THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspects of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in New Focus Auto Tech Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchaser or subscribe for the securities of the Company and is being provided to you solely for the purposes of considering the resolutions to be voted upon at the EGM to be held on 21 July 2015.

NEW FOCUS AUTO TECH HOLDINGS LIMITED
新焦點汽車技術控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 360)

(1) VERY SUBSTANTIAL ACQUISITION
(2) PROPOSED PLACING OF NEW SHARES UNDER SPECIFIC MANDATE
(3) INCREASE IN AUTHORIZED SHARE CAPITAL
AND
(4) NOTICE OF EGM

A notice convening the EGM to be held at No. 4589 Wai Qing Song Road, Qingpu District, Shanghai, the PRC on 21 July 2015 at 2:00 p.m. is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Closing and return of the proxy form shall not preclude you from attending, and voting in person at the EGM or any adjournment thereof if you so desire.

* *For identification purposes only*

30 June 2015

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings.

"4S"	sales, spare parts, service and survey
"ACMR"	All China Marketing Research Co. Ltd. (北京華通人商用信息有限公司), an independent specialist Chinese market research company
"Amended Articles of Association"	the amended articles of association of the Target Company to be entered into among the Subscriber, Mr. Zhou and Ms. Qiu
"Amended Business License"	the amended Business License for Enterprise Legal Person of the Target Company issued by SAIC, after the approval of the Joint Venture Agreement and the Amended Articles of Association, reflecting an increase in the Target Company's registered capital to facilitate the Subscription contemplated under the Subscription Agreement
"Announcements"	the announcements of the Company dated 29 December 2014, 26 March 2015, 27 March 2015, 17 April 2015, 22 May 2015, 8 June 2015 and 22 June 2015 in relation to, among other things, the Subscription, the Proposed Placing and the Capital Increase
"Articles"	the articles of association of the Company
"Big Four Accounting Firms"	Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, KPMG International Cooperative and PricewaterhouseCoopers International Limited
"Board"	the board of Directors
"Business License for Enterprise Legal Person"	《企業法人營業執照》(Business License for Enterprise Legal Person*)
"Capital Increase"	the proposed increase in the registered capital of the Target Company from RMB300,000,000 to RMB600,000,000 pursuant to the terms and conditions of the Subscription Agreement
"Company" or "we" or "our"	New Focus Auto Tech Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (stock code: 360)

"Completion"	the completion of the Subscription pursuant to the terms of the Subscription Agreement
"Conditions Precedent"	the conditions precedent to Completion under the Subscription Agreement
"Consideration"	the consideration in the amount of RMB300,000,000 payable by the Subscriber to the Target Company for the Subscription under the Subscription Agreement
"Date of Business License Amendment"	the date on which SAIC issues the Amended Business License
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit approving, among other things, (i) the Subscription Agreement and the transactions contemplated thereunder; (ii) the grant of the Specific Mandate to issue the Placing Shares; and (iii) the Share Capital Increase
"Enlarged Group"	the Group and the Target Group
"Entrusted Loan"	the entrusted loan in the principal amount of RMB100,000,000 (approximately HKD126,826,000) granted by NFLP to the Target Company through the Lending Bank
"Entrusted Loan Agreement"	the entrusted loan agreement dated 29 December 2014 entered into among NFLP (as the entrusting party), the Lending Bank (as the entrusted party and the lending agent) and the Target Company (as the borrower) in relation to the Entrusted Loan
"Existing Shareholders"	Mr. Zhou and Ms. Qiu
"Financial Assistance"	the financial assistance to be provided by the Subscriber to the Target Company pursuant to the Subscription Agreement
"Governmental Authority"	any government or any governmental agency, semi-governmental or judicial entity or authority (including, without limitation, any stock exchange or any self-regulatory organisation established under statute)

"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Business Day(s)"	any day (excluding Saturdays and Sundays) on which banks are generally open for business in Hong Kong
"IFRSs"	International Financial Reporting Standards as may be amended from time to time by the International Accounting Standards committee
"Joint Venture Agreement"	the joint venture agreement dated 27 March 2015 entered into among the Subscriber, Mr. Zhou and Ms. Qiu
"Last Trading Day"	27 March 2015, being the last trading day for the Shares before the date of the announcement of the Company dated 17 April 2015
"Latest Practicable Date"	22 June 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Lending Bank"	a local branch of a PRC commercial bank in Shanghai
"Listing Committee"	the listing committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Long Stop Date"	90 days after the date of execution of the Subscription Agreement
"Minimum Placing Price"	the minimum placing price per Placing Share for the Proposed Placing
"Mr. Du"	Mr. Du Jinglei (杜敬磊), a non-executive Director
"Mr. Zhou"	Mr. Zhou Jian Ming (周建明), chairman of the board of directors of the Target Company and an existing shareholder of the Target Company as at the Latest Practicable Date

"Ms. Qiu"	Ms. Qiu Ping (邱萍), president and an executive director of the Target Company and an existing shareholder of the Target Company as at the Latest Practicable Date
"NFLP"	紐福克斯光電科技(上海)有限公司 (New Focus Lighting and Power Technology (Shanghai) Company Limited*), an indirect wholly-owned subsidiary of the Company
"Placee(s)"	the placee(s) under the Proposed Placing
"Placing Agent"	the placing agent under the Proposed Placing
"Placing Agreement"	the placing agreement to be entered into among the Company and the Placing Agent in relation to the Proposed Placing, which is expected to be entered into after the EGM
"Placing Price"	the placing price per Placing Share for the Proposed Placing
"Placing Shares"	up to 1,500,000,000 Shares to be allotted and issued by the Company pursuant to the Placing Agreement or such lesser number of Shares as may be agreed between the Company and the Placing Agent prior to Completion
"PRC" or "China"	the People's Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Business Day(s)"	any day excluding Saturdays, Sundays and holidays stipulated or authorized by the PRC law or administrative orders
"PRC Legal Adviser"	Jingtian & Gongcheng, the legal adviser to the Company as to PRC law
"Proposed Placing"	the proposed placing of the Placing Shares by the Placing Agent pursuant to the Specific Mandate to be granted by the Shareholders
"Proposed Transactions"	the transactions contemplated under the Subscription, the Specific Mandate and the Share Capital Increase

"Put Option"	the put option granted by the Existing Shareholders to the Subscriber pursuant to the Subscription Agreement such that the Subscriber may request the Existing Shareholders to repurchase the equity interest of the Target Company held by the Subscriber in accordance with the terms and conditions of the Subscription Agreement
"Relevant Period"	the financial period comprising the three years ended 31 December 2014
"Repurchase Amount"	the amount payable by the Existing Shareholders to the Subscriber under the Put Option
"Restructuring"	the restructuring to be conducted by the Target Group pursuant to the Subscription Agreement
"RMB"	Renminbi, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC
"SAIC"	the State Administration for Industry & Commerce of the PRC or any of its local branch offices
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Share Capital Increase"	the proposed increase in the authorized share capital of the Company from HK$600,000,000 divided into 6,000,000,000 Shares to HK$1,000,000,000 divided into 10,000,000,000 Shares by the creation of an additional 4,000,000,000 unissued Shares
"Shareholder(s)"	holder(s) of the Shares
"Specific Mandate"	the specific mandate to be sought from the Shareholders at the EGM to authorize the Directors to allot and issue the Placing Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Subscriber"	Perfect Progress Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"Subscription"	the proposed subscription of the registered capital of the Target Company in the amount of RMB300,000,000 by the Subscriber pursuant to the terms of the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 27 March 2015 entered into among the Subscriber, the Target Company, Mr. Zhou and Ms. Qiu in respect of the Subscription
"Target Board"	the board of directors of the Target Company
"Target Company"	深圳市佳鴻貿易發展有限公司 (Shenzhen Jiahong Trading Development Co., Ltd*), a limited liability company established in the PRC
"Target Group"	the Target Company and the Target Subsidiaries
"Target Subsidiaries"	the subsidiaries of the Target Company
"Transaction Documents"	the Subscription Agreement, the Joint Venture Agreement, the Amended Articles of Association and any other agreements executed by the Subscriber to which Mr. Zhou, Ms. Qiu and/or any member of the Target Group is a party to
"U.K."	the United Kingdom of Great Britain and Northern Ireland
"U.S."	the United States of America
"USD"	U.S. dollars, the lawful currency of the United States of America
"%"	per cent.

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NEW FOCUS AUTO TECH HOLDINGS LIMITED
新焦點汽車技術控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 360)

Board of Directors

Executive Director:

Mr. Zhang Jianxing *(Chief Executive Officer)*

Non-executive Directors:

Mr. Ying Wei *(Chairman)*
Mr. Wang Zhenyu
Mr. Du Jinglei

Independent non-executive Directors:

Mr. Hu Yuming
Mr. Lin Lei
Mr. Zhang Xiaoya

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111, Cayman Islands

Principal place of business in Hong Kong:

5/F, 180 Hennessy Road
Wan Chai
Hong Kong

30 June 2015

To the Shareholders

Dear Sir/Madam,

(1) VERY SUBSTANTIAL ACQUISITION (2) PROPOSED PLACING OF NEW SHARES UNDER SPECIFIC MANDATE (3) INCREASE IN AUTHORIZED SHARE CAPITAL AND (4) NOTICE OF EGM

INTRODUCTION

Reference is made to the Announcements in relation to, among other things, the Subscription, the Proposed Placing under the Specific Mandate and the Share Capital Increase.

* *For identification purposes only*

The purpose of this circular is to provide you with, among other things:

(a) further information on the Subscription and the transactions contemplated thereunder (including the acquisition of the Put Option);

(b) the grant of the Specific Mandate to issue the Placing Shares;

(c) the Share Capital Increase;

(d) financial and other information on the Group;

(e) financial and other information on the Target Group;

(f) pro forma financial information of the Enlarged Group upon Completion; and

(g) notice of the EGM at which resolutions will be proposed to consider and, if thought fit, to approve (i) the Subscription Agreement and the transactions contemplated thereunder (including the acquisition of the Put Option); (ii) the grant of the Specific Mandate to issue the Placing Shares; and (iii) the Share Capital Increase.

PART A – THE SUBSCRIPTION

THE SUBSCRIPTION AGREEMENT

Date: 27 March 2015

Parties

(a) the Subscriber, a wholly-owned subsidiary of the Company;

(b) the Target Company;

(c) Mr. Zhou; and

(d) Ms. Qiu.

The Subscription

Pursuant to the Subscription Agreement, the Target Company and the Existing Shareholders have agreed to conduct the Capital Increase, such that the registered capital of the Target Company will be increased from RMB300,000,000 to RMB600,000,000, and the Subscriber has conditionally agreed to subscribe for the additional registered capital of RMB300,000,000 at an aggregate Consideration of RMB300,000,000.

As at the Latest Practicable Date, the registered capital of the Target Company is RMB300,000,000, of which RMB180,000,000 was contributed by Mr. Zhou and RMB120,000,000 was contributed by Ms. Qiu, representing 60% and 40%, respectively, of the total registered capital of the Target Company.

Upon completion of the Capital Increase and the Subscription, (i) the registered capital of the Target Company will be increased from RMB300,000,000 to RMB600,000,000, of which RMB180,000,000 was contributed by Mr. Zhou, RMB120,000,000 was contributed by Ms. Qiu and RMB300,000,000 would be contributed by the Subscriber, representing 30%, 20% and 50%, respectively, of the total registered capital of the Target Company; and (ii) the Target Company will become an indirect non wholly-owned subsidiary of the Company.

The Consideration

The Consideration in the amount of RMB300,000,000 was determined after arm's length negotiations between the Company and the Target Company and on normal commercial terms with reference to a number of factors, including but not limited to (i) the benefits of the Subscription as set out in the section headed "Reasons for and benefits of the Subscription" below; (ii) the historical performance of the Target Group for the three financial years ended 31 December 2014; and (iii) the business development and prospects of the Target Company in the medium to long term.

In determining the Consideration, the Directors have taken into account the Target Group's (i) broad customer base of ultra-luxury and luxury car owners; (ii) close relationship with reputable car manufacturers; (iii) large scale of operations covering 14 cities in the PRC; (iv) high quality of network of car dealership stores housing a wide portfolio of internationally-acclaimed luxury and ultra-luxury car brands; and (v) high turnover in both absolute value and annual growth. Upon Completion, it is anticipated that the Group can take advantage of the existing well-established network of the Target Group to generate maximum synergies through the combination of overlapping businesses and the joint offering of complementary services, and ultimately build up a vertically integrated business model to provide a full-fledged auto services offering.

In addition, the Target Group has a strong historical performance and continues to generate significant revenue from its operations. The turnover for the three years ended 31 December 2012, 2013 and 2014 was RMB2,651,185,000, RMB6,117,319,000 and RMB8,532,663,000, respectively. While the Target Group has suffered net loss for the three years ended 31 December 2012, 2013 and 2014, the net loss was primarily attributable to losses suffered by the heavy initial capital investment of newly opened stores and the high financing costs associated with the expansion of business. The Target Group opened six, ten and six car dealership stores in each of the years ended 31 December 2012, 2013 and 2014, respectively. The capital expenditure incurred for stores construction and improvement for the three years ended 31 December 2012, 2013 and 2014 was approximately RMB233,171,000, RMB555,425,000 and RMB408,366,000, respectively. The finance costs incurred for the construction and leasehold improvement of the stores opened or constructed for the three years ended 31 December 2012, 2013 and 2014 was approximately RMB16,439,000, RMB51,977,000 and RMB70,014,000, respectively, assuming all such capital expenditures were funded by loans from banks or other financial institutions. Upon Completion, the Target Group will become an indirect non-wholly owned subsidiary of the Company and the Company can provide operational and financial assistance to the Target Group as it considers appropriate and necessary in order to improve its operation, performance and profitability. For further details, please refer to the section headed "Information on the Target Group" set out below.

In light of the leading position of the Target Group in the ultra-luxury car sector in the PRC, the existing car dealerships with the majority of ultra-luxury and luxury brands and the comprehensive range of automobile-related products and services that it provides, as well as other benefits as set out in the section headed "Reasons for and benefits of the Subscription", the Directors consider the Subscription to be a valuable investment opportunity for the Company. In addition, given the nature of automobile business conducted by the Target Group, the Directors believe that the investment in the Target Group will create synergies and commercial opportunities for both the Group and the Target Group, and ultimately create value to the Shareholders as a whole. As such, the Directors believe that, despite the Target Group's net loss position and net asset value, taking into account the potential synergies to be created by the formation of the Enlarged Group, the amount of Consideration is justifiable.

The Consideration is equivalent to the amount of contribution of the Company to the registered capital of the Target Company and no premium is payable by the Company for the Subscription. For the reasons set out above, the Directors consider the Consideration to be fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Subscription will be financed by internal resources of the Group and/or a combination of other debt and/or equity financing to be determined by the Company, including but not limited to the Proposed Placing and bank borrowings. As at the Latest Practicable Date, the Company is still considering different financing methods and no decision as to the nature and/or the combination of financing methods has been made, and no agreement or arrangement with respect to the Proposed Placing or other financing for the Subscription has been entered into. Further announcement(s) will be made by the Company as and when appropriate to comply with the relevant requirements of the Listing Rules.

