MEIDONG AUTO

China MeiDong Auto Holdings Limited
中國美東汽車控股有限公司

(Incorporated in the Cayman Islands with limited liabilities)

(Stock code: 1268)

2017 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Revenue increased to RMB7,682.7 million, representing a growth of 22.7%.
- Revenue of passenger vehicles sales increased by 21.4%.
- Revenue of after-sales services increased by 33.5%.
- Gross profit margin was 10.7%, a 1.5 percentage points increase from 9.2% in 2016.
- Profit attributable to the shareholders of the Company increased significantly to RMB275.8 million, representing a growth of 81.4%. Basic earnings per share amounted to RMB25.26 cents.
- The net profit margin increased 1.1 percentage points to 3.6%.
- Proposed final dividend of RMB0.0883 per ordinary share. The interim dividend of RMB0.035 per ordinary share was paid.

RESULTS

The board (the "**Board**") of directors (the "**Director(s)**") of China MeiDong Auto Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2017.

The audited consolidated results of the Group for the year ended 31 December 2017 together with the comparative figures of 2016 are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	**2017**	2016
Revenue	*2*	**7,682,714**	6,263,322
Cost of sales		**(6,862,969)**	(5,685,864)
Gross profit		**819,745**	577,458
Other income	*3*	**99,055**	45,780
Distribution costs		**(272,445)**	(205,665)
Administrative expenses		**(230,327)**	(175,282)
Profit from operations		**416,028**	242,291
Finance costs	*4(a)*	**(61,331)**	(51,470)
Share of profits of an associate		**320**	4,162
Share of profits of a joint venture		**22,701**	23,226
Profit before taxation	*4*	**377,718**	218,209
Income tax	*5(a)*	**(98,967)**	(61,243)
Profit for the year		**278,751**	156,966
Other comprehensive income for the year		**–**	–
Profit and total comprehensive income for the year		**278,751**	156,966
Profit and total comprehensive income attributable to:			
Equity shareholders of the Company		**275,787**	152,057
Non-controlling interests		**2,964**	4,909
Profit and total comprehensive income for the year		**278,751**	156,966
Earnings per share			
Basic (RMB cents)	*6(a)*	**25.26**	13.97
Diluted (RMB cents)	*6(b)*	**25.23**	13.97

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

(Expressed in RMB'000)

	Note	**31 December 2017**	31 December 2016
Non-current assets			
Property, plant and equipment		**681,146**	621,525
Lease prepayments		**97,528**	100,478
Intangible assets		**10,228**	12,454
Interest in an associate		**19,153**	18,833
Interest in a joint venture		**37,413**	53,443
Other non-current assets		**48,392**	20,327
Deferred tax assets		**12,887**	10,084
		906,747	837,144
Current assets			
Inventories	*7*	**673,129**	483,940
Trade and other receivables	*8*	**583,983**	497,790
Pledged bank deposits		**264,543**	346,825
Cash and cash equivalents		**545,207**	426,169
		2,066,862	1,754,724
Current liabilities			
Loans and borrowings		**674,282**	614,708
Trade and other payables	*9*	**1,030,069**	878,547
Corporate bonds		**91,905**	43,531
Income tax payables	*5(c)*	**30,212**	20,794
		1,826,468	1,557,580
Net current assets		**240,394**	197,144
Total assets less current liabilities		**1,147,141**	1,034,288

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 31 December 2017

(Expressed in RMB'000)

	Note	**31 December 2017**	31 December 2016
Non-current liabilities			
Loans and borrowings		**50,677**	75,635
Corporate bonds		**–**	50,723
Deferred tax liabilities		**2,849**	3,110
Other non-current liabilities		**–**	2,530
		53,526	131,998
NET ASSETS		**1,093,615**	902,290
EQUITY			
Share capital	*10*	**86,585**	85,529
Reserves		**968,972**	778,955
Total equity attributable to equity shareholders of the Company		**1,055,557**	864,484
Non-controlling interests		**38,058**	37,806
TOTAL EQUITY		**1,093,615**	902,290

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

(Expressed in RMB'000)

