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润东汽车

China Rundong Auto Group Limited

中國潤東汽車集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1365)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board (the "**Board**") of directors (the "**Directors**") of China Rundong 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 2017 (the "**Reporting Period**"), as follows:

FINANCIAL HIGHLIGHTS

During the Reporting Period:

- Total revenue increased by 6.3% to RMB19,111.1 million as compared with 2016.
- Automobile sales revenue increased by 7.1% to RMB16,914.7 million as compared with 2016.
- After-sales service revenue increased by 0.5% to RMB2,196.4 million as compared with 2016.
- Commission income increased by 25.7% to RMB387.8 million as compared with 2016.
- Profit attributable to owners of the parent decreased by 4.6% to RMB261.0 million as compared with 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	4(a)	**19,111,084**	17,972,988
Cost of sales	5(b)	**(17,817,884)**	(16,350,479)
Gross profit		**1,293,200**	1,622,509
Other income and gains, net	4(b)	**471,140**	347,225
Selling and distribution costs		**(473,973)**	(480,779)
Administrative expenses		**(511,663)**	(491,081)
Other expenses		**(8,532)**	(90,038)
Finance costs	6	**(393,438)**	(480,652)
Profit before tax	5	**376,734**	427,184
Income tax expense		**(116,532)**	(145,787)
Profit for the year		**260,202**	281,397
Profit for the year attributable to:			
Owners of the parent		**261,000**	273,515
Non-controlling interests		**(798)**	7,882
		260,202	281,397
Earnings per share attributable to ordinary equity holders of the parent:	7		
Basic			
– For profit for the year (RMB)		**0.28**	0.29
Diluted			
– For profit for the year (RMB)		**0.16**	0.17

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Profit for the year		**260,202**	281,397
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:		**(32,475)**	32,475
Exchange differences on translation of foreign operations		**3,973**	(11,146)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**(28,502)**	21,329
Other comprehensive income/(loss) for the year, net of tax		**(28,502)**	21,329
Total comprehensive income for the year, net of tax		**231,700**	302,726
Total comprehensive income for the year attributable to:			
Owners of the parent		**232,498**	294,844
Non-controlling interests		**(798)**	7,882
		231,700	302,726

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,828,489**	3,209,989
Land use rights		**755,420**	467,157
Intangible assets		**573,554**	451,579
Prepayments		**309,209**	609,209
Finance lease receivables		**779**	1,179
Goodwill		**1,358,066**	700,724
Available-for-sale investments		**59,680**	149,300
Deferred tax assets		**1,510**	7,794
Total non-current assets		**6,886,707**	5,596,931
CURRENT ASSETS			
Inventories	*8*	**2,644,686**	2,175,151
Trade receivables	*9*	**413,904**	337,570
Finance lease receivables		**5,138**	3,148
Prepayments, deposits and other receivables		**4,197,784**	2,616,354
Cash in transit		**23,144**	31,550
Pledged bank deposits		**3,016,625**	2,207,144
Cash and cash equivalents		**1,218,141**	1,238,962
Total current assets		**11,519,422**	8,609,879
TOTAL ASSETS		**18,406,129**	14,206,810
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**647,953**	896,775
Deferred tax liabilities		**201,511**	151,386
Total non-current liabilities		**849,464**	1,048,161
CURRENT LIABILITIES			
Trade and bills payables	*10*	**4,294,374**	3,036,578
Other payables and accruals		**2,338,919**	1,817,941
Amounts due to a related party		**226,397**	168,822
Interest-bearing bank and other borrowings		**6,841,828**	4,437,234
Income tax payable		**223,390**	281,981
Total current liabilities		**13,924,908**	9,742,556

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
NET CURRENT LIABILITIES		**(2,405,486)**	(1,132,677)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,481,221**	4,464,254
EQUITY			
Equity attributable to owners of the parent			
Share capital		**5**	5
Reserves		**3,621,699**	3,388,911
		3,621,704	3,388,916
Non-controlling interests		**10,053**	27,177
Total equity		**3,631,757**	3,416,093
TOTAL EQUITY AND LIABILITIES		**18,406,129**	14,206,810

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated on 15 January 2014 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 August 2014.