Conditions Precedent

Completion is conditional upon the satisfaction (or, if applicable, the waiver) of, among other things, the following principal Conditions Precedent:

(a) the representations, warranties and undertakings made by the Target Company and the Existing Shareholders under the Subscription Agreement remaining true and accurate at Completion;

(b) the Transaction Documents having been duly executed, and each of the members of the Target Group and the Existing Shareholders having executed and fulfilled their respective obligations under the Subscription Agreement and any other agreements executed by the Subscriber to which they are parties to, under which all their obligations shall be carried out or fulfilled on or before the date of Completion;

(c) each of the members of the Target Group, for the purpose of the execution, delivery and performance of the Subscription Agreement or any other agreements executed by the Subscriber to which it is a party to in relation to the execution of the transactions contemplated by the Subscription Agreement and any other such agreements, having carried out and completed all the corporate procedures required pursuant to the laws of the place of its incorporation, including any shareholders' and/or board approval required by the relevant laws and the articles of association of the Target Company for the following matters:

(i) approving the Amended Articles of Association, where such Amended Articles of Association shall be effective on or before the Date of Business License Amendment;

(ii) the Capital Increase and the Subscription; and

(iii) the execution, delivery and performance by the Target Company of the Subscription Agreement and any other agreements executed by the Subscriber to which it is a party to and the completion of all the transactions contemplated thereunder;

(d) in order for any member of the Target Group or any of the Existing Shareholders to execute, deliver or perform, or to complete the transactions contemplated by, the Subscription Agreement or any other agreements executed by the Subscriber to which it is a party to, (i) any member of the Target Group and any of the Existing Shareholders having obtained all the necessary consents, approvals, notifications from, and made filings or registrations with the relevant Governmental Authority or other relevant person or entity; (ii) the relevant approving authorities having issued an official confirmation approving the Subscription Agreement and the Joint Venture Agreement; and (iii) the relevant approving authorities having approved the change in the registered capital and total investment amount stipulated in the approval certificate and the Amended Articles of Association of the Target Company, in accordance with the relevant laws and regulations of any Governmental Authority, or any contract binding on any member of the Target Group or any of the Existing Shareholders, or any contract binding on or restricting any member of the Target Group or any of the Existing Shareholders or any of their respective assets;

(e) the Target Company having obtained the new Business License for Enterprise Legal Person issued by SAIC in respect of the Capital Increase and the Subscription, having completed all procedures for the foreign exchange registration in relation to the Chinese-foreign equity joint venture, and having opened a foreign exchange account;

(f) upon execution of the Subscription Agreement, (i) in the opinion of the Subscriber, there being no material adverse change in the business operations of the Target Group or change in any circumstance which may be materially detrimental to the business, operations, assets, financial position (including but not limited to material increases in provisions), revenue or any other situation of the Target Group; and (ii) there being no relevant laws, regulations and policies (whether in force on, before or after the Date of Business License Amendment) in the place of operation of any member of the

Target Group which, in the opinion of the Subscriber, results or may result in materially detrimental effect on the proposed scope of operation of the Target Company or the Target Group as a whole;

(g) no Governmental Authority or other person or entity carrying out any of the following acts:

(i) for the purpose of limiting, prohibiting or using any other method to oppose to the Subscription or any other transactions contemplated under the Subscription Agreement, the Joint Venture Agreement and other agreements executed by the Subscriber and the Target Company, requesting any member of the Target Group or any of the Existing Shareholders for the provision of any information, or bringing any legal proceedings, arbitration proceedings or administrative proceedings against any member of the Target Group or any of the Existing Shareholders or conducting any regulatory supervision or other inquiries against the same;

(ii) for the purpose of limiting, prohibiting or using any other method to oppose to the Subscription or related transactions, before or after commencement of such Subscription or transactions, bringing any legal proceedings, arbitration proceedings or administrative proceedings against the Existing Shareholders or conducting any regulatory supervision or other inquiries against the same; and

(iii) proposing or enacting any statute to prohibit, materially limit or materially delay the Subscription or transactions contemplated under the Subscription Agreement, the Joint Venture Agreement or any other agreements executed by the Subscriber and the Target Company, or the business operations of the Target Group after the Date of Business License Amendment;

(h) completion of the Restructuring by the Target Company and the Existing Shareholders in accordance with the Subscription Agreement on or before the date of Completion;

(i) the Target Company and the Existing Shareholders having notified, and obtained the consents from, any creditors or third parties, including financial institutions, who has the right to be notified of the matters relating to the Capital Increase and the Subscription; or, the Target Company and the Existing Shareholders having notified any creditors or third parties, including financial institutions, who has the right to be notified of the matters relating to the Capital Increase and the Subscription, and such creditors and third parties not opposing to the matters relating to the Capital Increase and the Subscription and not having taken any action to terminate or which may terminate their cooperation with the Target Group (including but not limited to, withdrawing loans granted to the Target Group and revoking the car dealership franchise granted to the Target Group);

(j) all encumbrances on the equity interests of the Target Company held by the Existing Shareholders as at the date of execution of the Subscription Agreement being released, and the corresponding encumbrancers having given written consent in respect of the Capital Increase and the Subscription;

(k) each of the Target Company and the Existing Shareholders having provided to the Subscriber a signed confirmation, dated the date of Completion, that the conditions set out in paragraphs (a) to (j) above having been fulfilled;

(l) the Subscriber, upon reasonable request, having received the originals and certified true copies or other copies of all documents stipulated in paragraph (k) above;

(m) the Subscriber having received a legal opinion on the Target Group's legal status issued by the Subscriber's PRC legal adviser dated on the date of Completion, in the form and substance satisfactory to the Subscriber;

(n) the Subscriber having completed all necessary internal procedures (including the approval of the Shareholders and/or the Board required by the laws, regulations and the Listing Rules to which the Subscriber is subject to) in respect of the Subscription Agreement and the Subscription;

(o) the Subscriber having completed the due diligence review of the assets, liabilities, business, legal and financial aspects, reference information and background check (if any) of the Target Group, the results of such review being satisfactory to the Subscriber; and the Subscriber not having discovered any matters relating to the Target Group which may have a material adverse effect on the Capital Increase and the Subscription and/or which differ materially from the representations given by the directors and senior management of the Target Group;

(p) the Subscriber having received a copy of the financial statements of the Target Group for the year ended 31 December 2014 prepared in accordance with IFRSs and audited by one of the Big Four Accounting Firms and the consolidated management accounts for the period from 1 January 2015 to the last day of the month immediately preceding the date of Completion (in the form and substance satisfactory to the Subscriber);

(q) upon execution of the Subscription Agreement, the relevant approving authorities having been notified of and approved the Subscription Agreement, the Joint Venture Agreement and the Amended Articles of Association, and no other amendments having been made to the same, unless such amendment has been agreed by all relevant parties; and

(r) the Subscriber having received a legal opinion issued by the Target Company's PRC legal adviser confirming that, save for the Conditions Precedent set out in paragraphs (m), (n) and (o) above, all other Conditions

Precedent set out in paragraphs (a) to (q) above have been fulfilled in the form and substance satisfactory to the Subscriber.

Each of the parties to the Subscription Agreement has confirmed that the Subscriber has, through NFLP, granted the Entrusted Loan in the amount of RMB100,000,000 to the Target Company. In the event that Completion fails to take place due to the Conditions Precedent set out in paragraphs (a) to (r) above not having been fulfilled, the Target Company shall, at the request of the Subscriber and in a legally permissible way, repay the Entrusted Loan to the Subscriber together with the interest accrued on the Entrusted Loan at an interest rate of 12% per annum.

Pursuant to the Subscription Agreement, the Subscriber may, in its discretion, waive any of the Conditions Precedent. As advised by the PRC Legal Adviser, pursuant to the Subscription Agreement, the Subscriber has an absolute discretion as to whether or not it will waive any of the Conditions Precedent and no specific circumstance is required before the Subscriber may exercise such discretion.

As stated in the section headed "The Subscription Agreement – Termination" below, in the event that one or more of the Conditions Precedent is not fulfilled by the end of the office hours on the Long Stop Date, the Subscriber has the right to terminate the Subscription Agreement. In the event that the Subscriber decides to waive the Conditions Precedent that has not been fulfilled and the Subscription Agreement remains effective, all the other parties to the Subscription Agreement are required to perform their respective obligations under the Subscription Agreement in accordance with the terms and conditions set out therein.

As at the Latest Practicable Date, the Subscriber does not intend to waive any of the Conditions Precedent, including the Conditions Precedent which may affect the substance of the Subscription Agreement (in particular paragraph (n) of the "Conditions Precedent" set out above), and none of the Conditions Precedent has been fulfilled or waived.

Financial Assistance

Pursuant to the Subscription Agreement, from the date of Completion, the Subscriber agrees, to the extent feasible for the Subscriber, to use its efforts to provide appropriate financial assistance to the Target Company by means legally permissible under the PRC law, including but not limited to the Subscriber, to the extent feasible for the Subscriber, using its efforts to provide a loan of not less than RMB900,000,000 to the Target Company, provide the Target Company with a guarantee, or support the Target Company to conduct other financings by means legally permissible under the PRC law. It is expected that approximately RMB600,000,000 of the Financial Assistance will be used by the Target Group to repay loans from financial institutions to reduce the financing costs and the remaining RMB300,000,000 will be used as general working capital of the Target Group.

In respect of any Financial Assistance provided by the Subscriber, the Target Company and the Existing Shareholders undertake that the Target Company and its subsidiaries shall, in accordance with the instructions of the Subscriber and by means legally permissible under the laws of the PRC, carry out their respective obligations under the terms and conditions of the Financial Assistance, including but not limited to repaying the full amount of any financial assistance provided by the Subscriber and releasing the Subscriber from any guarantees provided by the Subscriber in support of any financings in a timely manner.

As advised by the PRC Legal Adviser, the agreement to provide the Financial Assistance to the Target Company is legally binding on the Subscriber only to the extent that the Subscriber is required, to the extent feasible for the Subscriber, to use its efforts to provide the Financial Assistance to the Target Company, and there is no commitment nor any obligation on the Subscriber to provide the Financial Assistance to the Target Company if it is infeasible for the Subscriber to do so.

Save as disclosed in this circular, no other agreement or arrangement in relation to the Financial Assistance has been entered into between the Subscriber and the Target Company as at the Latest Practicable Date.

Put Option

In the event that, on or after Completion, the Subscriber discovers that the Target Company and the Existing Shareholders have breached any of the representations, warranties and undertakings under the Subscription Agreement or any of the Transaction Documents, and the loss or damage suffered by the Subscriber or the Target Company as a result of such breach amounts to a monetary value of at least 30% of the Consideration (whether calculated individually or accumulatively), the Subscriber has the right, but not the obligation, to request the Existing Shareholders to repurchase the equity interest of the Target Company held by the Subscriber, and the Repurchase Amount payable by the Existing Shareholders shall be the Consideration together with the compound interest on the Consideration at 25% per annum for three years.

The Repurchase Amount can be expressed in the following formula:

Repurchase Amount = Consideration x (1+25%)^3

The Put Option can be exercised by the Subscriber at any time on or after Completion in accordance with the terms and conditions of the Subscription Agreement as summarized above. There is no specific deadline by which the Put Option must be exercised under the Subscription Agreement. The exercise of the Put Option will be made in accordance with the relevant requirements under the Listing Rules.

Notwithstanding the foregoing, in the event that the payment of the Repurchase Amount into the designated bank account of the Subscriber by the Existing Shareholders is later than the last day of the third anniversary from the date of Completion, the Repurchase Amount payable by the Existing Shareholders to the Subscriber shall be the Consideration together with the compound interest at 25% per annum calculated from the date of Completion to the day of payment of the corresponding Repurchase Amount by the Existing Shareholders.

Termination

The Subscription Agreement may be terminated by the relevant parties upon the occurrence of any of the following events:

(a) in the event that one or more of the Conditions Precedent set out above is/are not fulfilled by the end of the office hours of the Long Stop Date, the Subscriber shall have the right to terminate the Subscription Agreement;

(b) in the event that the Target Company or any Existing Shareholders breaches any material representation, warranty, undertaking or agreement under the Subscription Agreement, and such breach is not capable of being remedied or has not been remedied within 30 PRC Business Days upon receipt of a written notice given by the Subscriber to all other parties to the Subscription Agreement (where the mere disclosure of such breach does not amount to a remedy), the Subscriber shall have the right to terminate the Subscription Agreement prior to the date of Completion;

(c) in the event that the Subscriber breaches any material representation, warranty, undertaking or agreement under the Subscription Agreement, and such breach is not capable of being remedied or has not been remedied within 30 PRC Business Days upon receipt of a written notice given by the Existing Shareholders or the Target Company to the Subscriber (where the mere disclosure of such breach does not amount to a remedy), the Existing Shareholders and the Target Company shall have the right to terminate the Subscriber's right to the Subscription under the Subscription Agreement prior to the date of Completion;

(d) if the Subscriber is unable to pay the full Consideration to the Target Company under the Subscription Agreement before the Long Stop Date, any of the parties shall have the right to unilaterally terminate the Subscription Agreement on the Long Stop Date by notice in writing to all other parties; and

(e) at any time on or before the date of Completion, the Subscription Agreement may be terminated by mutual written consent of the parties.

Completion

Completion shall take place on the third PRC Business Day or any other date as mutually agreed by the parties after all the Conditions Precedent set out above have been fulfilled (or, if applicable, waived).

Restructuring

Pursuant to the Subscription Agreement, the Target Company is required to conduct the Restructuring such that the registered shareholders of the relevant Target Subsidiaries are registered under the name of the Target Company. In order to achieve the Restructuring, the relevant Target Subsidiaries are required to, among other things, file an application with SAIC. As stated in the section headed "The Subscription Agreement – Conditions Precedent", the Restructuring is a condition precedent for Completion. As at the Latest Practicable Date, the Restructuring has been completed.

The Entrusted Loan Agreement

As disclosed in the announcement of the Company dated 29 December 2014, pursuant to the Entrusted Loan Agreement, NFLP (an indirectly wholly-owned subsidiary of the Company) has instructed the Lending Bank to release a loan in the principal amount of RMB100,000,000 (approximately HK$126,826,000), which was funded by NFLP, to the Target Company for a term of 12 months from the date of drawdown in accordance with the terms and conditions of the Entrusted Loan Agreement.

Following the provision of the financial assistance to the Target Company pursuant to the Entrusted Loan Agreement, in order to increase the transparency of the Target Company to the Company, Mr. Du, a non-executive Director, was invited by the Existing Shareholders to become a director of the Target Company and was appointed as a director of the Target Board on 24 March 2015. In light of the financial assistance provided to the Target Company pursuant to the Entrusted Loan Agreement and in order to preserve the interests of the Company for the financial assistance provided to the Target Company pursuant to the Entrusted Loan Agreement, the Directors consider that the appointment of Mr. Du to the Target Board to be in the interests of the Company and the Shareholders as a whole.

Composition of the Target Board

Pursuant to the Joint Venture Agreement, from the Date of Business License Amendment, the number of directors on the Target Board shall be five, of which three shall be appointed by the Subscriber and two shall be appointed by the Existing Shareholders. Notwithstanding the foregoing, if there occurs any change in the proportion of equity interests of the Existing Shareholders and the Subscriber after the Date of Business License Amendment, the arrangement as to the appointment of directors to the Target Board shall be adjusted accordingly such that each of the Existing Shareholders and the Subscriber shall be entitled to appoint such number of directors in accordance with the their respective equity interest in the Target Company.

Upon Completion, the Company intends to appoint, in addition to Mr. Du, two other directors to the Target Board, being Mr. Lin Ming, the chief financial officer of the Company and Ms. Liu Wenxuan. For the biographies of the directors and senior management of the Target Board, please refer to the section headed "Directors and Senior Management of the Target Group" in Appendix V to this circular.

Save as disclosed in this circular, the Target Company and its ultimate beneficial owners do not have any prior or current business relationships or any other connections or relationships with the Company, any of the Directors, controlling shareholders or connected persons of the Company.

Save for the Entrusted Loan Agreement and the Transaction Documents and as disclosed in this circular, there are no other agreements or arrangements between (i) the

Company and the Target Company (including its ultimate beneficial owners); and (ii) any connected person of the Company and the Target Company (including its ultimate beneficial owners).

Save as aforementioned and to the best of the Directors' knowledge, information and belief and after making all reasonable enquiries, the Target Company and its ultimate beneficial owners are independent of the Company and its connected persons.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The Target Group is principally engaged in the business of sale and provision of after-sales services for luxury cars, sale and provision of after-sales services for second-hand luxury cars and other auto-related business in thirteen provinces and municipalities in the PRC. The Group has been focusing on the establishment and improvement of auto chain services network and has been considering to conduct, when it is appropriate, acquisitions which may facilitate the realization of the Group's business strategy; consolidate with the current resources of the Group; create synergies to the Group's current business and enhance the competitiveness of the Group.