	Note	**2017**	2016
Operating activities:			
Cash generated from operations		**378,674**	354,864
Income tax paid	*5(c)*	**(92,613)**	(54,626)
Net cash generated from operating activities		**286,061**	300,238
Investing activities:			
Payment for the purchase of property, plant and equipment		**(178,470)**	(149,073)
Proceeds from disposal of property, plant and equipment		**50,083**	27,805
Payment for purchase of software		**(1,085)**	(1,435)
Advances to related parties		**–**	(151)
Repayment of advances to related parties		**–**	151
Interest received		**5,006**	5,241
Dividends received from a joint venture		**38,731**	16,170
Net cash used in investing activities		**(85,735)**	(101,292)

CONSOLIDATED CASH FLOW STATEMENT (Continued)
For the year ended 31 December 2017
(Expressed in RMB'000)

	Note	**2017**	2016
Financing activities:			
Proceeds from loans and borrowings		**763,813**	742,730
Repayment of loans and borrowings		**(725,082)**	(685,431)
Decrease in pledged bank deposits		**19,278**	–
Proceeds from exercise of warrants	*10(c)*	**14,123**	–
Payment for repurchase of own shares	*10(b)(iii)*	**–**	(3,094)
Acquisition of non-controlling interests in a subsidiary		**(7,500)**	–
Advances from related parties		**5,029**	22,646
Repayment of advances from related parties		**–**	(22,620)
Dividends declared and paid	*10(a)*	**(107,812)**	(50,054)
Capital injection by non-controlling interests		**4,000**	4,000
Interest paid		**(47,137)**	(34,869)
Net cash used in financing activities		**(81,288)**	(26,692)
Net increase in cash and cash equivalents		**119,038**	172,254
Cash and cash equivalents at 1 January		**426,169**	253,915
Cash and cash equivalents at 31 December		**545,207**	426,169

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 24 February 2012 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Group are principally engaged in 4S dealership business in the People's Republic of China (the "**PRC**").

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirement of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**the Listing Rules**"). Significant accounting policies adopted by the Group are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries and the Group's interests in an associate and a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– derivative financial instruments.

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

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

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

(c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, the Group has applied the amendments to HKAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

2 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

	2017	2016
	RMB'000	*RMB'000*
Sales of passenger vehicles	**6,778,187**	5,585,623
After-sales services	**904,527**	677,699
	7,682,714	6,263,322

(b) Segment reporting

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the sales of passenger vehicles and provision of after-sales services.

(i) Information about geographical area

All of the Group's revenue is derived from the sales of passenger vehicles and provision of after-sales services in mainland China and the principal non-current assets employed by the Group are located in mainland China. Accordingly, no analysis by geographical segments has been provided for the reporting period.

(ii) *Information about major customers*

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's revenues.

3 OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Commission income	**56,799**	41,274
Bank interest income	**4,766**	4,908
Management service income	**12,107**	–
Net gain/(loss) on disposal of property, plant and equipment	**11,270**	(200)
Net foreign exchange gain/(loss)	**10,609**	(6,132)
Others	**3,504**	5,930
	99,055	45,780

4 PROFIT BEFORE TAXATION

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

		2017	2016
	Note	***RMB'000***	*RMB'000*
(a) Finance costs:			
Interest on			
– loans and borrowings		**29,612**	25,072
– corporate bonds		**20,819**	18,552
Total borrowing costs		**50,431**	43,624
Other finance cost	*(i)*	**10,900**	7,846
		61,331	51,470
(b) Staff costs:			
Salaries, wages and other benefits		**302,899**	220,715
Equity settled share-based payment expenses	*(ii)*	**348**	819
Contributions to defined contribution retirement plans	*(iii)*	**10,333**	8,867
		313,580	230,401

(i) It represents the interest expenses borne by the Group arising from discount of bills issued to automobile manufacturers.

(ii) The Group recognised an expense of RMB348,000 for the year ended 31 December 2017 (2016: RMB819,000) in relation to share options granted to certain employees of the Group pursuant to a share option scheme.