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

On 27 January 2017, the Company changed its registered name from China Greenland Rundong Auto Group Limited (中國綠地潤東汽車集團有限公司) to China Rundong Auto Group Limited (中國潤東汽車集團有限公司).

2.1 BASIS OF PRESENTATION

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

The Group recorded net current liabilities of RMB2,405,486,000 as at 31 December 2017. The Directors believe that the Group has sufficient cash flows from the operations and current available banking facilities to meet its liabilities as and when they fall due. Therefore, the financial statements are prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014-2016 Cycle	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

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

3. SEGMENT INFORMATION

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

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

Information about geographical areas

Since all of the Group's revenue was generated from the sale and service of motor vehicles in Mainland China and all of the Group's identifiable assets and liabilities were located in Mainland China, no further geographical information is presented.

Information about major customers

Since no revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2017 and 2016, no information about major customers is presented.

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

	2017	2016
	RMB'000	*RMB'000*
Revenue from the sale of motor vehicles	**16,914,692**	15,787,649
After-sales services	**2,196,392**	2,185,339
	19,111,084	17,972,988

(b) Other income and gains, net

	2017	2016
	RMB'000	*RMB'000*
Commission income	**387,773**	308,549
Interest income	**30,169**	21,108
Investment income	**28,120**	–
Rental income	**9,720**	7,731
Government grants	**5,428**	5,500
Gain on disposal of items of property, plant and equipment	**2,765**	–
Others	**7,165**	4,337
	471,140	347,225

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

		2017 *RMB'000*	2016 *RMB'000*
(a)	Employee benefit expense (excluding directors' and chief executive's remuneration):		
	Wages and salaries	**281,514**	219,761
	Equity-settled share option expense	**290**	2,137
	Other welfare	**87,882**	95,845
		369,686	317,743
(b)	Cost of sales and services:		
	Cost of sales of motor vehicles	**16,491,055**	15,130,375
	Cost of after-sales services	**1,326,829**	1,220,104
		17,817,884	16,350,479
(c)	Other items:		
	Depreciation and impairment of items of property, plant and equipment	**236,394**	266,561
	Advertisement and business promotion expenses	**67,240**	85,910
	Lease expenses	**50,234**	58,465
	Amortisation of intangible assets	**33,185**	33,224
	Bank charges	**13,945**	14,562
	Amortisation of land use rights	**13,422**	13,645
	Auditor's remuneration	**6,050**	4,950
	(Write back)/Write-down of inventories to net realisable value	**(3,732)**	15,841
	Loss on disposal of a subsidiary	**1,545**	–
	Loss on disposal of items of property, plant and equipment	**–**	11,602

6. FINANCE COSTS

	2017 *RMB'000*	2016 *RMB'000*
Interest expense on bank borrowings wholly repayable within five years	**316,858**	393,687
Interest expense on other borrowings	**76,689**	87,007
Less: interest capitalised	**(109)**	(42)
	393,438	480,652

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 946,476,000 (2016: 946,476,000) 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.

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

	2017	2016
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the earnings per share calculation	**261,000**	273,515

	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**946,476,000**	946,476,000
Effect of dilution weighted average number of ordinary shares:		
Conversion preference shares	**664,268,747**	664,268,747
Share options	**1,544,092**	906,423
	1,612,288,839	1,611,651,170
Earnings per share		
Basic (RMB)	**0.28**	0.29
Diluted (RMB)	**0.16**	0.17

8. INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Motor vehicles	**2,377,114**	1,990,391
Spare parts and accessories	**279,681**	200,601
	2,656,795	2,190,992
Less: Provision for inventories	**12,109**	15,841
	2,644,686	2,175,151

Certain of the Group's inventories with carrying amounts of RMB1,381,669,000 and RMB1,543,191,000 as at 31 December 2017 and 2016 were pledged as security for the Group's bills payable.