The PRC car dealership business of the Target Company is considered as desirable natural expansion of the current business of the Group and not a new line of business to the Group. The business of new car sales and the provision of auto after-sales services often complement each other to provide a one-stop shop for customers. As such, the addition of the PRC car dealership business is expected to strengthen the existing businesses of the Group by creating a vertically integrated business model of auto sale and services, thereby locking in customer loyalty and releasing synergies between these two closely intertwined components of the auto-related business.

The business model of operating the car dealership business together with the provision of auto after-sales service is common among other comparable companies in the PRC automotive industry that are listed on the Stock Exchange. In addition, the market sees a trend of expansion into the auto after-sales service business, which is widely perceived to have huge room for further development, given the sizable passenger vehicle volume in the PRC market. Based on the publicly available information, many of the listed companies involved in the car dealership business are planning to open stand-alone service centers to cater for this trend. It is anticipated that the Group's natural expansion from the after-sales service business into the car dealership business will place it in the best position in this competitive market.

It is expected that the Subscription in the Target Company would add a high-end auto after-sales service line with higher gross margin and higher customer loyalty to the Group's current business and ultimately improve cash flow and profitability of the Group while rapidly developing its auto chain services network. In addition, the Group could also leverage on the Target Group's sales network and local know-how to penetrate into new regional markets and benefit from the established customer relationship and platform of the Target Group. The Group could, through the Subscription, obtain access to leading ultra-luxury and luxury car manufacturers, tap into a large addressable after-sales market of luxury car-owners and capture value along the integrated automotive-related value-chain.

Despite the fact that the dollar value of the new car sales significantly outweighs that of the after-sales business, the gross profit generated from the car dealership business accounted for approximately 35%–48% of the total gross profit of the 4S dealership stores, while the contribution of after-sales services to the total gross profit of 4S dealership stores is higher at approximately 52%–65%. As such, the major contribution of gross profit from the 4S dealership stores relates to the after-sales service business, and the main driver for the Group adding the dealership stores to its portfolio lies in the expected increase in gross profit from after-sales services. In addition, the further expansion of the ultra-luxury and luxury after-sales service business is expected to boost the overall gross profit margin of the after-sales business. The addition of car dealership business is regarded as a bonus to create extra synergy between various businesses of the Group by contributing to a full-fledged auto services offering.

Save as disclosed in this circular, while no specific investment opportunities or acquisition candidates had been identified as at the Latest Practicable Date, the Board is active in seeking and identifying development opportunities and acquisition targets that are in line with the Group's business strategies and can enlarge the Group's revenue stream in order to enhance Shareholders' value. As at the Latest Practicable Date, the Company does not have any intention, negotiation, agreement, arrangement or understanding (concluded or otherwise) about (i) the acquisition of any other new business; (ii) any disposal, scaling-down and/or termination of its existing businesses and/or major operating assets; (iii) the injection of any new business to the Group; or (iv) any changes in the shareholding structure of the Company.

The Directors consider the terms of the Subscription Agreement and the transactions contemplated thereunder to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE SUBSCRIPTION

Upon Completion, members of the Target Group shall become subsidiaries of the Company, and the financial results, assets and liabilities of the Target Group will be consolidated into the consolidated financial statements of the Company.

Basis of consolidation

An assessment as to whether the Company controls the Target Company upon completion of the Capital Increase and the Subscription was made by the Directors in accordance with IFRS 10 "Consolidated Financial Statements", which states that "an investor controls an investee when it 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". The Directors consider it appropriate for the Target Company to be treated as a subsidiary of the Company for the reasons set forth as below:

(a) upon completion of the Capital Increase and the Subscription, the Company will indirectly hold 50% interest in the Target Company through the Subscriber, which is a wholly owned subsidiary of the Company, and the Existing Shareholders will hold the remaining 50% interest in the Target Company;

(b) pursuant to the Joint Venture Agreement, from the Date of Business License Amendment, the Company will have the right to appoint three out of a total of five members of the Target Company's Board of Directors;

(c) according to the Joint Venture Agreement and the Amended Articles of Association of Target Company, which is consistent with the applicable laws and usual practice in a Chinese-foreign equity joint venture, the full range of activities which significantly affect the financial position and financial performance of the Target Company, including but not limited to the approval of business strategy, annual budget, asset disposal plan, capital expenditure and loan arrangements, will be decided by the Target Board by simple majority (i.e. over 50%) of the Target Board members;

(d) although the Company, via the Subscriber, will only hold 50% interest in the Target Company, it will nonetheless control the majority of voting rights in the Target Board and as such, the Company has the right to direct the relevant activities of the Target Company through the directors representing the Subscriber; and

(e) by virtue of its 50% interest in the Target Company, the Company via the Subscriber will be exposed to the variable returns of the Target Company and has the ability to affect those returns through its majority voting rights.

As such, the Directors are of the view that the Company will control the Target Company upon Completion, and therefore the Target Company will become a subsidiary of the Company.

Further to the Company's assessment of treating the Target Company as a subsidiary of the Company and the results thereof indicating that the Target Company will be consolidated into the results of the Group, the auditor of the Company confirmed that such accounting treatment is in accordance with the relevant accounting standards.

Access to books and records of the Target Group

The provisions under the Joint Venture Agreement and the Amended Articles of Association provide certain safeguards to ensure that the Company will have access to the relevant books and records of the Target Group for control and consolidation of financial statements.

Pursuant to the Joint Venture Agreement and the Amended Articles of Association, all directors of the Target Board shall have the right to inspect the books and records of the Target Company and all the assets and facilities of the Target Company. In addition, the Target Company shall provide all relevant information on the business and financial position of the Target Company and any of its subsidiaries as requested by any of its directors. Subject to the fiduciary duties owed to the Target Company, any of its directors may disclose the aforesaid information to the party who appointed him/her to the Target

Board, but the party receiving the aforesaid information shall comply with the relevant confidentiality obligations under the Joint Venture Agreement and the Amendment Articles of Association.

In addition, pursuant to the Joint Venture Agreement and the Amended Articles of Association, the parties thereto shall ensure that the Target Company provides the Subscriber and its representatives access to the books and records of the Target Company and its subsidiaries at the expense of the Target Company, and prepare summary and make copies of such books and records at the expense of the Subscriber and upon provision of reasonable notice to the Target Company, access to the assets and properties of the Target Company and each of its subsidiaries. Any information so obtained by any party shall be used only for the purpose relevant to such party's investment in the Target Company, and such party shall comply with the relevant confidentiality obligations under the Joint Venture Agreement and the Amendment Articles of Association. In addition, all parties shall ensure that the Target Company cooperates fully with the Subscriber and its representatives.

Assets and liabilities

Upon Completion, the total assets of the Enlarged Group as at 31 December 2014 would have been increased from approximately RMB1,188,415,000 to approximately RMB6,672,831,000, primarily attributable to the consolidation of the assets in the Target Group following pro forma adjustments. The total liabilities of the Enlarged Group as at 31 December 2014 would have been increased from approximately RMB648,118,000 to approximately RMB5,778,831,000, primarily attributable to the consolidation of the liabilities in the Target Group following pro forma adjustments.

The Enlarged Group would have cash and bank balances of approximately RMB471,258,000. It is expected that the Subscription will not have any substantial adverse impact on the Group's cash flow position or its business operations and the Subscription will not cause immediate financial burden to the Group.

Earnings

Following Completion, the loss attributable to the Shareholders of the Company for the year ended 31 December 2014 as extracted from the 2014 annual report of the Company was approximately RMB43,223,000. According to the unaudited pro forma statement of comprehensive income of the Enlarged Group, as at 31 December 2014, the pro forma loss attributable to the owners of the Company would have been approximately RMB147,540,000. Such increase in loss is primarily attributable to the consolidation of the loss of the Target Group following pro forma adjustments.

Gearing

The Group's gearing ratio on the basis of dividing total liabilities by total assets was approximately 0.55x as at 31 December 2014. According to the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix III to this circular, the unaudited pro forma gearing ratio of the Enlarged Group would have been increased to approximately 0.81x as if the Subscription had been completed on 31 December 2014.

Funding requirements

As the expansion of the Group's existing business into the car dealership business is achieved through its investment into the Target Group, no separate business development plan in relation to the car dealership business is required, nor does the Group have to consider any extra capital expenditure and commitment, budget and financing schedules, financing methods or significant milestones to achieve. It is expected that the financial impact of the Subscription on the Group will be limited to the amount of investment into the Target Group of approximately RMB1,200,000,000, which comprises of the Consideration of RMB300,000,000 and the Financial Assistance of RMB900,000,000. Notwithstanding the foregoing, the Company may from time to time consider whether additional investment into the Target Group is necessary or desirable in the future, and further announcement(s) will be made by the Company as and when appropriate in accordance with the Listing Rules.

The financial effects of the Completion on the Group are illustrated in the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular.

BUSINESS PLAN OF THE TARGET GROUP

Business plan and strategies

The PRC automotive industry experienced a significant uplift over the past few years as a result of the rapid economic growth of the PRC in recent years. The Target Group strategically opened a number of new dealership stores each year over the past few years to cope with such expansion and sudden boost in demand for ultra-luxury and luxury cars. As disclosed in the section headed "Business of the Target Group – The Dealership Business of the Target Group – Brand Coverage", as at the Latest Practicable Date, there are 27 stores in operation and 9 stores under construction. The Target Group plans to utilize the proceeds received from the Subscription to complete the construction and opening of these nine new stores, which is expected to amount to approximately RMB300,000,000. The construction of these nine stores is expected to be completed in the first half of 2016 and these new stores are expected to open and commence operation before the end of 2016.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief and after making all reasonable enquiries, the Target Group does not have any plans to open any more new stores nor acquire any new business. Any decision to further expand the business and operation of the Target Group by opening new stores and/or acquiring any new business in the future will depend on the general market conditions and demand for ultra-luxury and luxury automobiles in China, as well as the expansion plans of automobile manufacturers in relation to the geographical coverage of stores of the respective automobile brands, taking into account the existing store network of the Target Group.

Upon Completion, a vertically integrated business model is created by offering both upstream and downstream businesses of car dealership and after-sale services on a combined platform of the Group and the Target Group. The Enlarged Group aims to become the leading ultra-luxury and luxury brands dealership group in China and capture the opportunities in the China's large and fast-growing ultra-luxury and luxury brands automobile market by pursuing a number of strategies. Please refer to the section head "Business of the Target Group – Business Strategies" for further details.

Capital expenditure and commitment

It is expected that the capital expenditure for the year ended 31 December 2015 and six months ended 30 June 2016 will amount to approximately RMB420,100,000 and RMB68,950,000, respectively. The capital expenditure mainly comprises of construction fees, renovation fees as well as fees for improvement works for its existing stores and those stores under construction. The aforementioned capital expenditure includes the amount of RMB300,000,000 required to complete the construction and opening of the nine new stores. It is expected that all the construction work will be substantially completed by 30 June 2016 and the Target Group does not expect to incur any further capital expenditure in the second half of 2016.

Save as aforementioned and as disclosed in the accountant's report of the Target Group in Appendix II of this circular and the section headed "Management Discussion and Analysis on the Target Group" set out in Appendix IV of this circular, as at the Latest Practicable Date, the Target Group does not expect to incur any other capital expenditure or commitment.

Financing plans

Upon Completion, the Target Group will focus on improving its financial performance by utilizing the funding received as the Consideration and the Financial Assistance. In order to improve its gearing position and reduce its finance costs, the Target Group plans to repay some of the existing loans from the banks and other financial institutions by utilizing the RMB300,000,000 from the Consideration and RMB600,000,000 from the Financial Assistance. Following the aforesaid refinancing, it is expected that the financing costs of the Target Group can be reduced by approximately RMB50,000,000 per annum. The reduction in the financing costs will increase the profitability of the Target Group. The improvement in the financial position and profitability of the Target Group will enable the Target Group to renegotiate with the banks and financial institutions to conduct refinancing on terms and conditions more favourable to the Target Group, which will further reduce its financing costs and improve its gearing position.

The remaining balance of the Financial Assistance in the amount of RMB300,000,000 will be used as general working capital of the Target Group.

Future outlook

Through the combination of the Group's network of automobile service centers and repair stores with the Target Group's network of dealership stores, the Enlarged Group will have an improved strategic distribution of store network comprising a complete offering of auto dealerships as well as after-sales services, thereby lowering costs of its car dealership business as a whole. It is expected that relatively young store age of the Target

Group's store network will lead to a significant increase in the profitability of the Target Group. The Target Group will continue to fully utilize its close relationships with automobile manufacturers to further expand its brand portfolio and resources for the after-sales business of the Enlarged Group. As such, it is expected that the strategic combination of the Group and the Target Group will lead to a win-win situation.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Despite the slowdown of the global economy in 2012, the China automotive market recovered significantly in 2013. In 2014, the scale of the China automobile after-sales market reached RMB600 billion, representing an increase of 20% comparing to that of 2013. As the average age of automobiles grows, it is predicted that the China automobile after-sales market will maintain growth at a high pace, providing a supportive macro-environment for the subsequent development of the Group.

With the addition of the Target Group's car dealership business and its network of stores, the Subscription allows the Group to seize the rapid development in the PRC automotive after-sales market by further expanding its market presence and boost the Group's market share as well as its competitiveness. Looking forward, the Directors are of the view that the scale of automotive after-sales service market will expand accordingly with the increasing automobile ownerships in the PRC. The Enlarged Group will continue to strengthen the competitiveness of its services and products through enhanced brand building, sales channels development and provision of premier services and products to customers. Meanwhile, the Enlarged Group will also focus on any new opportunities in the automotive chain service network in the PRC, with the aim of further expanding and enhancing of the competitiveness of the Enlarged Group as a whole as well as its business and financial performance.

RISKS ASSOCIATED WITH THE SUBSCRIPTION

The Subscription may increase the level of risk exposure of the Enlarged Group inevitably. Shareholders and potential investors should be aware of the risk factors, which may not be exhaustive, relating to the Subscription as set out under the section headed "Risk Factors" of this circular. According to the Company, it will continue to adopt ongoing control measures as implemented by the Target Group before the Subscription and will identify other effective measures to minimize such risks as and when necessary. We are of the view that Shareholders should bear in mind all of those risk factors when considering the Subscription as they may have different risk preference and are of varied risk tolerance level.

PART B – THE PROPOSED PLACING

THE PROPOSED PLACING

In light of the Subscription, the Company intends to conduct the Proposed Placing of new Shares prior to Completion and the proceeds from the Proposed Placing will be primarily used to settle the Consideration for the Subscription and the remaining balance will be used as Financial Assistance to the Target Group, the commission for the Placing Agent and/or any other expenses in relation to the Proposed Placing.

As at the Latest Practicable Date, the terms of the Proposed Placing have not been determined and no agreement has been entered into between the Company and any Placing Agent. Given that Completion is conditional upon, among other things, Shareholders' approval, which the Company has no control over, the Directors consider that it is commercially unfeasible and impractical to enter into a definitive placing agreement with the Placing Agent at this early stage. However, assuming that the Subscription and the transactions contemplated thereunder (including the acquisition of the Put Option) is approved by the Shareholders' at the EGM, the Company intends to enter into a placing agreement with the Placing Agent and/or Placees and any other relevant parties setting out detailed rights and obligations of the parties, and the final terms in respect of the Proposed Placing. On this basis, the Company expects that the Placing Agreement will be entered into soon after the EGM. The final terms of the Proposed Placing will be agreed between the Company and the Placing Agent and/or Placees after arm's length negotiations and the Proposed Placing will be entered into on normal commercial terms. Further announcement(s) will be made by the Company in accordance with the Listing Rules when the Company enters into the Placing Agreement.

Accordingly, the Board proposes to seek approval from the Shareholders for the Proposed Placing and the grant of the Specific Mandate to issue the Placing Shares by means of a resolution to be proposed at the EGM. The resolution will authorize the Board to determine and deal with, at its discretion and with full authority, matters relating thereto (including, but not limited to, the specific timing of the issue, final number of new Shares to be issued, offering mechanism, issue price, target Placees and the number and proportion of Shares to be issued to each Placee). The Placing Price will be determined on an arm's length basis with reference to prevailing market conditions. If the approval is granted, it will remain in effect until the earlier of (i) three months after the date of the EGM; and (ii) the date upon which such authority is revoked or varied by an ordinary resolution of the Shareholders in a general meeting of the Company.