(iii) Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

(c) Other items:

	2017	2016
	RMB'000	*RMB'000*
Cost of inventories	**7,245,866**	6,014,754
Write down of inventories	**4,983**	–
Depreciation	**69,048**	55,228
Amortisation of lease prepayments	**2,950**	2,950
Amortisation of intangible assets	**2,226**	1,521
Operating lease charges	**41,793**	31,219
Net foreign exchange (gain)/loss	**(10,609)**	6,132
Auditors' remuneration	**4,200**	3,680

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of comprehensive income represents:

	2017	2016
	RMB'000	*RMB'000*
Current tax:		
Provision for PRC income tax for the year	**102,031**	58,497
Deferred tax:		
(Origination)/reversal of temporary differences	**(3,064)**	2,746
	98,967	61,243

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

	2017	2016
	RMB'000	*RMB'000*
Profit before taxation	**377,718**	218,209
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (i)	**102,446**	63,973
Tax effect of non-deductible expenses	**1,628**	1,390
Tax effect of non-taxable income on share of profits of an associate	**(80)**	(1,040)
Tax effect of non-taxable income on share of profits of a joint venture	**(5,675)**	(5,806)
Tax effect of unused tax losses not recognised	**648**	2,726
Actual tax expense	**98,967**	61,243

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

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

The Group's PRC subsidiaries are subject to income tax at the statutory tax rate of 25%.

(c) Current taxation in the consolidated statement of financial position represents:

	2017	2016
	RMB'000	*RMB'000*
At the beginning of the year	**20,794**	16,923
Provision for current income tax for the year	**102,031**	58,497
Payment during the year	**(92,613)**	(54,626)
At the end of the year	**30,212**	20,794

6 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB275,787,000 (2016: RMB152,057,000) and the weighted average of 1,091,740,000 ordinary shares in issue (2016: 1,088,256,000 shares) during the year ended 31 December 2017.

Weighted average number of ordinary shares

	2017	2016
Issued ordinary shares at 1 January	**1,088,130,000**	1,092,170,000
Effect of shares repurchased (see note 10(b)(iii))	**–**	(3,914,000)
Effect of exercise of warrants (see note 10(c))	**3,610,000**	–
Weighted average number of ordinary shares at 31 December	**1,091,740,000**	1,088,256,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB275,787,000 (2016: RMB152,057,000) and the weighted average of 1,093,245,000 ordinary shares (2016: 1,088,256,000 shares) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's employee share option scheme during the year ended 31 December 2017.

The impact of warrants to earnings per share was anti-dilutive for the year ended 31 December 2017.

Weighted average number of shares (diluted)

	2017	2016
Weighted average number of ordinary shares for the year ended 31 December	**1,091,740,000**	1,088,256,000
Effect of deemed issue of shares under the employee share option scheme	**1,505,000**	–
Weighted average number of ordinary shares at 31 December	**1,093,245,000**	1,088,256,000

The impact of share options and warrants to earnings per share was anti-dilutive for the year ended 31 December 2016 and therefore there were no dilutive potential ordinary shares during the year, as a result, the diluted earnings per share is equivalent to the basic earnings per share.

7 INVENTORIES

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

	2017	2016
	RMB'000	*RMB'000*
Motor vehicles	**622,802**	435,557
Others	**50,327**	48,383
	673,129	483,940

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

	2017	2016
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**7,245,866**	6,014,754
Write-down of inventories	**4,983**	–

8 TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**81,183**	74,991
Prepayments	**134,017**	123,132
Other receivables and deposits	**354,551**	295,857
Amounts due from third parties	**569,751**	493,980
Amounts due from related parties	**14,232**	3,810
Trade and other receivables	**583,983**	497,790

All of the trade and other receivables are expected to be recovered or recognised as expense within one year. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

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

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables) based on the invoice date that are neither individually nor collectively considered to be impaired is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 1 month	**72,994**	70,095
1 to 2 months	**3,348**	1,314
2 to 3 months	**340**	140
Over 3 months	**4,501**	3,442
	81,183	74,991

9 TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**83,361**	70,681
Bills payable	**477,040**	483,887
	560,401	554,568
Receipts in advance	**328,939**	226,833
Other payables and accruals	**134,990**	96,010
Amounts due to third parties	**1,024,330**	877,411
Amounts due to related parties	**5,739**	1,136
Trade and other payables	**1,030,069**	878,547

All trade and other payables are expected to be settled within one year.

As of the end of the reporting period, the ageing analysis of trade payables and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**516,386**	495,680
After 3 months but within 6 months	**44,015**	58,888
	560,401	554,568

10 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	2017	2016
	RMB'000	*RMB'000*
Interim dividend for the year, approved and paid during the year, of RMB0.035 per ordinary share (2016: nil)	**38,172**	–

	2017	2016
	RMB'000	*RMB'000*
Final dividend proposed after the statement of financial position date of RMB0.0883 per ordinary share (2016: RMB0.064 per ordinary share)	**101,625**	69,640

The final dividend proposed after the statement of financial position date has not been recognised as a liability at the statement of financial position date.