Certain of the Group's inventories with aggregate net book values of approximately RMB784,668,000 and RMB458,666,000 as at 31 December 2017 and 2016 were pledged as security for the Group's interest-bearing bank and other borrowings.

9. TRADE RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**413,904**	337,570
Impairment	**–**	–
	413,904	337,570

The Group's trading terms with its customers are mainly on cash, except for some transactions which are traded on credit. The credit period is generally three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the Reporting Period, based on the invoice date, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**376,097**	312,627
3 to 12 months	**37,544**	24,775
Over 12 months	**263**	168
	413,904	337,570

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

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**376,097**	312,627
Less than 3 months past due	**37,544**	24,775
3 to 12 months past due	**263**	168
	413,904	337,570

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.

10. TRADE AND BILLS PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Bills payable	**3,766,837**	2,873,123
Trade payables	**527,537**	163,455
Trade and bills payables	**4,294,374**	3,036,578

An aged analysis of the trade and bills payables as at 31 December 2017 and 2016, based on the invoice date, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**3,359,850**	2,407,881
3 to 6 months	**705,565**	600,624
6 to 12 months	**224,706**	26,175
Over 12 months	**4,253**	1,898
	4,294,374	3,036,578

The trade payables are non-interest-bearing and are normally settled on terms from 3 to 6 months.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2017, economic growth in China remained stable overall with a year-on-year increase of 6.9% in the gross domestic product (GDP). The contribution of the service industry to economic growth continued to increase. Consumption demand remained the main driving force for economic growth. In 2017, the contribution rate of final consumption to economic growth accounted for 58.8%. The national resident income also maintained a rapid growth, with actual growth rate greater than that of the previous year and the growth of GDP in 2017. Residents consumption level was further raised.

In 2017, automobile production and sales volume in China reached another record high with a production volume of 29,015,000 units and a sales volume of 28,879,000 units, an increase of 3.2% and 3.0% respectively from last year. China has become the largest automobile producer and the largest new car consumer market in the world for nine consecutive years. However, the booming automobile market in 2016 overdrew the consumption demand in 2017 to some extent and led to a high comparison base for the total sales in 2017. Besides, consumption demand was further suppressed in 2017 due to phase-out of the preferential policy of vehicle purchase tax. As a result, the growth rate of total sales of passenger vehicles slowed down in 2017. According to the statistics of the China Association of Automobile Manufacturers, sales volume of passenger vehicles amounted to 24.718 million units in 2017, an increase of 1.4% over last year, and sales growth rate dropped 13.5 percentage points over last year. With the improvement of residents consumption level and the increasingly younger consumer base, automobile consumption has obviously entered into the upgrade phase. In 2017, the luxury car sales market maintained a steady growth. The growth rate of the top ten luxury car brands[note] reached 16.0%, far exceeding the growth rate of passenger cars. In 2017, the share of luxury cars in China exceeded 10% for the first time in recent years.

According to the statistics of the Ministry of Public Security, as of the end of 2017, the automobile ownership in China was 217 million units. The proportion of automobiles in motor vehicles continuously increased from 54.9% to 70.2% in the past five years and has become the main sector of motor vehicles. In 2017, a total of 28.13 million vehicles were newly registered in the Traffic Control Department of Public Security Bureau, reaching a record high. As automobile ownership and the number of newly registered vehicles continue to rise, the demand for vehicles after-sales services will continue to increase.

Despite the slight growth of the new vehicle market, the second-hand car market has shown persistent prosperity in China. According to the statistics released by the China Automobile Dealers Association, a total of 12.4 million second-hand cars were traded in the second-hand car market in 2017, a year-on-year increase of 19.3% over the previous year, with a transaction amount of RMB809.27 billion. Benefitting from the gradual removal of restricted relocation policy of second-hand cars and the promulgation of the policy for upward adjustment of the cap of loans of second-hand cars, vitality of second-hand car market will be further stimulated and the replacement rate of second-hand cars will continue to rise.

