralised fund management mode to effectively gather the idle funds of each store and significantly improve fund utilization rate of the Group. For the year ended 31 December 2016, the Group's finance cost decreased by 9.9% as compared with last period.

FINANCIAL REVIEW

Revenue

The following table sets forth a breakdown of our revenue for the period indicated:

	Year ended 31 December			
	2016		2015	
Revenue source	**Revenue** ***(RMB'000)***	**Contribution to total Revenue** ***(%)***	Revenue *(RMB'000)*	Contribution to total Revenue *(%)*
Automobile sales	**22,862,434**	**88.9**	20,758,358	87.3
Luxury and ultra-luxury brands	**20,826,494**	**81.0**	19,434,146	81.7
Mid-to-upper market brands	**2,035,940**	**7.9**	1,324,212	5.6
After-sales business	**2,836,887**	**11.1**	3,011,922	12.7
Luxury and ultra-luxury brands	**2,697,913**	**10.5**	2,873,416	12.1
Mid-to-upper market brands	**138,974**	**0.6**	138,506	0.6
Finance leasing services	**4,366**	**0.0**	6,181	0.0
Total revenue	**25,703,687**	**100**	23,776,461	100

Revenue from the sales of automobiles increased by 10.1% due to the substantial increase in automobile sales volume of Jaguar & Land Rover and Maserati, in addition to a slight increase in BMW compared to 2015. Infiniti, the newly introduced brand, also contributed to certain sales.

Automobile sales generated a substantial portion of our revenue, accounting for 88.9% of our total revenue for the year ended 31 December 2016. Revenue generated from the sales of luxury and ultra-luxury brands and our mid-to-upper market brands accounted for approximately 91.1% (2015: 93.6%) and 8.9% (2015: 6.4%), respectively, of our revenue from the sales of automobiles.

Revenue from our after-sales business decreased by 5.8% from RMB3,011.9 million for the year ended 31 December 2015 to RMB2,836.9 million for the same period in 2016.

Cost of sales and services

For the year ended 31 December 2016, our cost of sales and services increased by 9.6%, from RMB21,588.0 million for the same period in 2015 to RMB23,668.9 million. This increase was basically consistent with the increase in our sales throughout the year ended 31 December 2016.

The cost of sales and services attributable to our automobile sales business amounted to RMB22,134.6 million for the year ended 31 December 2016, representing an increase of RMB2,197.2 million, or 11.0%, from the same period in 2015. The cost of sales attributable to our after-sales business amounted to RMB1,532.3 million for the year ended 31 December 2016, representing a decrease of RMB118.0 million, or 7.2% from the same period in 2015.

Gross profit and gross profit margin

Gross profit for the year ended 31 December 2016 was RMB2,034.7 million, representing a decrease of RMB153.8 million or 7.0% from the same period in 2015. Gross profit from automobile sales decreased by 11.3% from RMB821.1 million for the year ended 31 December 2015 to RMB727.9 million for the same period in 2016, of which RMB727.2 million were from the sales of luxury and ultra-luxury automobiles. Gross profit from after-sales business decreased by 4.2% from RMB1,361.6 million for the year ended 31 December 2015 to RMB1,304.6 million for the same period in 2016. Automobile sales and after-sales business contributed to 35.8% (2015: 37.5%) and 64.1% (2015: 62.2%), respectively, to the total gross profit for the year ended 31 December 2016.

Gross profit margin for the year ended 31 December 2016 was 7.9% (2015: 9.2%), of which the gross profit margin of automobile sales was 3.2% (2015: 4.0%) and of after-sales business was 46.0% (2015: 45.2%). The decrease in gross profit margin from automobile sales was mainly due to decline in selling price resulting from decreased new models of major brands distributed by the Company in 2016. The gross profit margin from after-sales business remained stable with a slight increase.

Other income and gains, net

The majority of other income is commission income, which increased from RMB269.0 million for the year ended 31 December 2015 to RMB380.2 million for the same period in 2016. Other income and gains, net increased by 46.6% from RMB357.3 million for the year ended 31 December 2015 to RMB524.0 million for the same period in 2016, primarily because the Company made preferential support to its insurance, financing and pre-owned automobile business and developed corresponding incentive measures to improve such businesses and achieved certain positive results in the second half of the year.