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

	2017	2016
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.064 per ordinary share (2016: RMB0.046 per ordinary share)	**69,640**	50,054

(b) Share capital

The share capital of the Group as at 31 December 2017 represented the amount of issued and paid-up capital of the Company with details set out below:

Authorised:

			2017		2016	
	Note	Par value	**Number of shares**	**Nominal value of ordinary shares**	Number of shares	Nominal value of ordinary shares
		HK$	***(thousand)***	***HK$'000***	*(thousand)*	*HK$'000*
At 31 December	*(i)*	0.1	**20,000,000**	**2,000,000**	20,000,000	2,000,000

Ordinary shares, issued and fully paid:

	Note	Number of ordinary shares *(thousand)*	Nominal value of ordinary shares *HK$('000)*
At 1 January 2016		1,092,170	109,217
Shares repurchased and cancelled	*(iii)*	(4,040)	(404)
At 31 December 2016 and 1 January 2017		1,088,130	108,813
Issue of ordinary shares upon exercise of warrants	*10(c)*	12,500	1,250
At 31 December 2017		1,100,630	110,063
RMB equivalent ('000) at 31 December 2017			86,585
RMB equivalent ('000) at 31 December 2016			85,529

(i) *Authorised share capital*

The Company was incorporated on 24 February 2012 with an authorised share capital of HK$10,000,000 divided into 100,000,000 ordinary shares of HK$0.1 each. Pursuant to a resolution dated 16 October 2013 passed by its sole shareholder, Apex Sail Limited ("**Apex Sail**"), the authorised share capital of the Company was increased from HK$10,000,000 to HK$2,000,000,000 by the creation of 19,900,000,000 new share of HK$0.1 each.

(ii) *Issued and fully paid share capital*

The Company was incorporated on 24 February 2012 with 1,000,000 issued ordinary share of HK$100,000, as nil paid.

On 16 October 2013, the Company issued and allotted 749,000,000 shares of HK$0.1 each at par and nil paid, to Apex Sail.

The total outstanding subscription amount of HK$75,000,000 (RMB equivalent: 58,965,000) on the 750,000,000 shares that were previously allotted and issued to Apex Sail (representing the 1,000,000 shares issued on 24 February 2012 and the aforementioned 749,000,000 shares) were subsequently paid up on 24 October 2013.

On 5 December 2013, the Company issued 250,000,000 new ordinary shares of HK$0.1 each by way of the Offering to Hong Kong and overseas investors. Consequently, HK$25,000,000 (equivalent to RMB19,655,000) was recorded in share capital.

On 12 June 2015, the Company issued 100,000,000 new ordinary shares at the subscription price of HK$1.83 per share. The gross proceeds of HK$183,000,000 (RMB equivalent 144,473,000), net of direct share issuance expenses of HK$6,605,000 (RMB equivalent 5,213,000), were raised, of which RMB7,895,000 and RMB131,365,000 was credited to share capital and share premium account, respectively.

(iii) Repurchase of own shares

During the year ended 31 December 2016, the Company repurchased 2,798,000 number of ordinary shares. All of the repurchased shares and 1,242,000 number of ordinary shares repurchased on 31 December 2015, which were not yet paid or cancelled as of 31 December 2015 were cancelled as of 31 December 2016 and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of RMB340,000 was transferred from the share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB2,754,000 was charged to the share premium account as well.

During the year ended 31 December 2015, the Company repurchased 9,072,000 number of ordinary shares. Except for 1,242,000 number of ordinary shares repurchased on 31 December 2015, which were not yet paid or cancelled as of 31 December 2015, all of the repurchased shares were cancelled as of 31 December 2015 and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of RMB646,000 was transferred from the share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB4,790,000 was charged to the share premium account as well.

(c) Warrants

On 9 March 2015, the Company issued warrants, which entitled the holders thereof to subscribe up to RMB118,202,715 for 62,773,614 warrant shares at a subscription price of RMB1.883 per warrant share within three years after the issuance date. The fair value of warrants amounting to RMB13,103,000 net of direct warrant issuance expenses of RMB127,000 was credited to capital reserve.