In 2017, with the rapid growth of the automotive consumer market, transformation of consumers and consumer attitudes, further innovation of automotive financial products and participation of more Internet financing providers, auto credit consumption showed a strong momentum of performance. The business of financial institutions has continued to increase. The credit penetration rate of various automobile brands also grew rapidly.

Note: The top 10 luxury car brands consist of Audi, BMW (including MINI), Mercedes-Benz, Jaguar & Land Rover, Lexus, Volvo, Cadillac, Porsche, Infiniti and Lincoln.

BUSINESS REVIEW

For the year ended 31 December 2017, the Group recorded an operating income of RMB19,111.1 million, representing a year-on-year increase of 6.3%, and achieved gross profit of RMB1,293.2 million, representing a year-on-year decrease of 20.3%. Profit attributable to owners of the parent company decreased by 4.6% over last year to RMB261.0 million.

Sales of New Automobiles

During the Reporting Period, sales of new automobile of the Group increased steadily, as the Group selectively expanded its distribution network and consolidated its existing distribution network. During the Reporting Period, revenue from new automobile sales amounted to RMB16,914.7 million, representing a 7.1% year-on-year increase, among which, revenue from sales of luxury and ultra-luxury automobiles reached RMB12,720.4 million, representing a year-on-year increase of 11.0% and accounting for 75.2% of the revenue from sales of new automobiles. In terms of sales volume, the Group sold a total of 74,888 vehicles during the Reporting Period, an increase of 6.0%, of which, sales volume of luxury and ultra-luxury brand automobiles totaled 36,484 units, an increase of 17.0%.

After-sales Service

In recent years, due to the gradual marketization of vehicle parts and accessories distribution channel, and publicity of automotive maintenance technologies used to be held by 4S stores, the market attractiveness and profitability of maintenance business in 4S stores have declined accordingly. Meanwhile, the vehicle accident frequency reduced due to the reform of commercial auto insurance policy. The above factors caused increasing pressures on the business of after-sales service. During the Reporting Period, to enhance after-sales business, the Group concentrated on four key aspects, namely the customer retention management, the increase of 4S stores maintenance business from original customers, securing customer references from insurance companies and expansion of car beauty business. Specifically, to ensure the effect in customer retention management and increase of 4S stores maintenance business from original customers, we carried out measures and standards for implementation targeting different various brands and stores. In terms of securing customer references from insurance companies, we integrated and controlled insurance premium expenditures in exchange of more accident repairs. In terms of car beauty business, we selected competitive products and endeavored to reduce the cost of certain brands products and parts and accessories as well as to improve the gross profit margin via centralized procurement.

During the Reporting Period, after-sales service revenue slightly increased by 0.5% from last year to RMB2,196.4 million, and accounted for 11.5% of the total revenue of the Group. The gross profit of our after-sales service decreased by 9.9% from last year to RMB869.6 million, and the gross profit margin of after-sales service was 39.6%.

Value-added Business

During the Reporting Period, the Group made full use of transactions scenarios provided by 4S stores to focus on, excavate and satisfy customer needs in order to provide diversified and personalized products and services, and to enhance profitability and value of channels and platforms.

The Group established a financial business department in its headquarters to integrate business resources and to promote the construction of a comprehensive financial platform. During the Reporting Period, the Group actively expanded financial channels and strengthened financial cooperation with manufacturers. As a result, income from financial agency business was further improved. During the Reporting Period, income from financial agency service of the Group amounted to RMB170.9 million, an increase of 50.0% over 2016.

During the Reporting Period, the Group continued to strengthen cooperation with insurance companies, and actively launched new insurance products and new business models to enhance differentiated competitiveness. While continuing to increase the penetration rate of products such as scratch insurance, paint work insurance, and key insurance, we also introduced new insurance products to target customers in order to ensure a continuous and stable income growth of insurance agency service. During the Reporting Period, income from insurance agency service was RMB200.9 million, an increase of 12.5% over 2016.