Selling and distribution costs and administrative expenses

For the year ended 31 December 2016, our selling and distribution costs decreased by 10.1%, from RMB977.0 million for the same period in 2015 to RMB877.9 million; and our administrative expenses decreased by 5.6% from RMB643.4 million for the same period in 2015 to RMB607.5 million. These decreases were mainly due to the Company's organizational restructuring through reduction of staff and relevant expenses since the second half of 2016, which made corresponding achievement and reduced sales and administrative expenses in the second half of the year.

Profit from operations

As a result of the foregoing, our profit from operations for the year ended 31 December 2016 increased by 16.0% to RMB1,073.3 million from RMB925.4 million for the same period in 2015.

Finance costs

Finance costs decreased by 9.9% from RMB540.1 million for the year ended 31 December 2015 to RMB486.5 for the same period in 2016, primarily because the Company effectively controlled the bank loans to a relatively lower level and achieved a decrease in finance costs.

Profit for the year

As a result of the cumulative effect of the foregoing, our profit for the year ended 31 December 2016 increased by 87.2% to RMB419.9 million from RMB224.3 million for the same period in 2015.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

As at 31 December 2016, our cash and cash equivalents amounted to RMB3,721.3 million, representing an increase of 72.2% from RMB2,161.0 million as at 31 December 2015.

Our primary uses of cash were to pay for purchases of new automobiles, spare parts and automobile accessories, to establish new dealership stores and to fund our working capital and normal operating costs. We financed our liquidity requirements through a combination of short-term bank loans and other borrowings and cash flows generated from our operating activities.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of bank loans and other borrowings, cash flow generated from our operating activities and other funds raised from the capital markets from time to time. For the year ended 31 December 2016, our net cash generated from operating activities was RMB1,354.2 million (2015: RMB588.2 million). The significant growth in cash generated from operating activities indicates the Group's well-functioning amidst rapid development in operating activities.

Net current assets

As at 31 December 2016, we had net current assets of RMB4,931.4 million, representing an increase of RMB4,918.2 million from RMB13.2 million as at 31 December 2015.

Capital expenditure

Our capital expenditures primarily comprised expenditures on property, plant and equipment land use rights and intangible assets. During the year ended 31 December 2016, our total capital expenditures amounted to RMB522.1 million (2015: RMB729.1 million).

Inventories

Our inventories primarily consisted of new automobiles and spare parts and accessories. Each of our dealership stores individually manages their orders for new automobiles and after-sales products. We coordinate and aggregate orders for automobile accessories and other automobile-related products across our dealership network.

Our inventories increased by 19.6% from RMB2,454.9 million as at 31 December 2015 to RMB2,935.5 million as at 31 December 2016, primarily due to (1) increase of inventory balance in line with sales increase, and (2) increase of inventory from acquisition of Sichuan Ganghong.

Our average inventory turnover days for the year ended 31 December 2016 decreased to 41.0 days from 46.6 days in 2015, primarily due to the improvement of the turnover rate of inventories as a result of the increase in the income in 2016.

Trade Receivables

Trade receivables increased from RMB358.2 million for the year ended 31 December 2015 to RMB650.8 million for the year ended 31 December 2016, primarily due to the increase of balance of automobile loan receivables with the slowdown of lending by the manufacturers' finance departments closer to the year-end.

Interest-bearing bank and other borrowings

As at 31 December 2016, the Group's available and unutilised banking facilities amounted to approximately RMB6,259.7 million (31 December 2015: RMB12,358.0 million).

Our interest-bearing bank and other borrowings as at 31 December 2016 were RMB7,552.4 million, representing a decrease of RMB728.5 million from RMB8,280.9 million as at 31 December 2015. The decrease was due to various financing methods adopted by the Company to control the level of bank debts.

Interest rate risk and foreign exchange rate risk

As at 31 December 2016, the Group had not used any derivatives to hedge interest rate risk. The Group conducts its business primarily in Renminbi. Certain bank deposits, bank borrowings and credit enhanced bonds were denominated in foreign currencies. The Group has entered into various forward currency options to manage its exchange rate risk exposure. These forward currency options are not designated for hedging purposes and are measured at fair value through profit or loss. As at 31 December 2016, a fair value of RMB25.8 million (31 December 2015: RMB15.9 million) was recognised by the Group on the forward currency options. Although the Company entered into an ISDA (International Swaps and Derivatives Association, Inc.) 2002 Master Agreement with The Hongkong and Shanghai Banking Corporation Limited dated 30 September 2016, the Group only started to engage in USD interest rate swaps under the aforementioned agreement in January 2017.