During the year ended 31 December 2017, subscription rights attaching to 12,500,000 warrant shares were exercised at a subscription price of RMB1.883 per ordinary share. Consequently, the Company issued 12,500,000 ordinary shares upon the exercise of the subscription rights, of which 7,500,000 ordinary shares were issued for a cash consideration of RMB14,122,500 and 5,000,000 ordinary shares were issued for a consideration of RMB9,415,000 which is partially setting off with the outstanding principal amount of the corporate bonds held by the warrants holders. HK$1,250,000 (equivalent to RMB1,056,000) was recorded in share capital and, accordingly, the fair value of these warrants in an aggregate amount of RMB2,609,203 previously recognised in the capital reserve was transferred to the share premium account upon the exercise of warrants.

During the year ended 31 December 2016, no warrants were exercised.

11 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Final dividend

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 10(a).

(b) Equity settled share-based transactions

Pursuant to a resolution of the board of directors of the Company passed on 4 January 2018, 11,980,000 share options were granted to certain eligible employees of the Group under the share option scheme adopted by the Company on 13 November 2013, to subscribe for 11,980,000 shares of the Company in aggregate with an exercise price of HK$2.58, among which 2,000,000 and 2,150,000 share options were granted to Mr. Ye Tao and Ms. Liu Xuehua, the executive directors of the Company, respectively. Each option gives the holder the right to subscribe for one ordinary share of HK$ 0.1 each of the Company.

(c) Exercise of warrants and repayment of corporate bonds

During January 2018, subscription rights attaching to 50,273,614 warrant shares were exercised at a subscription price of RMB1.883 per ordinary share. Consequently, the Company issued 50,273,614 ordinary shares upon the exercise of the subscription rights, of which 48,973,614 ordinary shares were issued for a cash consideration of RMB92,217,000 and 1,300,000 ordinary shares were issued for a consideration of RMB2,448,000 which is partially setting off with the outstanding principal amount of the corporate bonds held by the warrants holders. On 9 March 2018, the Group repaid the remaining outstanding principal amount of the corporate bonds, corresponding interests and the additional redemption amount to bond holders.

(d) Disposal of interest in an associate

On 27 February 2018, Dongguan Meixin, a wholly owned subsidiary of the Group, entered into a share purchase agreement with a third party, pursuant to which Dongguan Meixin had agreed to sell and the third party had agreed to purchase the 49% equity interest of Dongguan Anxin, an associate of the Group, for an aggregate purchase price of RMB19,850,000.

(e) Issuance of guarantees

On 5 March 2018, one subsidiary of the Group renewed its financial guarantees to a financial institution in respect of financial facilities granted to Dongguan Meidong amounting to RMB80,000,000. The directors do not consider it probable that a claim will be made under the guarantee.

FINANCIAL REVIEW

Revenue and Cost of Sales

For the year ended 31 December 2017, the Group recorded a revenue of RMB7,682,714,000, representing a significant increase of 22.7% as compared with RMB6,263,322,000 in 2016. This includes passenger vehicles sales of RMB6,778,187,000, which grew by approximately 21.4% as compared with last year; and after-sales revenue of RMB904,527,000, which increased by approximately 33.5% as compared with last year. Cost of goods sold increased by 20.7% from RMB5,685,864,000 to RMB6,862,969,000 in 2017. The increase in cost of goods sold was due to an increase in cost of sales of passenger vehicles of 19.8% and an increase in cost of after-sales services of 34.2%.

Gross Profit

For the year ended 31 December 2017, the Group achieved a total gross profit of RMB819,745,000, representing a 42.0% increase as compared with the total gross profit of RMB577,458,000 in 2016. This includes the gross profit of passenger vehicles sales of RMB376,705,000, an approximately 54.5% increase as compared to the last year; and the gross profit of after-sales services of RMB443,040,000, an approximately 32.8% increase as compared to the last year. Gross profit margin increased by 1.5 percentage points from 9.2% in 2016 to 10.7% for the year ended 31 December 2017, which was mainly due to the increase in the gross profit margin of passenger vehicles sales of 1.2 percentage points from 4.4% in 2016 to 5.6% for the year ended 31 December 2017.