During the Reporting Period, the Group continued to strengthen its second-hand car business, built a regional second-hand car center, and improved the second-hand car management system. By setting up our own second-hand car remote evaluation platform, the evaluation efficiency and pricing accuracy of second-hand car were improved, and the front-end entrance management of second-hand car was strengthened. Besides, we established a standardized all-round quality control system to increase our store sales of second-hand car. We also strengthened the cooperation with the second-hand car e-commerce platforms to boost trading volume of second-hand car. Moreover, we established a stable inventory finance channel for second-hand car to further support the rapid development of retail business. During the Reporting Period, income from the second-hand car agency services of the Group amounted to RMB16.0 million.

Brand and Network Layout

During the Reporting Period, the Group constantly optimized its brand portfolio by establishing more luxury brand stores and optimizing the medium-and high-end stores based on prudent evaluation. During the Reporting Period, the Group opened new Alfa Romeo brand stores within 4 Maserati stores, sold 1 Dongfeng Honda 4S store and closed down 1 Dongfeng Nissan exhibition hall, 1 BJEV 4S store and 1 BJEV exhibition hall.

The Group's business focuses on the coastal area of East China. In order to strengthen our dominance of above area, the Group selectively acquired automobile dealerships whose main market is located in Jiangsu Province. During the Reporting Period, the Group completed the equity acquisition of automobile dealers such as Huawei Automobile. The Group increased 6 Audi 4S stores, 12 FAW-Volkswagen 4S stores and 4 mid-to-high end brand 4S stores through acquisition.

As at 31 December 2017, the Group's brand portfolio includes nine luxury brands, namely BMW, MINI, Jaguar, Land Rover, Audi, Alfa Romeo, Lexus, Cadillac and Chrysler; two ultra-luxury brands, namely Maserati and Ferrari; 14 mid- to high-end brands, namely Buick, Hyundai, Ford, Chevrolet, Shanghai-Volkswagen, Kia, Dongfeng Honda, GAC-Honda, FAW-Toyota, GAC-Toyota, Toyota, Dongfeng Nissan, Zhengzhou Nissan and FAW-Volkswagen.

As at 31 December 2017, the Group operated 88 stores in total, of which 64 were located in Jiangsu Province, 14 in Shandong Province, 6 in Shanghai, 2 in Zhejiang Province, 1 in Anhui Province and 1 in Liaoning Province.

As at 31 December 2017, the distribution of the Group's network of dealership stores was as follows:

	Brand	**Number of stores**
Luxury and ultra-luxury brands	Maserati and Ferrari	1
	Maserati and Alfa Romeo	4
	BMW and MINI	23
	Jaguar & Land Rover	7
	Audi	10
	Cadillac	2
	Lexus	1
	Chrysler	1
Mid- to high-end brands	Buick, Hyundai, Ford, Chevrolet, Shanghai-Volkswagen, Kia, Dongfeng Honda, GAC-Honda, FAW-Toyota, GAC-Toyota, Toyota, Dongfeng Nissan, Zhengzhou Nissan and FAW-Volkswagen	39
Total		88

PROSPECTS AND STRATEGY

In 2018, it is expected that the automobile dealer industry will still face consumption upgrade and intensifying market competition. At the same time, with the impact of emerging technologies and business models such as the online platforms, the focus of the industry expansion will accelerate its shift to after-sales and value-added market. In terms of business segments, the second-hand car market will maintain a stable development trend, and the automobile financing business will show a great potential for development and will become a huge impetus for adjustment and transformation of the industry.

According to the analysis and judgment on the industry's overall trends and development potential, and based on our existing resources and operating conditions, the Group will strive to continuously optimize business operations, adjust brand structure, enhance profitability, and focus on organic growth, so as to become an integrated service provider of luxury car with high efficiency, outstanding advantages and strong core competitiveness.