Gearing ratio

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, trade, bills and other payables, accruals, and bonds less cash and cash equivalents. Our gearing ratio for the year ended 31 December 2016 was 71.2% (2015: 69.3%).

Human resources

As at 31 December 2016, the Group had 6,907 employees (31 December 2015: 5,941). Total staff costs for the year ended 31 December 2016, excluding Directors' remuneration were approximately RMB646.5 million (2015: RMB740.7 million).

The Group values the recruiting and training of quality personnel. We implement remuneration policy, bonus and long term incentive schemes with reference to the performance of the Group and individual employees. The Group also provides benefits, such as insurance, medical and retirement funds, to employees to sustain competitiveness of the Group.

Contingent liabilities

As at 31 December 2016, the Group had no significant contingent liabilities (31 December 2015: Nil).

Pledge of the Group's assets

Our Group had pledged our group assets, shares in certain subsidiaries and letters of credit as securities against bank loans and other borrowings and bills payable which were used to finance daily business operation and acquisition. As at 31 December 2016, the pledged group assets amounted to approximately RMB4,507.3 million (31 December 2015: RMB3,941.2 million). The Group did not have any pledged letter of credits as at 31 December 2016 (31 December 2015: RMB13.0 million).

OUTLOOK AND STRATEGY

China has been the largest automobile market in terms of sales volume in the world for seven consecutive years since 2009. As at the end of 2016, the vehicle parc and vehicle parc per 1,000 people was 194 million and 138 units, respectively. In comparison with the vehicle parc of America, and taking into consideration of the big population base of China, there are huge potential for the automobile market of China. As one of the largest automobile dealer of luxury and ultra-luxury brands in China, we strongly believe there are various opportunities in the automobile market of China in the future.

With the preliminary completion of integration with the CGA Group in the second half of 2016, the Group has achieved initial results in terms of brand management, regional management, performance-linked remuneration management and overall capital management. Going forward, the Group will make full use of the synergy effect generated from the said integration and leverage on the CGA Group's edge in industry scale and business diversification to further reduce operating costs and improve profitability of the Group. The business strategy adjustment by BMW in relation to its dealers at the beginning of 2017 will be more helpful for BMW dealers to improve profit and reduce capital costs. As one of the largest BMW dealers in China, the Group will benefit from the continuous launch of new products by BMW.

In developed countries, the aftermarket is the primary source of profit for a developed automobile market, accounting for the largest share of profit and resulting in high level of profit margin. Currently, however, the primary source of profit in China's automobile industry arises from original equipment manufacturer, leaving less profit to the automobile aftermarket. Driven by both relevant policies from the government and the market trends, profit in China's automobile industry will gradually tilt towards the aftermarket. Accordingly, the Group will adjust relevant business weightings, improve the contributions from after-sales services and extended services, and accelerate the development of high-value-added businesses.

Compared with developed countries, the automobile finance in China embraces huge growth potential in the market and has developed rapidly in recent years, despite of a relatively lower penetration rate. According to the statistics from Roland Berger, the automobile finance lease market of China has been growing at a CAGR of 60% for the last five years, mainly attributable to the stable growth in the sales volume of new and pre-owned automobiles in China, changes in consumer group and consumption concept, diversified participants in automobile finance market, constant launching of automobile financial products and services, improvement in individual credit system, and positive policies for the automobile finance industry. The Group will take the opportunities in the market to expand its automobile finance business. From 2017 and onwards, Dingxin Leasing, a subsidiary of the Company, will cooperate with All Trust Leasing Company Limited ("**All Trust Leasing**"), a member of the CGA Group, in relation to sales and leaseback, so that the Group will be able to develop finance lease business and utilise its financial resources in an efficient manner.

In recent years, although the pre-owned automobile market in China has maintained a stable and rapid growth, there is huge potential for the development of pre-owned automobiles in terms of sales volume as compared with developed countries. As a large dealer of pre-owned automobiles, the Group enjoys incomparable advantages, i.e. quality source of pre-owned automobiles, most authentic evaluation data and convenient subsequent services. With the established platform and resources from the CGA Group, the Group will continue to improve the replacement rate and penetration rate of pre-owned automobiles for a higher profit, so as to further facilitate the development of pre-owned automobiles.