Distribution Costs and Administrative Expenses

Distribution costs for the year ended 31 December 2017 amounted to RMB272,445,000, which grew by approximately 32.5% as compared to the last year. Administrative expenses for the year ended 31 December 2017 amounted to RMB230,327,000, which grew by approximately 31.4% as compared to the last year. The increase in distribution costs and administrative expenses was mainly due to the increased number of operating stores.

Finance Costs

Finance costs for the year ended 31 December 2017 amounted to RMB61,331,000, an increase of approximately 19.2% as compared with that of RMB51,470,000 last year. During the year ended 31 December 2017, inventory turnover day was 32 days, an increase of 1 day as compared to 31 days in 2016.

Associates and Joint Ventures

For the year ended 31 December 2017, share of results of an associate and a joint venture amounted to RMB23,021,000, representing a decrease of approximately 15.9% as compared to that of RMB27,388,000 last year.

Taxation

For the year ended 31 December 2017, the Group's income tax expenses amounted to RMB98,967,000, representing an increase of approximately 61.6% as compared with the income tax expenses of RMB61,243,000 last year. The increase was mainly attributable to the increased profit before tax in 2017 as compared to the last year.

Financial Resources and Position

As at 31 December 2017, the Group's loans and borrowings and corporate bonds amounted to RMB816,864,000, representing an increase of approximately 4.1% as compared with the loans and borrowings and corporate bonds of RMB784,597,000 as at 31 December 2016. In pacticular, short-term loans and borrowings amounted to RMB674,282,000, long-term loans and borrowings amounted to RMB50,677,000, and the corporate bonds amounted to RMB91,905,000 as at 31 December 2017.

As at 31 December 2017, cash and cash equivalents and pledged bank deposits amounted to RMB809,750,000. Most of the cash and cash equivalents and pledged bank deposits were denominated in Renminbi and Hong Kong Dollars. As the Group's businesses are conducted in the PRC, the Group does not expect to be exposed to any material foreign exchange risks.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal liquidity and financing agreements with banks and automobile manufacturers' captive finance companies. The Group has adequate financial resources to meet all contractual obligations and operating requirements.

Contingent Liabilities

As at 31 December 2017, one of the Group's subsidiaries issued financial guarantees to financial institutions in respect of financial facilities granted to related parties of the Group amounting to RMB158,000,000 (31 December 2016: RMB178,000,000), and the financial facilities utilized by the related parties amounted to RMB32,758,000 (31 December 2016: RMB43,381,000).

As at 31 December 2017, the Directors do not consider it probable that a claim will be made under the above guarantees.

BUSINESS REVIEW

In 2017, the automobile industry maintained stable growth momentum with luxury brands significantly outpacing the overall automobile market driven by consumption upgrading. According to the China Association of Automobile Manufacturers, there were 24.718 million units of passenger vehicles sold in China during 2017, representing a year-on-year ("**YoY**") growth of 1.4% as compared to 2016 (2016: 24.377 million units), which accounted for nearly one-third of the global automobile market. As for vehicle models, sport utility vehicles ("**SUV**") and multi-purpose vehicles ("**MPV**") remained as the major drivers with significant growth of 44.6% and 18.4% respectively. Sedans also grew mildly by 3.4%.

Under the back drop of mild overall market growth, various market segments recorded differentiated trends in terms of demand and growth with luxury brands growing much more significantly compared to the overall market. According to the statistics published by the National Bureau of Statistics, the nationwide per capita disposable income in China increased 7.3% in 2017. The upgrade of consumption has driven the continued strong market demand of high-end brands. In 2017, 12 mainstream luxury vehicle brands, in the aggregate, recorded a sales volume of approximately 2.575 million units in China, representing a YoY growth of 18.4%. The three luxury brands the Group distributed, namely Porsche, BMW and Lexus all delivered strong sales record in China in 2017. The Group benefits from the aforementioned market trends and recorded satisfying results with our strategy of "Single City Single Store."

Moreover, the Group focuses on the second-tier to fourth-tier cities with low market penetration, mild moderate competitive landscape and stronger demand of consumer goods. In 2017, the Group opened 5 new stores across China, mostly stores under the "Single City Single Store" model in lower tier cities, which further enhanced our strategic footprint and enjoyed first-mover advantages.