The proposed terms of the Proposed Placing are as out below.

Number of Placing Shares

The Placing Shares to be placed pursuant to the Proposed Placing will be not more than 1,500,000,000 new Shares, which represents (i) not more than approximately 39.90% of the existing issued share capital of the Company; and (ii) not more than approximately 28.51% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares upon the completion of the Proposed Placing.

The Placing Shares will be allotted and issued under the authority to be granted by the Shareholders at the EGM.

Placing Price

The Placing Price will be determined on an arm's length basis with reference to the prevailing market conditions, which shall, in any event:

(a) be no less than 80% of the higher of:

(i) the closing price of the Shares as quoted on the Stock Exchange on the date of execution of the Placing Agreement; and

(ii) the average closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days immediately before the date of execution of the Placing Agreement; and

(b) be no less than the Minimum Placing Price of HK$0.414 per Share, which represents:

(i) a discount of approximately 79.20% to the closing price of HK$1.990 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 44.05% to the closing price of HK$0.740 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 35.11% to the average closing price of approximately HK$0.638 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and

(iv) a discount of approximately 20.00% to the average closing price of approximately HK$0.518 per Share as quoted on the Stock Exchange for the last thirty trading days up to and including the Last Trading Day.

The Directors will continue to endeavour to obtain the best possible issue price for the Placing Shares in the interests of the Shareholders. In light of the recent volatile stock market, the Directors consider that the above pricing mechanism will provide the Company with flexibility to conduct the Proposed Placing for the Completion. The Placing Price will be determined on an arm's length basis with reference to prevailing market conditions, therefore the Directors consider that the above pricing mechanism is fair and reasonable as it is in line with the general market practice.

Shareholders and potential investors should not treat the Minimum Placing Price as an indicator of the actual Placing Price which shall be based on the actual trading performance of the Shares upon the resumption of trading of the Shares on the Stock Exchange. The Placing Price will be determined by agreement between the Company and the Placing Agent and/or Placees after arm's length negotiations at the time of the Proposed Placing and will be subject to a number of considerations, including the prevailing market conditions, the prevailing market price of the Shares and investor demand for the Shares at the relevant time.

Use of proceeds

It is intended that the net proceeds from the Proposed Placing will be used by the Company for the following purposes:

(a) up to approximately HK$378,883,556 (approximately RMB300,000,000) for payment of the Consideration; and

(b) all the remaining balance as Financial Assistance to the Target Group, the commission for the Placing Agent and/or any other expenses in relation to the Proposed Placing.

In the event that any part of the remaining balance is used as Financial Assistance to the Target Group, such amount is expected to be applied towards financing the Target Group's capital expenditure and/or repayment of bank borrowings.

Ranking of the Placing Shares

The Placing Shares, when issued and fully paid, will rank pari passu in all respects among themselves and with all the Shares in issue and are entitled to all rights attaching thereto at the date of the issue and thereafter.

Placees

The Placing Shares will be placed to not less than six independent Placees. The Placing Agent will use its reasonable endeavours to ensure that the Placees will be third parties independent from, not connected or associated with, and not acting in concert with (a) any of the directors, chief executive or substantial shareholder of the Company and any of its subsidiaries and their respective associates; and (b) any of the Existing Shareholders and their respective associates. Neither Mr. Zhou nor Ms. Qiu will become one of the Placees, and it is expected that no Placee will become a substantial shareholder (as such term is defined in the Listing Rules) of the Company immediately following completion of the Proposed Placing.

Conditions

The Proposed Placing shall be conditional on (i) the Shareholders approving the Subscription at the EGM; and (ii) the Subscription Agreement remaining valid and in effect.

SPECIFIC MANDATE

The Placing Shares will be allotted and issued under the Specific Mandate which is subject to the approval of the Shareholders at the EGM.

APPLICATION FOR LISTING

An application will be made to the Listing Committee for the listing of, and permission to deal in, the Placing Shares.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities in the past twelve months prior to the Latest Practicable Date.

As at the Latest Practicable Date, the Company does not intend to conduct, nor is it considering, any fundraising activity (apart from the Proposed Placing) in the next twelve months from the Latest Practicable Date.

EFFECT ON SHAREHOLDING STRUCTURE

The existing shareholding structure of the Company and the effect on the shareholding structure of the Company upon Completion is set out below:

Name of Shareholder	As at the Latest Practicable Date		Immediately after the allotment and issue of the Placing Shares	
	Number of Shares	*%*	*Number of Shares*	*%*
CDH Fast Two Limited	2,076,072,279 *(Note 1)*	55.20	2,076,072,279 *(Note 1)*	39.46
Chief executive officer, directors and substantial shareholders of the Subsidiaries *(Note 2)*	72,658,539	1.93	72,658,539	1.38
Placees	–	–	1,500,000,000	28.51
Other public Shareholders	1,612,434,194	42.87	1,612,434,194	30.65
TOTAL ISSUED SHARES	3,761,165,012	100	5,261,165,012	100

Notes:

1. CDH Fast Two Limited will be issued an additional 813,507,947 Shares if the remaining of the convertible bonds issued to it as disclosed in the announcements of the Company dated 23 June 2013 and 12 June 2014 are fully converted.

2. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the chief executive officer, directors or substantial shareholders of the Subsidiaries has a material interest in the Proposed Transactions.

Notwithstanding the significant dilutive effect on the existing Shareholders upon completion of the Proposed Placing, the Directors are of the view that the Proposed Placing is fair and reasonable and in the interests of the Shareholders and the Company for the following reasons:

(a) the final terms of the Proposed Placing will be agreed between the Company and the Placing Agent and/or Placees after arm's length negotiations and the Proposed Placing will be entered into on normal commercial terms;

(b) the Proposed Placing provides the Group with the opportunity to raise capital to finance the Subscription, which represents an excellent investment opportunity for the Group as further elaborated in the section headed "Reasons and benefits of the Subscription" above;

(c) the Board believes that the Proposed Placing represents the most efficient way to raise additional funds in terms of time and costs as compared to other means of equity fund raising, such as a rights issue or an open offer, which may not be easily implemented within a short and reasonable period of time given the widespread shareholding base of the Company. Furthermore, the Board believes that a "bookbuilding" process under an international placing simulates an auction scenario and is therefore the most effective way of maximizing the placing price and minimizing dilution of the interests of existing Shareholders;

(d) the proceeds from the Proposed Placing will provide the Company with immediate funding and eliminate any uncertainty related to future short-term fund-raising; and

(e) the Proposed Placing can broaden the Shareholder base of the Company, strengthen the capital base and financial position of the Group for its future business developments, and enhance the profile of the Company given that the Placees will be qualified individual, institutional and/or professional investors (as the case may be).

As at the Latest Practicable Date, the Company has maintained a sufficient public float of not less than 25% of the Shares as required under Rule 8.08(1) of the Listing Rules, and it is expected to be able to comply with such public float requirement immediately after the allotment and issue of the Placing Shares.

PART C – INCREASE IN AUTHORIZED SHARE CAPITAL

As at the Latest Practicable Date, the authorized share capital of the Company is HK$600,000,000 divided into 6,000,000,000 Shares, of which 3,761,165,012 Shares have been issued and fully paid. An aggregate of not less than 1,500,000,000 new Shares is expected to be issued upon the Proposed Placing. In order to accommodate the Proposed Placing and the future expansion and growth of the Company, the Directors propose to increase the Company's authorized share capital from HK$600,000,000 to HK$1,000,000,000 by the creation of an additional 4,000,000,000 unissued Shares. Immediately upon the Share Capital Increase becoming effective and assuming no further Shares will be issued and no Shares will be repurchased from the Latest Practicable Date up to the EGM, the authorized share capital of the Company will be HK$1,000,000,000 divided into 10,000,000,000 Shares, and the issued share capital of Company will be HK$376,116,501.2 divided into 3,761,165,012 Shares. The Directors are of the view that the Share Capital Increase is in the interest of the Company and the Shareholders as a whole.

The Share Capital Increase is conditional upon the approval of the Shareholders by way of an ordinary resolution by poll at the EGM.

PART D – IMPLICATIONS UNDER THE LISTING RULES

The Subscription

As certain applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Subscription exceeds 100%, the Subscription constitutes a very substantial acquisition for the Company and is subject to approval of the Shareholders by way of poll pursuant to Chapter 14 of the Listing Rules at the EGM.

The Put Option

Since the exercise of the Put Option will be at the discretion of the Subscriber, pursuant to Rule 14.75(1), only the premium payable for the Put Option will be taken into consideration for calculating the applicable percentage ratios in relation to the granting of the Put Option to the Subscriber. As no such premium is payable, all of the applicable percentage ratios in respect of the acquisition of the Put Option are below 5%. The exercise of the Put Option will be made in accordance with the relevant requirements under the Listing Rules.

The Financial Assistance

As the Target Company will become a subsidiary of the Company upon Completion, any financial assistance to be provided by the Company to the Target Company will fall under the exemption under Rule 14.04(1)(e) of the Listing Rules and therefore, the Financial Assistance will not constitute a notifiable transaction of the Company.

PART E – INFORMATION ON THE GROUP

The Subscriber is a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company. The principal business of the Subscriber is investment holding.

The Group focuses on the operation of auto chain services network in the Greater China region, adopting a unified vertical integrated business model, covering innovative product research and development, production and manufacturing, brand building, sale channel expansion and merchandise retail sales and service.

Save for the Proposed Placing as stated in the section headed "The Proposed Placing" above, the Company does not expect any changes in the Company's shareholding structure as at the Latest Practicable Date. Further announcement(s) will be made as and when appropriate to comply with the relevant requirements of the Listing Rules.

The Directors and senior management of the Group possess extensive experience in the auto industry. Prior to joining the Company, certain Directors and senior management of the Group worked in various auto-related businesses, including but not limited to the operation and management of car repair and maintenance services, as well as sales and marketing of car spare parts. Further details of such experience are set forth in the table below:

				Relevant experience		
Name	Position within the Group	Date of joining the Group	Years of experience in the auto industry (approx.)	Company	Principal activities	Role
Mr. Lin Yunling	Director and general manager of Zhejiang Autoboom Industrial Co., Limited (浙江歐特隆實業有限公司) ("Zhejiang Autoboom"), a subsidiary of the Company	August 2010	11	Hangzhou Autoboom Auto Accessories Supermarket Co., Ltd (杭州歐特隆汽車用品超市有限公司)	Sales of automobile accessories in the PRC	Manager
				Zhejiang Autoboom	Trading of automobile products in the PRC	Founder
Ms. Liu Fengxi	Director and general manager of Shanghai Astrace Trade Development Company Limited (上海追得貿易發展有限公司) ("Shanghai Astrace"), a subsidiary of the Company	June 2011	15	Shanghai Astrace	Trading of automobile products in the PRC	Founder
Mr. Wu Yande	Director and executive general manager of Changchun Guangda Automobile Trading Co., Ltd. (長春市廣達汽車貿易有限公司) ("Changchun Guangda"), a subsidiary of the Company	July 2012	9	Changchun Guangda	Automobile repair, maintenance and re-styling services; sales of automobile products in the PRC	Founder
Mr. Xing Aiyi	Director and general manager of Beijing Aiyihang Auto Service Ltd. (北京愛義行汽車服務有限責任公司) ("Beijing Aiyihang"), a subsidiary of the Company	February 2007	13	Aiyihang Auto Service Centre (愛義行汽車服務中心)	Automobile repair, maintenance and re-styling services in the PRC	Founder
				Beijing Aiyihang	Automobile repair, maintenance and re-styling services in the PRC	Founder

The Directors are of the view that the operational experience and industrial expertise in the automobile industry of the senior management of the Company will contribute to the success of the Target Group in the car dealership business in the PRC as stated in the section headed "Letter to the Board – Part A – the Subscription – Reasons for and benefits of the Subscription" in this circular.

As at the Latest Practicable Date, there is no proposed change in the composition of the Board upon or after Completion.

PART F – INFORMATION ON THE TARGET GROUP

The Target Company is a limited liability company established in the PRC and through its subsidiaries, is principally engaged in the car dealership business and other automobile-related businesses in the PRC.

The Target Group commenced operations in 2001 and it has since then became one of the leading ultra-luxury car dealership groups in the PRC. In 2013, the Target Group was the largest Rolls-Royce dealership group in the PRC based on the number of dealership stores. As at 31 December 2014, the Target Group operated a total of 27 car dealership stores. With a focus on the ultra-luxury car sector, the Target Group operates a wide range of luxury and ultra-luxury car dealership stores covering luxury brands, including Rolls-Royce, Ferrari, Maserati and Bentley, as well as other car dealerships with luxury brands including BMW, Audi, Jaguar, Mini, Land Rover, Cadillac and Imported Volkswagen. The dealership stores of the Target Group sell all the key car models of these brands. The target customers are primarily high net-worth individuals and corporations who have demand for these ultra-luxury and luxury cars. The majority of the turnover of the Target Group is derived from automobile sales.

The Target Group, through its extensive network of the stores, also offers a comprehensive range of automobile-related products and services, including but not limited to the sale of first-hand and second-hand luxury cars, provision of after-sales services for first-hand and second-hand luxury cars, sale of automobile parts, accessories and other automobile-related products. In particular, after-sales services include maintenance and repair services, car customization and furnishing services, car recall services and car consulting services. The Target Group also carries out other side businesses, including consulting services for car financing, car insurance services, car rentals and trading of first-hand and second-hand cars through online platforms.

As advised by the PRC Legal Adviser, the car dealership business operated by the Target Group is not a restricted business under the Catalogue for the Guidance of Foreign Investment Industries (2015) jointly released by the National Development and Reform Commission and the Ministry of Commerce on 10 March 2015 and came into force on 10 April 2015.

For further information on the Target Group, please refer to the section headed "Business of the Target Group" in this circular.

Shareholding structuring of the Target Company

The shareholding structure of the Target Company before and after completion of the Capital Increase and the Subscription is as set out below:

Name of Shareholder	As at the Latest Practicable Date		Immediately after Completion	
	Contribution to the registered capital *(RMB)*	Equity interest *(%)*	Contribution to the registered capital *(RMB)*	Equity interest *(%)*
Mr. Zhou	180,000,000	60	180,000,000	30
Ms. Qiu	120,000,000	40	120,000,000	20
The Subscriber	–	–	300,000,000	50
TOTAL	300,000,000	100	600,000,000	100

Upon completion of the Capital Increase and the Subscription, the Target Company will become an indirect non-wholly owned subsidiary of the Company.

Financial information about the Target Group

Based on the audited financial statements of the Target Group prepared in accordance with IFRS, the turnover and profit/(loss) before and after tax and extraordinary items for the three years ended 31 December 2014 were approximately as follows:

	For the year ended 31 December		
	2012 *(RMB'000)*	2013 *(RMB'000)*	2014 *(RMB'000)*
Turnover	2,651,185 (approximately HK$3,348,181)	6,117,319 (approximately HK$7,725,562)	8,532,663 (approximately HK$10,775,900)
Loss before taxation and extraordinary items	(45,173) (approximately HK$(57,049))	(141,661) (approximately HK$(178,904))	(194,455) (approximately HK$(245,577))
Loss after taxation and extraordinary items	(44,018) (approximately HK$(55,590))	(144,220) (approximately HK$(182,135))	(193,540) (approximately HK$(244,422))

Based on the audited financial statements of the Target Group and other information provided to the Company by the Target Group, the net loss for the three years ended 31

December 2014 was primarily attributable to losses suffered by the heavy initial capital investment of newly opened automobile dealer stores and the high financing costs associated with the expansion of business. In order to facilitate the opening of these new stores, the Target Group has obtained financings from banks and other financial institutions, which has led to a high financing cost. In addition, the Target Group has also incurred significant operational and administrative expenses in establishing these new stores.