Meanwhile, with the optimization of management model and the efficient integration with the CGA Group in resources and channels, the Group will further exercise effective controls over costs and improve operating efficiency. Moreover, with the overall implementation of anti-monopoly regulations in the automobile industry by the government, the Group will make better use of the centralized procurement system which it shares with the CGA Group, cover more decoration products and spare and accessory parts, and realize cost-saving purchase and improvement in gross profit margin. The scale effect arising from the integration with the CGA Group is expected to emerge gradually.

In light of the overall development strategy established by the CGA Group, we will keep improving and implementing prudent business strategies, make timely adjustment to the development of the Group which shall be in its long-term interests, and keep pace with the times to take opportunities in the market. In respect of new automobile sales and after-sales services, we will continue to strengthen our strategic cooperation with automobile manufacturers, conduct resource integration, and identify the value over the entire life cycle of our customers to transform their loyalty towards automobile brands to loyalty towards the service brand of automobile dealer, thus improving customer loyalty and retention rate. In the meantime, we will rely on the established networks and platforms of the CGA Group to promote automobile value-added services. Against the backdrop of volatile market, we will continue to strictly control the level of inventory and costs of operation and management for the purpose of expansion of revenue source and cost-efficiency.

Important events since 1 January 2017

On 24 January 2017, Dingxin Leasing, a direct wholly-owned subsidiary of the Company, and All Trust Leasing, an indirect wholly-owned subsidiary of CGA, entered into a sale and leaseback framework agreement (the "**Sale and Leaseback Framework Agreement**"), pursuant to which All Trust Leasing shall sell to Dingxin Leasing vehicles owned by All Trust Leasing, which shall then be leased back for use by All Trust Leasing. Upon expiry of the lease term, All Trust Leasing shall repurchase the leased assets in accordance with the agreed terms. The transactions contemplated under the Sale and Leaseback Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and a major transaction of the Company under Chapter 14 of the Listing Rules. For details of the Sale and Framework Agreement, please refer to the Company's announcements dated 24 January 2017 and 15 March 2017 and the Company's circular dated 24 February 2017.

On 27 March 2017, Suzhou Baoxin Automotive Distribution Services Co., Ltd. (蘇州寶信汽車銷售服務有限公司, "**Suzhou Baoxin**"), an indirect wholly-owned subsidiary of the Company, entered into an acquisition agreement (the "**Acquisition Agreement**") with Li Yuesheng (李躍勝), Li Zhirong (李志榮), Li Guoqin (李國琴), Wu Tingjie (吳挺捷), Wenzhou Kaiyuan Group Limited (溫州開元集團有限公司), Wenzhou Zhenan Electromechanical Equipment Co., Ltd. (溫州浙南機電設備有限公司) and Wenzhou Senyuan Electrical Co., Ltd (溫州市森源電器有限公司) (collectively, the "**Vendors**"), pursuant to which Suzhou Baoxin has conditionally agreed to acquire, and each of the Vendors has conditionally agreed to sell, the entire equity interest of each of the Target Companies (as defined in the Company's announcement dated 27 March 2017) which are principally engaged in the distribution of luxury and ultra-luxury automobiles, automobile repair and maintenance services, automobile leasing services and automobile insurance in Zhejiang Province in the People's Republic of China. The total consideration payable by Suzhou Baoxin under the Acquisition Agreement shall be no more than RMB900 million (equivalent to approximately HK$1.01 billion) in cash. As the applicable percentage ratios under Chapter 14 of the Listing Rules regarding the acquisition exceed 5% but are lower than 25%, the acquisition constitutes a discloseable transaction of the Company under the Listing Rules. Upon completion of the acquisition, each of the Target Companies will become an indirect wholly-owned subsidiary of the Company. For details of the Acquisition Agreement, please refer to the Company's announcement dated 27 March 2017.