In terms of operations, the Group will continue to optimize brand portfolio and dealership network so as to boost sales of new automobiles. Besides, the Group will further promote delicacy management to improve profitability. The Group will emphasize on after-sales service and value-added business to optimize business structures. Specifically, the Group will concentrate on the expansion of three strategic businesses namely automobile accessories, second-hand car and automobile financing. Furthermore, the Group will seek new growth points for profit through an extended value chain so as to build up new business expertise and strengthen core competitiveness.

In terms of management, the Group will emphasize on target-oriented and result-oriented philosophy, and promote the reform of operational and incentive mechanisms so as to maximize the vitality of the Group and enthusiasm of the staff. The Group will further strengthen the building of organization and workforce to effectively improve efficiency, execution and productivity.

In terms of internal supervision, the Group will make more efforts to carry out regular audit activities, to enhance establishment and implementation of risk management and internal control systems. Through effective efforts, the Group has confidence in ensuring business operations in compliance with laws and regulations, risks and personnel are under control and effective operation of internal control system.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2017, our revenue was RMB19,111.1 million, representing an increase of 6.3% compared with 2016, primarily attributable to the increases in revenue from our key operations of luxury and ultra-luxury automobiles sales and after-sales service.

The table below sets out the Group's revenue for the period indicated.

	For the year ended 31 December				
	2017		2016		
Revenue Source	**Revenue**	**Contribution**	Revenue	Contribution	Change
	(RMB'000)	**(%)**	*(RMB'000)*	*(%)*	*(%)*
New automobile sales					
Luxury and ultra-luxury brands	**12,720,425**	**66.6**	11,464,740	63.7	11.0
Mid- to high-end brands	**4,194,267**	**21.9**	4,322,909	24.1	-3.0
Subtotal	**16,914,692**	**88.5**	15,787,649	87.8	7.1
After-sales business					
Luxury and ultra-luxury brands	**1,726,958**	**9.0**	1,669,152	9.3	3.5
Mid- to high-end brands	**469,434**	**2.5**	516,187	2.9	-9.1
Subtotal	**2,196,392**	**11.5**	2,185,339	12.2	0.5
Total	**19,111,084**	**100**	17,972,988	100	6.3

During the Reporting Period, revenue from the sales of automobiles increased by RMB1,127.0 million, or 7.1% from 2016, mainly attributable to an increase in the Group's sales of luxury and ultra-luxury automobiles. Revenue generated from automobile sales accounted for 88.5% of our revenue for the Reporting Period. Revenue generated from sales of luxury and ultra-luxury brands and mid- to high-end brands accounted for 75.2% and 24.8% of our revenue from automobile sales, respectively.

Revenue from our after-sales business slightly increased by 0.5%, from RMB2,185.3 million in 2016 to RMB2,196.4 million in 2017.

Cost of sales and services

Cost of sales and services increased by 9.0% from RMB16,350.5 million in 2016 to RMB17,817.9 million for the year ended 31 December 2017.

The cost of sales and services of the automobile sales business amounted to RMB16,491.1 million for the Reporting Period, representing an increase of RMB1,360.7 million, or 9.0%, from 2016. The sales cost of the after-sales business amounted to RMB1,326.8 million for the year ended 31 December 2017, representing an increase of RMB106.7 million, or 8.7%, from 2016.

Gross profit and gross profit margin

Gross profit for the year ended 31 December 2017 was RMB1,293.2 million, representing a decrease of RMB329.3 million, or 20.3%, from 2016. Gross profit from automobile sales decreased by 35.5% from RMB657.3 million for the year ended 31 December 2016 to RMB423.6 million in 2017. Gross profit from after-sales business decreased by 9.9% from RMB965.2 million for the year ended 31 December 2016 to RMB869.6 million in 2017. Automobile sales and after-sales business contributed 32.8% and 67.2% respectively to our total gross profit in 2017.

Comprehensive gross profit margin for the year ended 31 December 2017 was 6.8%, lower than the gross margin in 2016, of which the gross profit margin of new automobile sales was 2.5% (2016: 4.2%) due to intensified market competition and the product cycle of the main agency car brands of the Group. Gross profit margin of after-sales business was 39.6% (2016: 44.2%), due to the shrinking after-sales market of mid- to high-end brand car and falling prices of components and parts.