The PRC automotive industry experienced a significant uplift over the past few years as a result of the rapid economic growth of the PRC in recent years. In order to capture market share in the increasingly competitive PRC automotive industry, many global leading car manufacturers have increased the number of luxury car dealerships. The Target Group seized this opportunity and obtained new ultra-luxury and luxury car dealerships to broaden its brand portfolio and raise its competitiveness within the growing market. Accordingly, the Target Group strategically opened a number of new dealership stores each year over the past few years to cope with such expansion and sudden boost in demand for luxury and ultra-luxury cars. As at 31 December 2011, the Target Group operated a total of five car dealership stores, and it opened six, ten and six car dealership stores in each of the years ended 31 December 2012, 2013 and 2014, respectively. As at the Latest Practicable Date, the Target Group operates a total of 27 stores, representing a 440% increase in terms of the number of stores over the past three years. The capital expenditure incurred for stores construction and improvement for the three years ended 31 December 2012, 2013 and 2014 was approximately RMB233,171,000, RMB555,425,000 and RMB408,366,000, respectively. The finance costs incurred for the construction and leasehold improvement of the stores opened or constructed for the three years ended 31 December 2012, 2013 and 2014 was approximately RMB16,439,000, RMB51,977,000 and RMB70,014,000, respectively, assuming all such capital expenditures were funded by loans from banks or other financial institutions. The luxury dealership stores require heavy initial capital investment and would usually take two to three years to build up its client base for new car and after-sales services to ramp up its sales and achieve profitability. The prospect of the automotive market remains rosy and it is expected that the rapid and sustained growth will ultimately provide positive returns to the Target Group after the ramp up of the sales of the newly opened stores.

Although the Target Group recorded net loss in the three years ended 31 December 2014, upon Completion, the Target Group will become an indirect non-wholly owned subsidiary of the Company and the Company can provide operational and financial assistance to the Target Group as it considers appropriate and necessary in order to improve its operation, performance and profitability. In particular, the Company believes that it will be able to assist the Target Group to conduct refinancing and/or obtain financings at lower costs, which will reduce the financial expenses of the Target Group and improve its profitability. In addition, the ramp up of new car sales as well as after-sales business in newly opened stores could enhance the overall profitability of the Target Group. The Company believes that, upon Completion, the Company can provide operational assistance to the Target Group, which will improve the performance and profitability of the Target Group. Upon Completion, the Company will work with the management of the Target Group to develop the strategy and implement a combined business plan for the Target Group as part of the Group.

The audited net assets of the Target Group as at 31 December 2014 was approximately RMB124,349,000 (approximately HK$157,040,352). Further details of financial information of the Target Group are set out in Appendix II to this circular.

PART G – EGM

The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve (i) the Subscription Agreement and the transactions contemplated thereunder (including the acquisition of the Put Option); (ii) the grant of the Specific Mandate to issue the Placing Shares; and (iii) the Share Capital Increase. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in any of the Proposed Transactions and therefore, no Shareholder is required to abstain from voting at the EGM.

PART H – RECOMMENDATIONS

In evaluating the Subscription, the Directors have considered the risk factors as set out in the section headed ''Risk Factors'' of this circular and also the measures adopted by the Target Group to mitigate the potential exposure of such risks on the business operations of the Target Group. On the basis of the information set out in this circular, the Directors consider that the terms of the Subscription, the Proposed Placing by way of the Specific Mandate and the Share Capital Increase are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors, therefore, recommend the Shareholders to vote in favour of the ordinary resolutions to approve the Subscription, the granting of the Specific Mandate to issue the Placing Shares and the Share Capital Increase at the EGM.

PART I – FURTHER INFORMATION

Your attention is drawn to other sections of and appendices to this circular, which contain further information on the Target Group, the Enlarged Group and other information required to be disclosed under the Listing Rules.

As Completion is subject to a number of conditions, the Subscription may or may not proceed. In addition, the proposed Specific Mandate may or may not be approved by the Shareholders at the EGM and even if the proposed Specific Mandate is granted to the Board, the Proposed Placing may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

By order of the Board
New Focus Auto Tech Holdings Limited
YING Wei
Chairman

This circular contains forward-looking statements that state the intentions, beliefs, expectations or predictions of the Group, the Target Group and the Enlarged Group for the future that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this circular. These forward-looking statements include all statements in this circular that are not historical fact, including, without limitation, statements relating to:

- the Enlarged Group's operations and business prospects;
- the future developments, trends and conditions in the PRC automotive industry;
- the Enlarged Group's strategies, plans, objectives and goals and its ability to implement such strategies and achieve its plans, objectives and goals;
- the Enlarged Group's future capital needs and capital expenditure plans;
- the amount and nature of, and potential for, future development of the Enlarged Group's business;
- prospective financial matters regarding the Enlarged Group's business, results of operations and financial condition;
- the competitive markets for automotive dealers and after-sales service providers and the actions and developments of the Enlarged Group's competitors in the PRC; and
- the general political and economic environment in the PRC.

When used in this circular, the words "aim", "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "project", "seek", "should", "will", "would" and similar expressions, as they relate to the Group, the Target Group and/or the Enlarged Group, are intended to identify forward-looking statements. However, all statements in this circular other than statements of historical fact are forward-looking statements. Such forward-looking statements reflect the views of the management of the Group or the Target Group (as the case may be) as at the Latest Practicable Date with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this circular. Although the Directors believe that the expectations reflected in such forward-looking statements are reasonable, actual results and events may differ materially from information contained in the forward-looking statements as a result of a number of factors, including:

- the performance of the PRC automotive service market;
- the Enlarged Group's ability to successfully complete and realize benefits from its business;
- the Enlarged Group's ability to obtain adequate financing on terms acceptable to it;

- the Enlarged Group's levels of indebtedness and interest payment obligations;
- the Enlarged Group's ability to effectively manage its planned expansion;
- the Enlarged Group's ability to stay abreast of market trends;
- the Enlarged Group's ability to retain core team members and attract qualified and experienced personnel;
- the Enlarged Group's ability to liquidate assets in response to changes in economic and financial conditions, as necessary;
- prospective financial information of the Enlarged Group; and
- other factors beyond the Company's control.

Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove to be incorrect, the results of operations and financial condition of the Group, the Target Group and/or the Enlarged Group may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by the Company that its plans and objectives will be achieved or realized.

The forward-looking statements in this circular reflect the views of the management of the Group as of the Latest Practicable Date and are subject to change in light of future developments. Subject to the requirements of the Listing Rules, the Company does not intend to update or otherwise revise the forward-looking statements in this circular, whether as a result of new information, future events or otherwise.

Shareholders and potential investors should carefully consider all of the information set out in this circular and, in particular, should consider the following risks which may be associated with the Subscription before making any investment decision in dealing with the Shares. If any of the possible events as described below, or any other risk factors or uncertainties that the Company is unaware of, materializes, the Target Group's business, financial position and prospects could be materially and adversely affected and the trading prices of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO THE TARGET GROUP'S BUSINESS

The Target Group relies on automobile manufacturers for the rights to open and operate all of its stores.

The Target Group's rights to open and operate 4S dealerships and all other stores, the supply of passenger vehicles and spare parts, the location and relocation of its store premises and other critical aspects of its business and operations such as inventory levels and marketing activities are governed by its dealership authorization agreements with automobile manufacturers. These dealership authorization agreements are non-exclusive and generally have a term of one to three years, which may be renewed periodically. The automobile manufacturers have the right to terminate the Target Group's dealership authorization agreements for reasons specified in the dealership authorization agreements, including without limitation, failure to abide by the agreements, unapproved business relationships with other automobile manufacturers and unapproved changes to its ownership or management structure. Moreover, automobile manufacturers may elect not to renew their agreements with the Target Group for various reasons, including changes in their business strategies. There can be no assurance that the Target Group will be able to renew its dealership or other authorization agreements with automobile manufacturers on a timely basis, on commercially acceptable terms or at all. Automobile manufacturers may also decide to limit or reduce the number of stores that the Target Group is authorized to operate. If any automobile manufacturer decides not to renew their agreements with the Target Group, or otherwise reduce or terminate their business dealings with the Target Group, its business, financial condition, results of operations and growth prospects could be materially and adversely affected.

The Target Group's business operations are subject to restrictions imposed by, and significant influence from, automobile manufacturers under its dealership authorization agreements.

Pursuant to the Target Group's dealership authorization agreements for individual stores, an automobile manufacturer may impose various conditions or restrictions on the Target Group's operations of the respective store. Such restrictions include, among other things:

- geographical limitation on where a store can conduct its sales;
- limitation on brand and model of passenger vehicles a store can display or sell;

- payment conditions on new passenger vehicles or spare parts supplied to a store by the automobile manufacturer;

- allocation of risks associated with the delivery of passenger vehicles by the automobile manufacturer;

- limitation and specification on types of after-sales services and other services a store can provide to customers;

- pricing guidelines for particular passenger vehicles, spare parts and other services a store provide to its customers; and

- other conditions and internal policy the automobile manufacturer might require a store to comply with.

Many of such limitations have adverse effect on the Target Group's revenue generating ability and violation of such limitations may result in the termination of such dealership authorization agreement or the deterioration of its business relationship with the automobile manufacturers.

In addition, automobile manufacturers have the power to exert influence on the operations and management of the Target Group's stores for their brands pursuant to other agreements or in ways not specifically provided in any agreements. For example, manufacturers may:

- set various requirement and qualifications for the Target Group's store-level managers, and demand the Target Group to replace store-level managers who do not qualify;

- express preference in the construction and decoration of a particular store, especially a store that is heavily invested by the Target Group or located in a primary location; and

- request certain stores to participate in the manufacturers' promotional events designed to increase consumer demand, which may include offering sales discounts and/or extended warranties on certain models of their passenger vehicles.

Such influences or requests might not always align with the business interests of the Target Group. As the Target Group depends on the cooperation and support of automobile manufacturers in various aspects of its operations, it will often opt to comply with such influences or requests even though it may not be contractually obligated to do so, in order to maintain solid long-term strategic relationships with automobile manufacturers.

Any reduction by automobile manufacturers of their advertising, marketing and promotional activities could adversely affect the Target Group's sales of new automobiles.

The Target Group's sales of certain models of passenger vehicles are strongly influenced by the advertising, promotional and marketing activities of the respective automobile manufacturers designed to foster consumer demand for such models, especially new models. The Target Group often assists automobile manufacturers in their advertising and promotional initiatives. In addition, for models that have been released for a certain period of time, automobile manufacturers sometimes offer discounts, complimentary products and services and/or extended warranties, often through the Target Group's stores. Nevertheless, the Target Group has no control over the content, timing and coverage of such advertising, promotional and market activities of a certain automobile manufacturers. In addition, the particular models or makes of passenger vehicles that an automobile manufacturer decides to promote might not be aligned with the Target Group's needs from the inventory management perspective. As a result, changes in any of the promotional and marketing activities by automobile manufacturers may adversely affect the sales of automobiles at the Target Group's dealership stores and adversely affect the results of its operations, financial position and growth prospects.

The Target Group's customer services and after-sales services are dependent on automobile manufacturers.

The Target Group's after-sales services primarily consist of maintenance services, repairs under automobile manufacturers' warranties, other repair services and sales of spare parts and accessories. Repair services under automobile manufacturers' warranties are charged to the automobile manufacturer instead of the customer. As a result, a reduction in the term or coverage of such warranties could reduce the utilization of the Target Group's after-sales services by its customers to the extent that its customers do not pay for such maintenance or repairs themselves. The Target Group also depends on automobile manufacturers to provide its dealership managers, customer services and sales personnel and automotive engineers and technicians with training to familiarize them with the features and proper maintenance of and repair procedures for their automobiles.

The Target Group derives a significant portion of its revenues from sales of new passenger vehicles of a few ultra-luxury and luxury brands.

The Target Group derives a significant portion of its revenue from sales of new passenger vehicles of a few ultra-luxury and luxury brands, such as BMW, Jaguar Land Rover and Rolls-Royce. Sales of these top three brands of passenger vehicles together accounted for 73.68%, 76.90% and 76.89% of the Target Group's revenue from passenger vehicle sales in 2012, 2013 and 2014, respectively. For example, while the Target Group's relationship with Rolls-Royce Motor Cars Limited has lasted for more than six years, beginning in 2008 with the authorization to establish the Target Group's first Rolls-Royce store, there can be no assurance that the Target Group can continue to maintain this relationship in the future. If the manufacturers of any of the Target Group's major brands terminate or decide not to renew their dealership or other agreements with it on favorable terms, or at all, or if these brands become less attractive to consumers due to vehicle recalls or any other problems out of the Target Group's control, the Target Group's business, financial condition, results of operations and growth prospects may be materially and adversely affected. Adverse changes in the financial position of automobile manufacturers or their ability to design, manufacture or market new passenger vehicles or spare parts may also negatively affect the Target Group's business, financial condition, results of operations and growth prospects.

The Target Group's business and financial performance depends on its ability to effectively manage its inventories.

The Target Group's business and financial performance depend on its ability to maintain a reasonable level of inventory of automobiles, spare parts and automobile accessories at its dealership stores. If inventories are overstocked, the Target Group may be required to increase its working capital and incur additional financing costs. If inventories are understocked, the Target Group may not be able to satisfy demand of its customers, which may cause it to forgo revenue and adversely affect its reputation.

Product defects and automobile recalls could have a negative impact on the business of the Target Group.

Automobile manufacturer partners of the Target Group have conducted recalls of their automobiles from time to time in the past as a result of defects or other problems with their products. As advised by our PRC Legal Adviser, under PRC laws and regulations, the Target Group is generally not liable for any costs of the recalls and is typically compensated by automobile manufacturers for the repair services undertaken by the Target Group in connection with any automobile recall. However, automobile recalls may have a material adverse effect on customers' confidence in the quality and safety of the affected automobile brands and the reputation and image of the relevant automobile manufacturers for a period of time, which could in turn reduce demand for particular automobile brands or models offered by the Target Group. Any future automobile recall by the Target Group's automobile manufacturer partners could have a negative impact on its sales which could adversely affect its results of operations, financial condition and growth prospects.

The Target Group faces uncertainties as a result of its recent rapid expansion.

The Target Group has been implementing a strategy of rapid expansion since the beginning of 2012, as its number of stores in operation increased from 5 as of 31 December 2011 to 27 as of the Latest Practicable Date. The rapid expansion brings uncertainties to the operation of the Target Group, including:

Intensive competition in major cities. In order to increase market recognition of the Target Group and to complete its network deployment in China, as well as part of its plan to further develop its ultra-luxury passenger vehicle market and after-sales services, the Target Group plans to solidify its competitiveness by leveraging the eminence and premier locations of its stores, and focusing on after-sales services which generally provide higher gross profit margin than the sales of new passenger vehicles. It cannot be assured that the Target Group would be successful in implementing such strategy, or such strategy will generate desired results.

Majority of stores without prior operating history. As of the Latest Practicable Date, the Target Group operated 27 stores in China, among which 6 commenced operations in 2014 and 10 commenced operations in 2013. Results of operations of such newly opened stores are difficult to project. A significant portion of such newly opened stores could perform worse than expected.

The Target Group's success depends on its senior management team and its ability to attract, train, motivate and retain, its store management, sales personnel and automotive engineers and technicians.

The Target Group's success depends significantly on the continued service of the members of its senior management team, who are critical to the development and implementation of its corporate strategy and its continued growth. In particular, the chairman of the board of directors of the Target Group, Mr. Zhou, and president and executive director of the Target Group, Ms. Qiu, are crucial to its success, having 17 and 26 years of experience, respectively, in the PRC passenger vehicle dealership sector.

In addition, the Target Group's success and ability to maintain high quality customer services and after-sales services is also dependent on the continued service of, and its ability to attract, train, motivate and retain its dealership managers, customer services and sales personnel and automotive engineers and technicians for the performance and continued success of its business. Due to the strong growth of the PRC economy and the PRC automobile industry, the competition for such personnel is increasingly intense. There is no assurance that the Target Group will be able to attract, train, motivate and retain the necessary personnel to grow and develop the Target Group's business, continue to deliver high-quality sales or customer services, or open new dealership stores. The Target Group's financial condition, management and results of operations may be materially and adversely affected if it fails to attract and retain the experienced personnel it needs.