The Board proposes to change the English name of the Company from "Baoxin Auto Group Limited" to "Grand Baoxin Auto Group Limited" and to adopt and register the Chinese name "廣匯寶信汽車集團有限公司" as the dual foreign name of the Company to replace its existing Chinese name "寶信汽車集團有限公司" (the "**Change of Company Name**"). The Board considers that the Change of Company Name will better reflect the current business focus of the Group and its direction of future development. The Board believes that the new English and Chinese names of the Company will provide the Company with a fresh corporate image and identity which will benefit the Company's future business development. Therefore, the Board considers that the Change of Company Name is in the best interests of the Company and the shareholders of the Company as a whole. The proposed Change of Company Name is subject to the fulfillment of the conditions as set out in the paragraph headed "Conditions of the Change of Company Name" in the Company's announcement dated 8 March 2017. An extraordinary general meeting of the Company will be held on 6 April 2017 to approve the special resolution in respect of the proposed Change of Company Name. For details, please refer to the Company's circular dated 14 March 2017.

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles set out in the Corporate Governance Code ("**CG Code**") set out in Appendix 14 to the Listing Rules.

In the opinion of the Directors, throughout the year ended 31 December 2016, the Company has complied with most of the code provisions set out in the CG Code, save and except for code provisions A.2.1 and A.4.1.

Under the code provision A.2.1, the division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Prior to the change of Directors on 21 June 2016, our former chairman, Mr. Yang Aihua, was responsible for the operation and management of the Board, whilst our former vice-chairman and chief executive officer, Mr. Yang Hansong, was responsible for the business operations of the Company. The Board considers that the respective responsibilities of the chairman and chief executive officer were clear and distinctive and therefore written terms thereof were not necessary. With effect from 21 June 2016, Mr. Yang Aihua resigned as a Director and the chairman of the Company and Mr. Li Jianping was appointed in his stead; Mr. Wang Xinming was appointed as the President of the Company; and Mr. Yang Hansong resigned as a vice-chairman and the chief executive officer of the Company and no chief executive officer was appointed. With effect from 21 June 2016, the day-to-day management of the Group is delegated to other executive Directors and the management of the Company. The Board is of the view that the current management structure can effectively facilitate the Group's operation and business development.

Under code provision A.4.1, the non-executive Directors should be appointed for a specific term and subject to re-election. Mr. Lu Linkui, who was appointed as a non-executive Director with effect from 31 March 2014, did not enter into any service contract with the Company and does not have a specific term of appointment. However, Mr. Lu Linkui is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the articles of association of the Company. Mr. Lu Linkui retired and was re-elected as a non-executive Director at the annual general meeting of the Company held on 18 June 2015. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

The Board has also adopted the Model Code as guidelines for its employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the securities of the Company. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2016 (2015: Nil).

2017 AGM

An annual general meeting of the Company (the "**2017 AGM**") will be held on 28 June 2017. The notice of the 2017 AGM and all other relevant documents will be dispatched to the shareholders of the Company on or around 28 April 2017.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders of the Company who are eligible to attend and vote at the 2017 AGM, the register of members of the Company will be closed from 23 June 2017 to 28 June 2017, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the 2017 AGM, all duly stamped share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 22 June 2017.

AUDIT COMMITTEE REVIEW

Pursuant to the requirement of the CG Code and the Listing Rules, the Company has established an audit committee (the "**Audit Committee**") comprising Mr. DIAO Jianshen (chairman), Mr. WANG Keyi and Mr. CHAN Wan Tsun Adrian Alan, all of whom are the Company's independent non-executive Directors.

The Audit Committee has reviewed the audited consolidated financial statements of the Group 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.

SCOPE OF WORK OF THE AUDITORS

The figures in respect of the Group's financial results for the year ended 31 December 2016 as set out in this preliminary announcement have been agreed by the Group's independent auditors, Messrs. Ernst & Young ("**EY**"), to be consistent with the amounts set out in the Group's consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by EY on this preliminary announcement.

PUBLICATION OF FINAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement will be published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.klbaoxin.com). The annual report of the Company for the year ended 31 December 2016 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and made available on the same websites in due course.

By order of the Board
Baoxin Auto Group Limited
LI Jianping
Chairman

The People's Republic of China, 31 March 2017

As at the date of this announcement, the executive Directors are Mr. LI Jianping, Mr. WANG Xinming, Mr. LU Ao and Mr. QI Junjie; the non-executive Directors are Mr. ZHOU Yu and Mr. LU Linkui; and the independent non-executive Directors are Mr. DIAO Jianshen, Mr. WANG Keyi and Mr. CHAN Wan Tsun Adrian Alan.