Furthermore, the Group sees significant potential and tremendous opportunities in the after-sales service market. As at 31 December 2017, vehicle ownership in China reached 301 million units with steady and strong growth, according to the Traffic Management Bureau of the Ministry of Public Security. The continued growth of overall vehicle ownership and aging of vehicles provide immense room for the after sales market. The maturing of the Group's young store portfolio ensures a steady growth of after-sales service segment of the Group.

RESULTS ANALYSIS

In 2017, the Group continued to implement its "Single City Single Store" strategy with focuses on luxury brands in lower tier cities. Such strategic initiative has generate fruitful results and has led to strong growth in terms of financial results.

Revenue

For 2017, the Group recorded a revenue of RMB7,682.7 million, representing a YoY growth of 22.7% (2016: RMB6,263.3 million). It was attributable to the successful launching of new stores in lower tier cities under the "Single City Single Store" strategy in 2017, which enabled the Group to rapidly penetrate into untapped markets and therefore to expand its business footprint and broaden its income sources. Furthermore, as the Group's core brands namely Porsche, BMW and Lexus, has entered into a new product cycle, the revenue contribution from the sales of luxury brands significantly increased to 70.2% of the total revenue (2016: 60.4%). In 2017, sales from BMW, Porsche and Lexus amounted to RMB2,479.2 million, RMB1,215.4 million and RMB1,699.8 million respectively, which accounted for 32.3%, 15.8% and 22.1% of the total revenue.

Gross Profit

The 42.0% surge in gross profit from RMB577.5 million in 2016 to RMB819.7 million in 2017 was mainly driven by the satisfactory growth of overall revenue and the significant increase in gross profit margin of passenger vehicles sales. Gross profit of passenger vehicles sales amounted to RMB376.7 million in 2017 (2016: RMB243.8 million), representing an impressive increase of 54.5%. Gross profit of after-sales services also rose from RMB333.7 million in 2016 to RMB443.0 million in 2017, representing a YoY increase of 32.8%. Benefitting from a balanced demand and supply in the industry and long product cycle of major brands, coupled with the continuous brand-mix optimization and the optimization of operation efficiency through platform-based management, the Group's overall gross profit margin also significantly increased by 1.5 percentage points from 9.2% last year to 10.7%. Gross profit margin of passenger vehicles sales surged from 4.4% in 2016 to 5.6% in 2017. Meanwhile, with effective management, and streamlined operation, gross profit margin of after-sales services remained at a high level of 49.0%, which was similar to the last year.

Passenger Vehicle Sales

Under the proven success of the "Single City Single Store" strategy, the Group has enjoyed first mover's advantage and capturing the flourishing demand from consumption upgrade by introducing BWM, Porsche and Lexus new stores to untapped 2nd to 4th tier cities. At the same time, the Group also carries a solid portfolio of medium to high-end brands, namely Toyota and Hyundai to serve the needs of the mass market. In addition, the core brands of the Group also entered into a series of new product cycles during the year, which has become a strong force to drive the new vehicle sales. Coupled with the rapid network expansion and the strong growth in same-store sales revenue of passenger vehicles sales amounted to RMB6,778.2 million (2016: RMB5,585.6 million) in 2017, accounting for an increase of approximately 21.4% as compared with last year. In terms of sales volume, the Group sold 28,711 new vehicles in total, representing an increase of 7.8% as compared to 2016, which was above our expectation. In particular, luxury brands remained as the major driver, the sales volume of BMW, Porsche and Lexus were 6,491 units, 1,475 units and 4,437 units, respectively.

The gradually increase in numbers of mature stores in the portfolio and the strong demand from the 2nd to 4th tier cities, after-sales services segment made significant contribution to the revenue in 2017. The Group serviced a total of 309,136 vehicles in 2017, representing a YoY growth of 19.7% (2016: 258,299 vehicles), bringing the revenue of after-sales services to increase from RMB677.7 million in 2016 to RMB904.5 million in 2017.

Net Profit

On top of revenue growth and significant increase in gross profit margin, the Group enhanced its operation efficiency with information technologies so as to achieve effective cost control. Therefore, profit attributable to equity shareholders increased by 81.4% to RMB275.8 million (2016: RMB152.1 million), and net profit margin grew by 1.1 percentage points to approximately 3.6%. Basic earnings per share was RMB25.26 cents. The Group has a sustained and healthy balance sheet as well as a solid dividend policy. The interim dividend for 2017 was RMB 0.035 per ordinary share and the proposed final dividend for 2017 was RMB0.0883 per ordinary share.