The Target Group was in a net loss position as of 31 December 2012, 2013 and 2014 and we cannot assure you that it will not experience net loss position in the future.

The Target Group recorded net losses of RMB44,018,000, RMB144,220,000 and RMB193,540,000 for the years ended 31 December 2012, 2013 and 2014, respectively. The net losses were primarily attributable to losses suffered by the heavy initial capital investment of newly opened automobile dealer stores and the high financing costs associated with the expansion of business. In order to facilitate the opening of these new stores, the Target Group has obtained financings from banks and other financial institutions, which has led to high financing cost. In addition, the Target Group has also incurred significant operational and administrative expenses in establishing these new stores. For more information, please refer to the section headed "Letter from the Board – Part F – Information on the Target Group – Financial information of the Target Group" and the section headed "Financial Information of the Target Group" under Appendix II in this circular. It is expected that upon Completion, the Company can provide operational assistance to the Target Group, which will improve the performance and profitability of the Target Group, and the Company will work with the management of the Target Group to develop the strategy and implement a combined business plan for the Target Group as part of the Group. However, there is no assurance that the Target Group will not experience net loss in the future. If the Target Group experiences net loss for an extended period of time, it may have a material adverse effect on its business, financial condition and results of operations.

The gross profit margin and profitability of the Target Group may be affected by the mix of products sold and services delivered.

The principal businesses of the Target Group consist of passenger vehicle sales and after-sales services. During the Relevant Period, the Target Group recorded higher gross profit margins for after-sales services than for passenger vehicle sales. In 2012, 2013 and 2014, the Target Group's gross profit margins for after-sales services were 39.60%, 35.36% and 37.15%, respectively, as compared to its gross profit margins for passenger vehicle sales of 5.27%, 4.83% and 4.33%, respectively, in the same period. The Target Group may not be able to grow its after-sales services at the rate equal to, or higher than, its passenger vehicle sales business. Therefore, its gross profit margin and profitability may vary significantly from period to period as a result of changes in the mix of products sold and services rendered during the relevant period.

The Target Group's business operations and financial performance could be materially and adversely affected by its indebtedness.

During the Relevant Period, the Target Group relied on bank loans and other borrowings to support a substantial portion of its capital expenditures, and save for the Entrusted Loan and the Financial Assistance, it expects to continue to do so in the future. The Target Group had total interest-bearing bank loans and other borrowings of RMB888,308,000, RMB2,277,942,000 and RMB2,563,424,000 as of 31 December 2012, 2013 and 2014, respectively. The Target Group's gearing ratio (defined as its total liabilities over total assets) for the same periods were 0.88x, 0.92x and 0.98x respectively. For further information, please refer to the section headed "Management Discussion and Analysis on the Target Group" under Appendix IV to this circular.

The high gearing ratio could adversely affect the Target Group's business development and financial performance in various ways, including the following:

- increase the Target Group's potential exposure to adverse overall industry environment or any increase in interest rates;
- restrict the Target Group's flexibility to manage its cash flow, because a substantial percentage of its cash would have to be used to pay interest and the repayment of indebtedness;
- reduce the Target Group's ability to obtain further external financing;

- increase the Target Group's exposure to unpredictable adverse events, such as not having enough cash to cover potential damage liability from automobile defects or expenses for upgrading technologies or equipment required for its after-sales services; and

- restrict the Target Group's sales volume or its rate of expansion, since its marketing and sales budget may be limited as a result of the repayment of its indebtedness.

RISKS RELATING TO THE TARGET GROUP'S INDUSTRY

The Target Group's performance and growth prospects may be negatively affected by the increasingly competitive nature of the PRC automobile dealership industry.

The PRC automobile dealership industry is competitive. Automobile manufacturers typically grant non-exclusive dealership rights in the same geographical area. As a result, the Target Group often competes with dealerships that offer the same brands and models as it does, as well as those offering competing brands. The Target Group's business is also affected by competition among automobile manufacturers in terms of quality, delivery time, design and price. In addition, the Target Group competes with independent repair shops and auto parts retail centers in after-sales services and spare parts sales. We believe that automobile dealership stores in the PRC compete for customers on the level of customer services, inventory of automobiles, capabilities of sales personnel, management personnel, automotive engineers and technicians and on the prices of their automobiles. In addition, more automobile manufacturers may enter the distribution sector and build up their own automobile dealership network in the future. Any increase in number of competitors in the PRC automobile dealership industry could have a negative impact the Target Group's market share and result in a decrease in its revenue and profit. As a result, the Target Group's business, financial condition, results of operations and growth prospects may be materially and adversely affected.

Strict or stricter fuel economy standards and emission standards, high fuel prices and increased taxes on passenger vehicle consumption may restrict the supply of and/or reduce the demand for new passenger vehicles in China.

The PRC government currently subsidizes the retail price of petrol and diesel and may adjust the domestic fuel price as a result of, among other factors, changes in global crude oil prices and a desire to limit traffic and pollution problems. Fluctuations in fuel prices have led to changes in the level of fuel demand in China. Disparities in the cost and availability of fuel among different regions in China have made fuel cost in China increasingly less predictable. If demand for fuel increases in China, fuel shortage or price increases may occur. Because of increased or unpredictable costs or shortages of fuel, customers may shift to use more fuel efficient vehicles or alternative transport, such as bicycles, buses and subways.

The PRC government's implementation and enforcement of strict fuel economy and emission standards for automobiles sold in the PRC may raise manufacturing and distribution costs for automobile manufacturers, which may lead to higher suggested prices for their automobiles, and any such development could negatively impact customer demand. These standards tend to have a greater impact on more expensive, luxury and ultra-luxury automobiles, which tend to be less fuel efficient.

There can be no assurance that the PRC government will not implement stricter fuel economy and emission standards, or impose additional restrictions. Any such measures may cause the Target Group's sales to decline and adversely affect its revenue.

Government policies on passenger vehicle purchases and ownership may materially affect the results of operations of the Target Group.

Government policies on passenger vehicle purchase and ownership may materially affect the business of the Target Group, as it might significantly affect demand and customer behavior.

For example, pursuant to the "Notice on Adjusting the Policy of the Consumption Tax on Passenger Vehicles" (關於調整乘用車消費稅政策的通知) as released by the PRC Ministry of Finance and the State Administration of Taxation, the increase of applicable tax rates on automobiles with large cylinder capacities took effect on 1 September 2008. Certain of the automobiles the Target Group sells have large cylinder capacities and are subject to relatively higher automobile consumption tax rates. Any future implementation on higher automobile consumption tax rates for automobiles with larger engine displacement capacity may cause the Target Group's sales to decline and adversely affect revenues of it.

In addition, it was recently reported by certain media sources that a 20% luxury tax might be levied by the PRC Government on the purchase of a passenger vehicle with a retail price, after value-added tax, over RMB1.7 million. This luxury tax, if effectuated, might have an adverse effect on the Target Group's sales of new ultra-luxury passenger vehicles under its ultra-luxury brands, including Rolls-Royce, Ferrari, Maserati and Bentley, and on its expansion in the ultra-luxury passenger vehicle segment.

Any failure to comply with applicable laws, rules and regulations governing the automobile dealership industry may adversely affect the business of the Target Group.

The Target Group operates in a highly regulated industry and is required to maintain various approvals, licenses and permits for its operations that are specific to the automobile dealership industry, such as road transportation licenses, concurrent business insurance agency licenses and business licenses. For further details on the relevant PRC laws, rules and regulations relating to such approvals, licenses and permits, please refer to the section headed "Business of the Target Group – Regulatory Compliance" in this circular.

There can be no assurance that the PRC government will not amend or revise existing laws, rules or regulations to require additional approvals, licenses or permits, or to impose stricter requirements to obtain or maintain the approvals, licenses or permits required for the Target Group's business operations. Any loss of or failure to obtain or renew its approvals, licenses, or permits could disrupt the Target Group's operations and any fines or other penalties imposed by the PRC government could materially and adversely affect the Target Group's results of operations, financial position and reputation.

The ongoing economic slowdown in many countries is imposing significant risks to the global economy, which may adversely affect the PRC economy and the Target Group's business and results of operations.

The global capital and credit markets have been experiencing extreme volatility and disruption in recent times. Concerns over inflation or deflation, energy costs, geopolitical issues, the availability and cost of credit, and continuing concerns among investors regarding the sovereign debt of various European countries have contributed to unprecedented levels of market volatility and diminished expectations for the global economy and the capital and consumer markets in the future.

These factors, combined with volatile oil prices, declining business activities and consumer confidence and increased unemployment, have precipitated an economic slowdown and a possible prolonged global recession. These events may lead to a slowdown in the PRC economy. The Target Group derives all of its revenues in the PRC. Any slowdown in the PRC economy may adversely affect demand for its automobiles and after-sales services and could result in:

- a significant reduction in consumer demand for the Target Group's automobiles and after-sales services, which would reduce its revenues and profit margins;
- a significant reduction in the availability of automobile financing, which would also reduce customer demand for automobiles;
- increased price competition for automobiles and after-sales services;
- risk of excess and obsolete inventory;
- difficulty in accurately forecasting the demand for automobiles and after-sales services;
- insolvency or credit difficulties of the Target Group's customers or their insurance carriers, which could limit their ability to pay for after-sales services; and
- insolvency or credit difficulties of the Target Group's automobile manufacturers, which could disrupt the supply of automobiles or spare parts or increase the Target Group's inventory costs.

In addition, some of the Target Group's ultra-luxury and luxury automobiles are or will be imported from or manufactured by joint ventures of automobile manufacturers based in the member states of the European Union, in particular Germany and Italy. If the current credit crisis in Europe persists or deteriorates and ultimately leads to the cessation of the Euro being used as the main currency in the European Union, any resulting changes to the currency used in Germany or Italy may cause significant fluctuations in the prices for automobiles, spare parts and accessories imported from Germany and Italy. As a result, this may increase the Target Group's cost of sales and negatively affect the demand for these products. Any of the foregoing developments could have a material adverse effect on the Target Group's business, results of operations, financial condition and network expansion.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in economic, political and social conditions and government policies in China could have a material adverse effect on the business, financial condition, results of operations and prospects of the Target Group.

All businesses and operations of the Target Group are conducted in the PRC. It is anticipated that China will remain the Target Group's primary market in the foreseeable future. Accordingly, the Target Group's business, financial condition, results of operations and prospects are, to a significant degree, subject to economic, political and social developments in China. China's economy differs from the economies of developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. A substantial portion of productive assets in China is still owned by the PRC government, and the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over the PRC economic growth through allocation of resources, restrictions on payment of foreign currency-denominated obligations, the setting of monetary policy and provision of preferential treatment to particular industries or companies.

While in recent years the PRC government has been reforming the PRC economic system and government structure, the economic reform measures may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country. The growth of China's economy has also been uneven, both geographically and among various sectors of the economy. Historically, the PRC government has taken measures in attempt to constrain economic growth to a manageable level, especially to control the growth rate in industrial production, bank credit, fixed investment and monetary supply. In addition, a slowdown in growth of the economies of the U.S., the European Union and certain Asian countries may negatively affect the economic growth in China. We cannot predict how the changing global economic conditions will affect the economic growth and consumer spending in China, nor whether changes in China's economic, political and social conditions or laws, regulations and policies will have any adverse impact the Target Group's current or future business, financial condition, results of operations and growth prospects.

Uncertainties with respect to the PRC legal system could have a material adverse effect on the Target Group.

As the Target Group's business activities are conducted in the PRC and all of its revenue is derived from the PRC market, the Target Group's operations are governed by the PRC laws, rules and regulations. The PRC is still in the process of developing a comprehensive statutory framework. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since the late 1970s, the PRC government has promulgated laws, rules and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial laws. However, due to the limited volume of published cases and their non-binding nature, and as a result of other factors (including the influence of political considerations can have in legal matters), these laws and regulations have not been fully developed and the implementation of PRC laws, rules and regulations involves a degree of uncertainty. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. There is uncertainty regarding the future development of the PRC legal system, including any promulgation of new laws, change to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws, and the effect it may have on the Target Group. Furthermore, the legal protections available to the Target Group under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention.

Government control of currency conversion and fluctuation in the exchange rates of RMB may have a material adverse effect on the financial position and results of operations of the Target Group.

The Target Group's revenue and expenses are principally denominated in RMB. Under the PRC laws, RMB is currently not a freely convertible currency, both the conversion of RMB into any other currencies and the conversion of foreign currencies into RMB for use in the PRC are regulated by the PRC government. The restrictions on the conversion of RMB into foreign currencies may affect the Enlarged Group's ability to convert RMB into foreign currencies and any tightening of such restrictions could have an adverse effect on the Enlarged Group.

Under existing PRC foreign exchange regulations, payments of current account items, including dividend payments, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local counterpart is required for foreign currency conversions for payment under capital account items such as equity investments. The PRC Government may also at its discretion restrict the Target Group's access in the future to foreign currencies for current account transactions. In addition, since a significant amount of the Target Group's future cash flow from operations will be denominated in RMB, any existing and future restrictions on currency exchange may limit the ability to purchase goods and services outside of the PRC or otherwise fund business activities that are conducted in foreign currencies.

The exchange rates of RMB against foreign currencies, including the HKD, are affected by, among other things, changes in the PRC's political and economic conditions. Any appreciation in the USD, Euro, Japanese Yen or other foreign currencies against RMB may cause automobile manufacturers to raise their prices in RMB, which would increase the Target Group's purchase costs for inventories of automobiles, spare parts and accessories. Accordingly, retail prices of the Target Group may have to be increased and its sales may be materially and adversely affected.

The occurrence of any force majeure event in the future, including but not limited to, natural disasters or health epidemics in the PRC may significantly affect the Target Group's business operations, financial condition and results of operations.

Natural disasters, epidemics, acts of war or terrorism or other factors beyond the Target Group's control may adversely affect the economy, infrastructure and livelihood of the people in the regions it conducts its business. These regions may be under the threat of typhoon, tornado, snow storm, earthquake, flood, drought, power shortages or failures, or are susceptible to health epidemics, such as Severe Acute Respiratory Syndrome, avian influenza, H1N1 influenza, H5N1 influenza, H7N9 influenza or H3N2 influenza, potential wars or terrorist attacks, riots, disturbances or strikes. If such disasters were to occur in the regions where the Target Group operates, its operations could be materially and adversely affected as a result of loss of personnel, damages to property or decreased demand for the Target Group's automobiles or services. Natural disasters may also cause shortages in production capacity of the relevant automobile manufacturers or delays in transportation of the automobiles, spare parts or accessories from the manufacturers to the stores of the Target Group, which in turn may have a material and adverse effect on the Target Group's business, financial condition, results of operations and growth prospects.

The Target Group works with foreign brands, and adverse changes in political relations between China and the relevant foreign countries may adversely affect its business.

A majority of the brands of automobiles that the Target Group sells are produced by manufacturers based in countries outside China, such as the U.K., Italy, Germany, or by their joint venture companies in China. Any significant deterioration in China's political relations with any of these countries could discourage some of the Target Group's customers from purchasing the relevant automobile manufacturers' automobiles from the Target Group or could lead to legislation in China or these countries that could have an adverse effect on the business of the Target Group. Any potential or prolonged intense diplomatic relations between China and other countries where the automobile brands the Target Group sells are sourced from may have a material adverse effect on its business, financial condition, results of operations and growth prospects.

SOURCES OF INFORMATION

We commissioned ACMR, an independent market research consulting firm, to conduct an analysis of the PRC passenger vehicle market and industry. ACMR was established in 1992 and provides data collection, industry research, market research and competition research services. ACMR is the vice-chair member of the China Association of Market Information and Research, and a member of the Society of Competitive Intelligence of China. Certain information set forth in this section has been extracted from the industry report prepared by ACMR.