Other income and net gains

Other income and net gains increased by 35.7% from RMB347.2 million for the year ended 31 December 2016 to RMB471.1 million in 2017, of which commission income increased by 25.7% from RMB308.5 million for the year ended 31 December 2016 to RMB387.8 million in 2017.

Selling and distribution expenses

Selling and distribution expenses of the Group amounted to RMB474.0 million for the year ended 31 December 2017, representing a decrease of 1.4% over RMB480.8 million in 2016, mainly due to the decrease of advertisement and business promotion expenses of the Group.

Administrative expenses

Administrative expenses of the Group amounted to RMB511.7 million for the year ended 31 December 2017, representing an increase of 4.2% over the administrative expenses of RMB491.1 million in 2016, mainly due to the increase of employee benefit expense.

Finance costs

Finance costs of the Group amounted to RMB393.4 million for the year ended 31 December 2017, representing a decrease of 18.1% over the finance costs of RMB480.7 million in 2016, primarily attributable to repayment of the syndicated loan in 2016.

Profit from operations

Profit from operations of the Group amounted to RMB376.7 million for the year ended 31 December 2017, representing a decrease of 11.8% over RMB427.2 million in 2016. Operating profit margin for the Reporting Period was 2.0%, representing a decrease of 0.4 percentage point over 2.4% in 2016.

Income tax expenses

Income tax expenses of the Group amounted to RMB116.5 million for the year ended 31 December 2017 and the effective tax rate was 30.9%.

Profit for the year

Profit for the year of the Group amounted to RMB260.2 million for the year ended 31 December 2017, representing a decrease of 7.5% over RMB281.4 million in 2016. Net profit margin during the Reporting Period was 1.4%, representing a decrease of 0.2 percentage point over 1.6% in 2016.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

As at 31 December 2017, cash and cash equivalents amounted to RMB1,218.1 million, representing a decrease of 1.7% from RMB1,239.0 million as at 31 December 2016.

Our primary uses of cash were to pay for purchases of new automobiles, spare parts and automobile accessories, to establish new dealership stores, to acquire dealership stores and to fund our working capital and daily operating costs. We financed our liquidity requirements through 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 market from time to time.

For the year ended 31 December 2017, we had a net cash inflow from operating activities of RMB431.2 million (2016: RMB796.1 million), a net cash outflow from investing activities of RMB203.4 million (2016: RMB396.5 million) and a net cash outflow of RMB252.6 million generated from financing activities (2016: RMB662.7 million).

Net current liabilities

As at 31 December 2017, we had net current liabilities of RMB2,405.5 million, representing an increase of RMB1,272.8 million over the net current liabilities of RMB1,132.7 million as at 31 December 2016, as a result of the increase of interest-bearing bank and other borrowings.

Capital expenditure

Our capital expenditures primarily comprise expenditures on property, plant and equipment, and intangible assets. For the year ended 31 December 2017, our total capital expenditure was RMB237.6 million (2016: RMB300.7 million).

Inventory

Our inventory primarily consisted of new automobiles, spare parts and automobile accessories and automobile supplies. Each of our dealership stores has dedicated staff to manage their orders for new automobiles and after-sales products.

Our inventory increased by 21.6% from RMB2,175.2 million as at 31 December 2016 to RMB2,644.7 million as at 31 December 2017, primarily due to the increase in new automobile procurement in response to expansion in scale and preparation for peak season during the Chinese New Year.

Our average inventory turnover days for the year ended 31 December 2017 increased to 49 days from 44 days in 2016.

Trade receivables

Trade and bills receivables increased from RMB337.6 million for the year ended 31 December 2016 to RMB413.9 million for the year ended 31 December 2017, primarily due to the increase of receivables in relation to automobile financing lending as a result of the increase in automobile sales.