Current Network

The Group opened 5 new stores in 2017, bringing the total numbers of self-operated stores from 34 in 2016 to 39 in 2017, including a joint venture that is operated by the Group and an associate stores. Currently, the Group's store network covers Beijing, Hebei, Hubei, Hunan, Jiangxi, Fujian, Guangdong and Gansu.

No. of stores under operation	2016	**2017**	**Change**
Porsche	2	**2**	–
BMW	11	**14**	3
Lexus	8	**10**	2
Toyota	11	**11**	–
Hyundai	2	**2**	–
Total	34	**39**	5

Prospects

The automobile industry in China in 2018 is expected to continue the steady growth momentum of the previous year. The Group remains optimistic about the luxury brand market. The steady development of the macro economy and the increasing disposable income will further boost consumption upgrade, which will continue to drive strong replacement demand for luxury products. In addition, the favorable product cycles of major luxury brands are expected to sustain the strong momentum of luxury brands in the coming few years.

As a unique and long-term development strategy of the Group, "Single City Single Store" has substantially enhanced the overall profitability and the market position of the Group since its implementation. The Group will continue to speed up network expansion into the second to fourth-tier cities under the Single City Single Store model. The Group has a strong project pipeline with a strong focus of luxury brands that ensures the steady growth of the Group in 2018 and beyond.

Apart from passenger vehicle sales, the Group will also take proactive steps to develop the after-sales segment aiming to increase the contribution of high margin after sales segment to the overall business and speed up the maturation of young store portfolio to further improve profitability. Demand of the after-sales service market has been expanding with the rise in vehicle ownership and the aging of vehicles. This represents a good opportunity for the Group to benefit from its unique market position in the Single City Single Stores in the tier two to four cities we operate, which will lead to a sustainable growth of the after-sales services segment.

To increase its operation and management efficiency and enhance its execution capabilities, the Group employs the IT/data system which performs accurate data analysis and evaluation on its outlets across China. The data-driven management of the Group contributes to further enhance the management efficiency of the Group. Besides, the Group will maintain a healthy balance sheet and strong internal cashflow so as to fully grasp the opportunities arising from the industry to achieve the best returns to shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2017 until the date of this announcement.

Corporate Governance

The Company has complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the "**Code**") during the year ended 31 December 2017. Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" in the annual report of the Company for the year ended 31 December 2017.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2017.

Audit Committee

The Company has an audit committee (the "**Audit Committee**") which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee has three members comprising three independent non-executive directors, being Mr. CHEN Guiyi, Mr. WANG, Michael Chou and Mr. JIP Ki Chi.

An Audit Committee meeting was held on 20 March 2018 to review the audited annual financial report for the year ended 31 December 2017.

Annual General Meeting

An annual general meeting of the Company (the "**AGM**") will be held on 17 May 2018. For details of the AGM, please refer to the Notice of AGM which is expected to be published on or about 13 April 2018.

Final Dividend

The Board recommended the payment of a final cash dividend out of the share premium account under reserves of the Company of RMB0.0883 per share (2016: RMB0.064 per share) to shareholders whose names are on the register of members of the Company on 31 May 2018, which is subject to approval by shareholders at the AGM and compliance with the Companies Law of the Cayman Islands.

It is expected that the cheques for cash dividends will be sent by ordinary mail to shareholders at their own risk on or about 12 June 2018.

Closure of Register of Members

The register of members of the Company will be closed for the following periods:

1. from 14 May 2018 to 17 May 2018, both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to attend and vote at the AGM; and

2. from 25 May 2018 to 31 May 2018, both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to the final dividend to be approved at the AGM.

All completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 11 May 2018 and 24 May 2018 respectively.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my gratitude to all the staff and management team for their contribution during the period. I would also like to express my appreciation to the continuous support of our shareholders and investors.

By Order of the Board
YE Tao
Chief Executive Officer

Hong Kong, 20 March 2018

As at the date of this announcement, the Board comprises:

Executive Directors:
Mr YE Fan *(Chairman)*
Mr YE Tao *(Chief Executive Officer)*
Ms LIU Xuehua

Independent Non-executive Directors:
Mr CHEN Guiyi
Mr WANG, Michael Chou
Mr JIP Ki Chi