The industry report was prepared based on ACMR's analysts' specific knowledge of the PRC passenger vehicle industry. In preparing the industry report, ACMR used classifications and definitions that are widely used in the industry, such as certain geographic subdivisions and definitions of types of passenger vehicles. According to ACMR, their forecasts of the sales volumes of passenger vehicles in China and the different market segments are based on the following information: (i) historical data of the sales volumes of passenger vehicles in the relevant markets for the years from 2003 to 2014; (ii) interviews with the industrial experts and market participants to support, verify and cross-check their estimates; and (iii) other factors such as the PRC government's support for the automobile industry and automobile purchase preferences of the consumers. ACMR obtained this information from a variety of industry sources, including relevant PRC government departments and established industry organizations, such as the National Bureau of Statistics of China, the Ministry of Transport of the PRC, the China Association of Automobile Manufacturers, the China Automobile Dealers Association and the China Automotive Technology & Research Center. To prepare the forecasts, the ACMR report has assumed that: (i) the global economic environment will be stable during the forecast period; (ii) China's economy will keep growing during the forecast period; and (iii) there is no catastrophic or emergent events such as large scale natural disasters that would affect the supply and demand in the automobile dealership industry.

PASSENGER VEHICLE MARKET IN CHINA

The World's Largest Passenger Vehicle Market with Strong Growth

China's passenger vehicle market has grown rapidly in recent years. It became the largest passenger vehicle market in the world in 2009, a position it has been holding through 2014, according to ACMR. China remained to be the largest passenger vehicle market in the world in 2014, more than twice as large as the second largest market, which is the U.S. market, in terms of sales volume of new passenger vehicles in 2014.

Top 10 Passenger Vehicle Markets

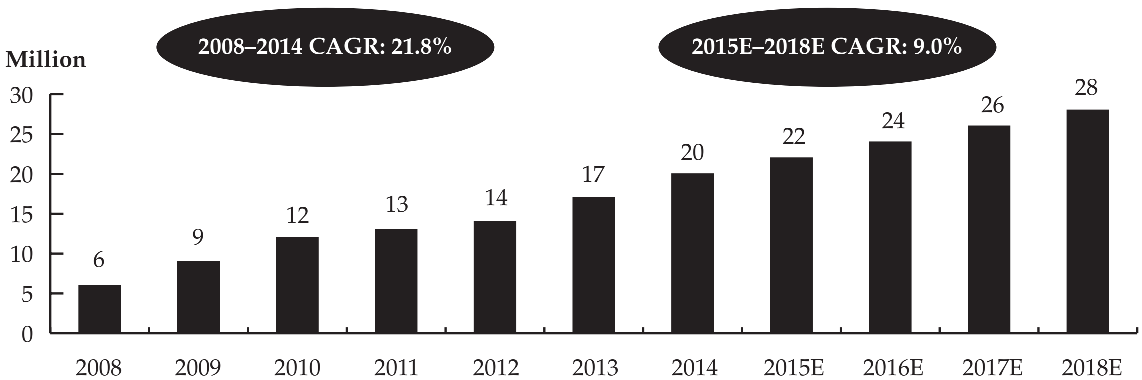
Ranking	Country	2008	2009	2010	2011	2012	2013	2014	CAGR
					(Million units)				
1	China	6.06	8.75	12.15	13.23	14.32	17.35	19.78	21.8%
2	U.S.	6.81	5.46	5.64	6.09	7.24	7.58	7.69	2.0%
3	Japan	4.23	3.92	4.21	3.52	4.57	4.56	4.70	1.8%
4	Brazil	2.19	2.48	2.65	2.65	3.63	2.76	3.33	7.2%
5	Germany	3.09	3.81	2.92	3.17	3.08	2.95	3.04	(0.3%)
6	India	1.54	1.82	2.39	2.52	2.77	2.55	2.57	8.9%
7	Russia	2.91	1.46	1.90	2.65	2.94	2.78	2.49	(2.6%)
8	U.K.	2.13	2.00	2.04	1.88	2.04	2.26	2.48	2.6%
9	France	2.05	2.27	2.25	2.20	1.90	1.79	1.80	(2.1%)
10	Italy	2.16	2.16	1.96	1.75	1.40	1.30	1.36	(7.4%)

Source: ACMR

Note: Sales volume of passenger vehicles for China does not include that of cross passenger cars; the ranking is based on sales volume in millions in 2014.

The sales volume of new passenger vehicles in China grew at a CAGR of 21.8% from 2008 to 2014. ACMR expects the sales volume of new passenger vehicles to grow at a CAGR of 9.0% from 2015 to 2018.

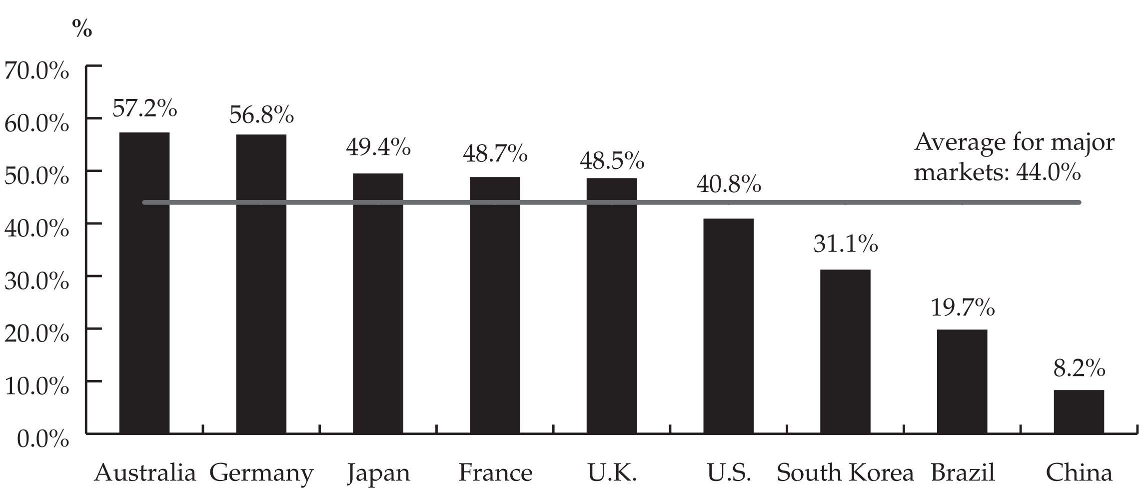
Sales Volume of New Passenger Vehicles in China (2008–2018E)



Source: China Association of Automobile Manufacturers, ACMR

However, according to ACMR, China's passenger vehicle market is still in its early stage of development, and its penetration rate is still low. In 2014, China's passenger vehicle penetration rate was 8.2%, lower than the world average of 12.5%, according to ACMR, and significantly lower than that of major markets including Australia, Germany, France, the U.K., Japan, the U.S., South Korea and Brazil which had an average penetration rate of 44.0%. This huge gap between China and other developed countries in terms of passenger vehicle penetration rate signifies substantial room for growth in China's market, according to ACMR.

Passenger Vehicle Penetration Rate in Major Markets in 2014



Source: ACMR

Market Segmentation

There is no uniform standard used to classify the segments of China's passenger vehicle market. The industry report prepared by ACMR divides China's passenger vehicle market into four segments, based on, among other things, brand positioning, quality, functionality and price range. The segments are (i) ultra-luxury; (ii) luxury; (iii) mid- to high-end; and (iv) low-end brands, and are commonly used in the industry.

Segment	Representative brands	Indicative price range *(RMB)*
Ultra-luxury	Bentley, Bugatti, Ferrari, Koenigsegg, Lamborghini, Rolls-Royce, Maserati, Maybach, Spyker, Wiesmann, Aston Martin, Porsche	Over 1 million
Luxury	BMW, Audi, Mercedes-Benz, MINI, Volvo, Lexus, Infiniti, Land Rover and Jaguar, Cadillac, Lincoln, Acura, Imported Volkswagen, Chrysler	300,000 to 1 million
Mid- to high-end	Nissan, Buick, Honda, Domestic Volkswagen, Hyundai, Toyota, Chevrolet, Ford, Mitsubishi, Dodge, Hongqi, Jeep, Renault, Opel, Subaru, Citroen, Mazda, Roewe, Skoda, Peugeot, Kia	80,000 to 300,000
Low-end	BYD, Chery, Geely, Chang'an, JAC, Soueast, Suzuki, Emgrand, Haima, Jiangling, Great Wall, Changfeng, Hafei, Xiali, Changhe, Chuanqi, Qichen	Less than 80,000

CHINA'S 4S DEALERSHIP SECTOR

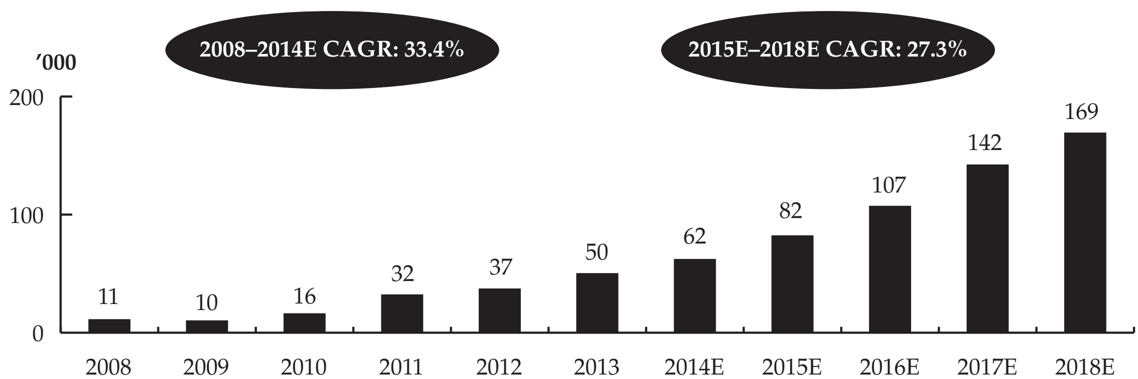
A "4S dealership" is a passenger vehicle dealership model that integrates four business elements initiated by "S": sales, spare parts, services and survey. Upon the promulgation of the Measures for the Implementing Administration of Branded Automobile Sales (汽車品牌銷售管理實施辦法) which became effective in April 2005, the PRC Government established that only automobile manufacturer-authorized branded automobile dealerships and general automobile distributors can procure automobiles directly from the automobile manufacturers; as a result, other distribution channels such as automobile trading markets and automobile supermarkets have gradually been replaced by 4S dealerships. A 5S dealership store is a 4S dealership store with an additional element of "sustainability", meaning that the automobile dealership store is equipped with certain recycling capacities and operates according to eco-friendly procedures set by the relevant automobile manufacturer.

KEY TRENDS IN CHINA'S PASSENGER VEHICLE MARKET

Rapid Growth of the Ultra-Luxury and Luxury Passenger Vehicle Market

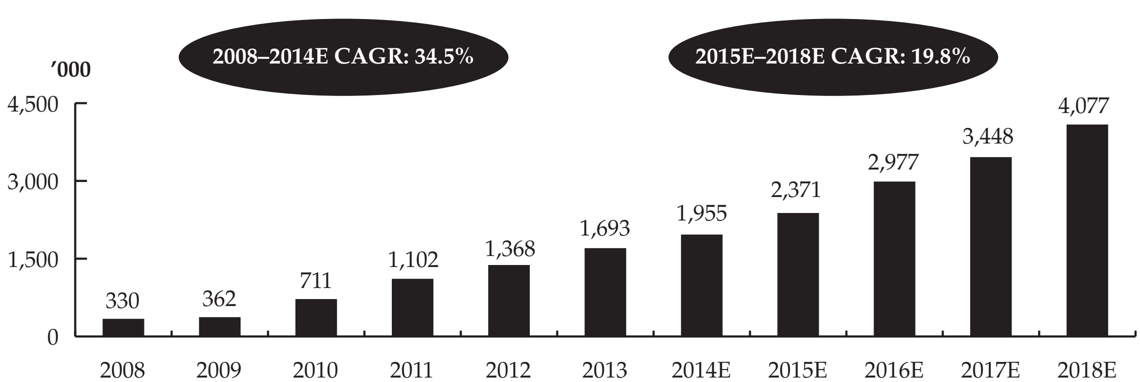
The sales volume of ultra-luxury passenger vehicles increased at a CAGR of 33.4% from 2008 to 2014. During the same period, the sales volume of luxury passenger vehicles increased at a CAGR of 34.5%. ACMR expects that the sales volume of ultra-luxury passenger vehicles and luxury passenger vehicles will reach approximately 169,000 units and 4,077,000 units, respectively, in 2018, representing CAGRs of 27.3% and 19.8%, respectively, from 2015 to 2018.

Sales Volume of New Ultra-luxury Passenger Vehicles in China (2008–2018E)



Source: *ACMR*

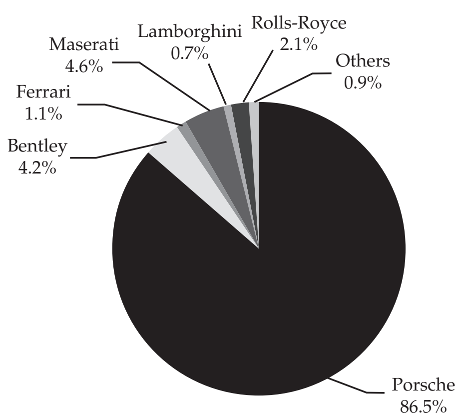
Sales Volume of New Luxury Passenger Vehicles in China (2008–2018E)



Source: *ACMR*

With China's rapid economic growth and increasing levels of household consumption, the country has become an important market for various luxury and ultra-luxury passenger vehicle brands. According to ACMR, in 2014, China was the world's largest market for Audi, BMW, Land Rover, Jaguar and Volvo passenger vehicles, and the world's second largest market for Mercedes-Benz, Rolls-Royce, Bentley, Porsche, and Maserati passenger vehicles. According to ACMR, the registration number of new BMW passenger vehicles in China increased at a CAGR of 41.8%, from 63,514 units in 2008 to 364,533 units in 2013. According to ACMR, the registration number of new Land Rover and Jaguar passenger vehicles in China increased at a CAGR of 48.5% from 12,656 units in 2008 to 91,436 units in 2013. According to ACMR, the registration number of new Cadillac passenger vehicles in China increased at a CAGR of 47.4% from 6,112 units in 2008 to 42,479 units in 2013.

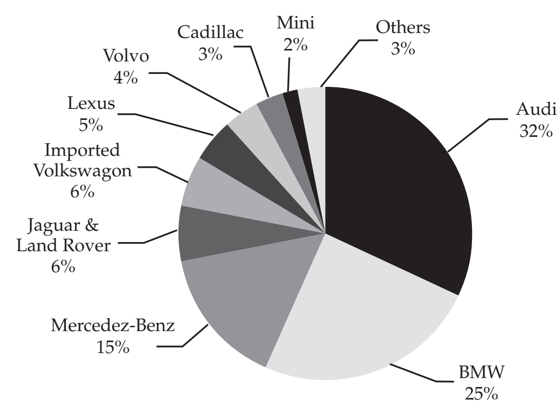
Market Share of Ultra-luxury Passenger Vehicles in China by Sales Volume(1) in 2013



Source: *ACMR*

Note: (1) Based on new passenger vehicles registered.