Bank loans and other borrowings

As at 31 December 2017, the Group's available but unused banking facilities were RMB5,813.1 million (31 December 2016: RMB5,296.5 million).

Our bank loans and other borrowings as at 31 December 2017 were RMB7,489.8 million, an increase of RMB2,155.8 million from RMB5,334.0 million as at 31 December 2016. The increase was to meet the working capital requirements.

Interest rate risk and foreign exchange risk

We are exposed to interest rate risk resulting from fluctuations in the interest rate on our debts. Part of our borrowings were floating rate borrowings that are linked to the benchmark rates of the People's Bank of China. Increase in interest rate could result in an increase in our cost of borrowing. In such case, not only our finance costs, but also our profit and financial position would be adversely affected.

Gearing ratio

Our gearing ratio (defined as the sum of interest-bearing bank loans and other borrowings divided by shareholders' equity as at the end of the Reporting Period and then multiplied by 100%) as at 31 December 2017 was 206.2% (31 December 2016: 156.1%).

Human resources

As at 31 December 2017, the Group had 6,145 employees (31 December 2016: 4,854). Total staff costs for the year ended 31 December 2017, excluding directors' remuneration, were RMB369.7 million (2016: RMB317.7 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 2017, we did not have any material contingent liabilities or guarantees.

Pledge of the Group's assets

The Group pledged its assets as securities for bank loans, other borrowings and banking facilities which were used to finance daily business operation. As at 31 December 2017, the pledged assets of the Group amounted to RMB6,135 million.

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

For the year ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased or redeemed any of the Company’s listed securities.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). During the Reporting Period, the Company has fully complied with the code provisions set out in the CG Code, except for the deviation from code provision A.2.1. This code provision provides that the roles of chairman and chief executive officer shall be separate and shall not be performed by the same individual. The Company has appointed Mr. Yang Peng as both chairman and the chief executive officer of the Company. The Board believes that vesting the roles of chairman and chief executive officer in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors and independent non-executive Directors. The Board shall review the structure and composition of the Board from time to time in light of prevailing circumstances to maintain a high standard of corporate governance practices of the Company.

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**”) 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 period ended 31 December 2017.

The Board has also adopted the Model Code as guidelines for its relevant 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 a final dividend to the shareholders of the Company for the year ended 31 December 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**"). The Audit Committee comprises three independent non-executive Directors, being Mr. Lee Conway Kong Wai (Chairman), Mr. Xiao Zhengsan and Mr. Li Xin.

The Audit Committee has reviewed the consolidated financial statements for the year ended 31 December 2017 and also reviewed the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters. Based on the review and discussions, the Audit Committee was satisfied that the preparation of the consolidated financial statements is in compliance with the applicable accounting standards and requirements.

SCOPE OF WORK OF THE AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in this preliminary announcement have been agreed by the Group's independent auditor, Messrs. Ernst & Young ("**Auditor**"), to the amounts set out in the Group's consolidated financial statements for the Reporting Period. The work performed by the Auditor 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 the Auditor on this preliminary announcement.

ANNUAL GENERAL MEETING

A notice convening the annual general meeting of the Company (the "**AGM**") to be held on 7 June 2018 (Thursday) will be published and despatched to the shareholders of the Company in accordance with requirements of the Listing Rules in a timely manner.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 June 2018 (Monday) to 7 June 2018 (Thursday) (both days inclusive). In order to qualify for attending and voting at the AGM, unregistered shareholders of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 1 June 2018 (Friday).

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

This announcement will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.rundong.com.cn). The annual report of the Company for the year ended 31 December 2017 will be dispatched to the shareholders of the Company and made available on the same websites in due course.

By order of the Board
China Rundong Auto Group Limited
Yang Peng
Chairman

Hong Kong, 28 March 2018

As at the date of this announcement, the executive directors of the Company are Mr. Yang Peng and Mr. Zhao Zhongjie; and the independent non-executive directors are Mr. Lee Conway Kong Wai, Mr. Mei Jianping, Mr. Xiao Zhengsan and Mr. Li Xin.