Market Share of Luxury Passenger Vehicles in China by Sales Volume(1) in 2013



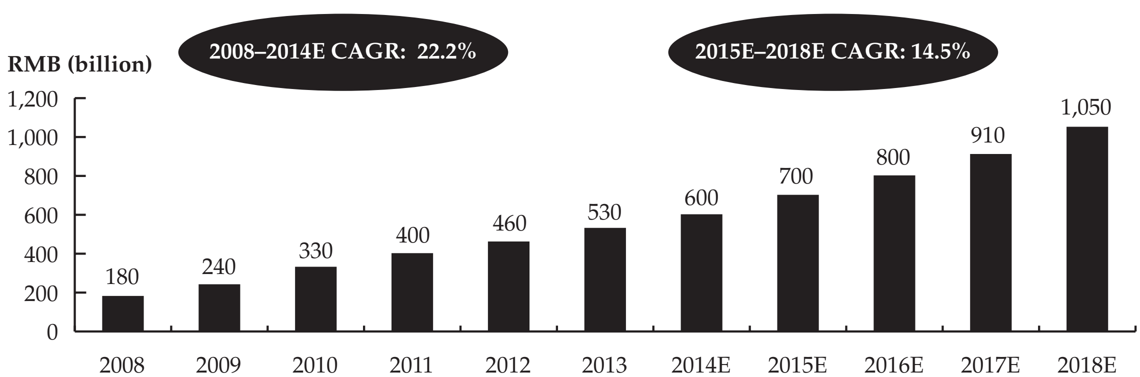
Source: *ACMR*

China's luxury and ultra-luxury passenger vehicle markets are highly concentrated, with a small number of brands taking up a majority of the market share. In 2013, Porsche had the largest registration number and accounted for 86.5% of the total registration number of new ultra-luxury passenger vehicles in China. In the same period, the top three luxury brands, namely, Audi, BMW and Mercedes-Benz, together accounted for 72.1% of the total registration number of new luxury passenger vehicles in China.

Significant Growth of the After-Sales Services Market for Passenger Vehicles

According to ACMR, China's after-sales services market for passenger vehicles, which principally includes maintenance and repair services as well as sales of spare parts and accessories, is driven by the rapid growth of private car ownership in relation to China's car parc, which is defined as the number of registered automobiles on the road in a specific region or market. According to ACMR, private car ownership in relation to China's car parc increased from 68.7% in 2008 to 86.9% in 2014. In addition, according to ACMR, the demand for after-sales services is usually at the maximum when the vehicle has been used for more than three years. According to ACMR, the retail sales of China's after-sales market increased by more than ten times from 2002 to 2014, and in 2014, more than 60% of the passenger vehicles in China have been used for over three years. ACMR expects the retail sales of this market to grow at a CAGR of 14.5% from 2015 to 2018, reaching approximately RMB1,050 billion in 2018.

Retail Sales of After-sales Market in China (2008–2018E)



Source: *ACMR*

OVERVIEW

The Target Group is a leading dealership group that deals exclusively in ultra-luxury and luxury passenger vehicles in China. As of the Latest Practicable Date, the Target Group operated 27 stores in China that cover 11 ultra-luxury and luxury automobile brands, namely, Audi, Bentley, BMW, Cadillac, Ferrari, Imported Volkswagen, Jaguar and Land Rover, Maserati, Mini and Rolls-Royce. By strategically focusing on ultra-luxury and luxury brands, we believe that Target Group was able to provide its customers with car purchase experiences of superior quality, while enabling it to capitalize on the exponential growth of market demand for luxury products in China in recent years as a result of the rapid economic growth and accumulation of individual wealth, as is in line with the strategic expansion of automobile manufacturers as well. The vast majority of the Target Group's stores are located in populous and affluent cities in China as well as rapidly developing regions where substantial demand for ultra-luxury and luxury automobiles are expected as a result of an increasingly affluent Chinese population.

The Target Group achieved significant turnover and profit growth during the Relevant Period. For the years ended 31 December 2012, 2013 and 2014, total turnover of the Target Group were RMB2,651,185,000, RMB6,117,319,000 and RMB8,532,663,000, respectively, representing a CAGR of 47.6% from 2012 to 2014. Sales of new passenger vehicles are the main source of its turnover and accounted for 96.8%, 96.2% and 94.4% of the total turnover for the years ended 31 December 2012, 2013 and 2014, respectively. Compared with the sales of new passenger vehicles, after-sales services provide steady and recurring revenues with higher gross profit margins. The gross profit margins for after-sales services were 39.6%, 35.4% and 37.1% for the years ended 31 December 2012, 2013 and 2014, respectively. Gross profit generated from after-sales services accounted for 20.1%, 19.5% and 27.3% of the total gross profit of the years ended 31 December 2012, 2013 and 2014, respectively.

COMPETITIVE STRENGTHS

We believe that the Target Group's success and potential for future growth can be attributed to a combination of its competitive strengths as follows:

China's leading dealership group specialized exclusively in ultra-luxury and luxury passenger vehicles

The Target Group is one of the largest dealership groups in China which deals exclusively in ultra-luxury and luxury passenger vehicles. As of the Latest Practicable Date, the Target Group operated 27 stores for 11 ultra-luxury and luxury brands, namely, Audi, Bentley, BMW, Cadillac, Ferrari, Imported Volkswagen, Jaguar and Land Rover, Maserati, Mini and Rolls-Royce.

The Target Group's strategic focus on ultra-luxury and luxury brands has positioned it well to capitalize on future growth opportunities in the ultra-luxury and luxury automobile markets. ACMR expects the sales volume of the ultra-luxury and luxury passenger vehicle market to grow at a CAGR of 27.3% and 19.8%, respectively, from 2015 to 2018, compared to the CAGR of 9.0% for the overall passenger vehicle market in China for the same period. It is anticipated that the Target Group will be able to benefit from the rising vehicle upgrade demand from mid- to high-end brands to ultra-luxury and luxury brands as the Chinese economy continues to develop and the per capita disposable income continues to increase.

As ultra-luxury and luxury branded automobile purchasers are generally less price sensitive, more likely to purchase optional add-ons to their automobiles and more likely to return to dealership stores for after-sales services, the potential profit to be generated from the sale of ultra-luxury and luxury passenger vehicles exceed those from the sale of middle market branded passenger vehicles.

Strategic store locations with relatively young store age underpinning rapid growth

The Target Group's dealership network covers both populous and affluent cities in China as well as rapidly developing regions where substantial demand for ultra-luxury and luxury automobiles are expected as a result of an increasingly affluent Chinese population. As of the Latest Practicable Date, the Target Group's store network covers 13 provinces in China. For further details on the Target Group's store network coverage, please see the section headed "Business of the Target Group – The dealership business of the Target Group – Network coverage" in this circular.

In affluent cities, the Target Group strives to build up its leadership in the ultra-luxury and luxury passenger vehicles market by establishing multiple stores with prestigious OEM manufacturers so as to expand its customer base. In the rapidly developing and underserved regions, we believe the Target Group had established a leading position by being one of the first dealership groups to set up stores in regions such as Inner Mongolia, Guangxi and Guizhou, where the GDP per capita increased at a CAGR of 14.1%, 15.6% and 18.5% respectively from 2008 to 2013, higher than the national average of 12.1% for the same period. We believe the Target Group's dealership network not only provides it with a strong presence in China's large and established automobile markets but also positions it well for continued growth in China's fast growing automobile markets regionally.

Moreover, the Target Group has a young automobile dealership network. As of the Latest Practicable Date, the Target Group operated 27 stores in China, among which 6 commenced operations in 2014 and 10 commenced operations in 2013. According to ACMR, it usually takes at least three years for a newly-established store to ramp up its automobile sales and after-sales services. In light of the Target Group's relatively young store portfolio, we believe there is huge room for future growth as the Target Group's new stores continue to ramp up their operations, and we expect the gross profit margins of the Target Group to further increase as a result of its growing customer base for after-sales services.

Well-established e-commerce and other value-added services platform to capture increasing growth

In 2014, the Target Group established its e-commerce platform, the VVIP Auto Club, which is accessible via its website (at www.vvipauto.com), Weibo, iOS and Android mobile applications. The launch of such online platform represents a groundbreaking development in the automobile industry, being one of the first automobile e-commerce platforms that focuses on the ultra-luxury and luxury passenger vehicles aftermarket in China. The VVIP Auto Club specializes in ultra-luxury and luxury passenger vehicles. It principally focuses on sales and marketing of the Target Group's automobile rental business, from which it is expected that customers will be attracted to engage in the whole value chain of automobile services throughout the customer life cycle, covering sales of new passenger vehicles, pre-owned passenger vehicles, accessories, after-sales accessories, after-sales services, maintenance and repair packages, automobile insurance and automobile financing. The Target Group's development of the automobile rental business through the VVIP Auto Club presents it with a steady growth outlook, as it can generate a high amount of recurring business and customer referrals as compared to the automobile dealership business, thereby greatly raising customer loyalty and reputation of the Target Group.

Considering the increased use of the Internet by households in China, it is expected that the VVIP Auto Club will become one of the main growth drivers for the Target Group as the e-commerce platform brings higher convenience to customers and allows for greater efficiency for customers to consume automobile services. For further details on the VVIP Auto Club, please see the section headed "Business of the Target Group – VVIP Auto Club" in this circular.

Strong relationships with ultra-luxury and luxury automobile manufacturers

The Target Group has established strong, reliable and long-term relationships with a number of global leading ultra-luxury and luxury automobile manufacturers. The Target Group began its long-standing business relationship with Bentley since 2002 when it was granted its first Bentley dealership in Shenzhen, and it was thereafter authorized to open other two other Bentley stores in 2010 and 2013, respectively. In 2008, the Target Group was granted its first Rolls-Royce dealership in Guangzhou, and it subsequently opened three more Rolls-Royce stores in Shenzhen, Xiamen and Kunming.

The Target Group's strong and long-term relationships with Bentley and Rolls-Royce have contributed to its introduction of many other ultra-luxury and luxury passenger vehicle brands to the Target Group's brand portfolio, including BMW and Jaguar and Land Rover, which has ten and nine stores, respectively, in operation or under construction under the Target Group as at the Latest Practicable Date.

As one of the leading dealership groups that specialize in ultra-luxury and luxury passenger vehicles in China, the Target Group has proven itself as an important business partner to automobile manufacturers. It has won numerous dealership awards from the Relevant Period until the Latest Practicable Date, including but not limited to being named the Rolls-Royce Dealer of the Year for the China Region for three consecutive years in 2012, 2013 and 2014. For further details of the Target Group's awards and achievements, please see the section headed "Business of the Target Group – Awards and Achievements of the Target Group" in this circular. We believe that the Target Group's proven record of working with leading automobile manufacturers positions it well to obtain authorizations for additional stores and new brands.

An experienced senior management team in auto retail services with a proven track record in deploying e-commerce business platforms

The Target Group is led by a senior management team comprising of industry veterans with extensive experience, including experience in senior management positions of other automobile dealership groups. In particular, Mr. Zhou, chairman of the board of directors of the Target Group, has 17 years of experience in the PRC automobile industry and holds the position of vice president of both the China Automobile Association and the Shenzhen Enterprise Confederation & Shenzhen Entrepreneur Association as at the Latest Practicable Date. He was also honored as a Shenzhen Top Ten Excellent Young Entrepreneur (深圳市十大傑出青年企業家) by the Communist Youth League Shenzhen Committee (共青團深圳市委員會) and the Shenzhen Federation of Young Entrepreneurs (深圳市青年企業家聯合會), in 2012. In addition, Ms. Qiu, the President and an executive director of the Target Group, has 26 years of experience in the PRC automobile industry and holds the position of vice president of the Shenzhen Automobile Dealers Association. She was also honored as one of the Shenzhen Top Ten Outstanding Entrepreneurs by the Shenzhen Enterprise Confederation (深圳市企業聯合會) in 2013 and one of the Hunan Top Ten Outstanding Economic Figures by the Hunan Academy of Social Sciences (湖南省社科院) in 2013.

The Target Group's management team is supported by a large and growing pool of skilled employees across all levels of the organization. The Target Group recognizes that its employees are key in maintaining the success of its business, hence it will continue to focus on the identification, recruitment and training of talented employees. The Target Group devised a systematic approach for identifying and promoting talented employees, often by rotating them to different stores, which offer them long-term career paths and performance incentives and allow the Target Group to leverage the skills and know-how of its more experienced employees at its new stores. The Target Group also works with automobile manufacturers to train its automotive engineers and technicians to ensure that it provides efficient and proper maintenance and repair services. We believe that the continuous development of the Target Group's employees provides it with a solid foundation for the continued success of its business.

BUSINESS STRATEGIES

Upon Completion, the Enlarged Group aims to become the leading ultra-luxury and luxury brands dealership group in China and capture the opportunities in the China's large and fast-growing ultra-luxury and luxury brands automobile market by pursuing the following strategies:

Continue to expand the Target Group's automobile dealership network, with a focus on the ultra-luxury and luxury brands

The Target Group intends to continue to expand its automobile dealership network over the next few years. According to ACMR, considering the saturation of the automobile market in first-tier cities in China, growth in China's automobile sales network has been migrating to second- and third-tier cities in China given the rapid economic development in those regions, whereby the number of new passenger vehicles registered in second- and third-tier cities increased at CAGRs of 21.3% and 22.6% from 2008 to 2013, respectively, compared with a CAGR of 8.1% recorded for first-tier cities during the same period. Leveraging on its well-established automobile dealership network, mature operations and long-standing relationships with automobile manufacturers, the Target Group strategically plans to build on its established network in first-tier cities to target the top-end customers, expand into second-tier cities in China to tap into the emerging wealth, and further strengthen its presence in fast-growing cities in China such as Changsha and Chongqing by increasing the number of stores, as well as to explore opportunities in developing cities such as Taiyuan and Zhuhai which it does not already cover by introducing automobile dealership of ultra-luxury and luxury brands to the region. It also plans to acquire other automobile dealership stores that are located in regions with high growth potential and have an attractive brand portfolio and high density network layout.

Fully utilize its new e-commerce platform to diversify the Target Group's revenue source

Through establishing the revolutionary VVIP Auto Club catering specifically to the ultra-luxury and luxury automobile segments in China, the Target Group envisages to become a leading brand in the sphere of O2O (online-to-offline) e-commerce in China. The Target Group intends to use its online automobile rental business to attract more new customers, increase customer loyalty and further improve its reputation in the automobile market, thereby developing its entire chain of automobile businesses, being sales of new passenger vehicles, sales of pre-owned passenger vehicles, rental of passenger vehicles and after-sales services including automobile insurance and financing services. Since such other value-added services generally provide higher gross profit margin, it is desirable to increase their share of contribution to the Target Group's total revenue. For further details on the Target Group's VVIP Auto Club, please see the section headed "Business of the Target Group – VVIP Auto Club" in this circular.

Additionally, it is expected that the VVIP Auto Club e-commerce platform can help execute closed loop transactions in respect of sales of pre-owned passenger vehicles through fully taking advantage of its real-time inventory system, whereby purchasers of pre-owned passenger vehicles can easily and efficiently check the availability of their desired vehicles online, eliminating the problem of asymmetric information generally encountered when purchasing pre-owned vehicles through other online automobile trading platforms. As such, the Target Group's business of sales of pre-owned passenger vehicles can be built up rapidly through the VVIP Auto Club.

The Target Group expects to achieve diversification of its revenue source to reduce its reliance on sales of new passenger vehicles.

Actively broaden customer base and enhance customer experience through the synergies with the Group's aftersales network post Completion

Upon Completion, it is expected that the Target Group can explore more after-sales opportunities through the addition of the Group's chain network of repair and maintenance stores. The Target Group's stores are primarily located in the outskirts of cities, while the Group's community repair and maintenance service stores have broad geographical coverage in community and downtown areas. As such, the Subscription is beneficial to both the Group and the Target Group as it facilitates the expansion of customer base, as further illustrated below:

- *Increase customer retention rate:* upon expiration of the warranty period of cars currently serviced by the Target Group's dealership stores, customers who prefer to switch to independent automobile repair service shops for car repair and maintenance can be referred to such community repair and maintenance service stores operated by the Group. Accordingly, customer loss can be greatly minimized by retaining them within the Enlarged Group;

- *Improve customer experience:* The easy access of the Group's aftersales networks, which are close to the community areas, could attract customers that are reluctant to return to the dealership stores due to the long traffic time. Moreover, customers of the Target Group's dealership stores can be referred to the Group's community repair and maintenance service stores, ultimately improving customer experience; and

- *Enhance service capabilities:* The Group's aftersales network could be supplemental to the existing service capacity of the Target Group. Moreover, customers of the Group's community repair and maintenance service stores can choose to have their cars transported to the dealership stores of the Target Group to resolve more complicated technical issues, thus offering a wider range of service options for customers.

On an integrated platform of the Group and the Target Group upon Completion, it is expected that the combined customer base can be greatly enlarged whereby customers of the Target Group will turn to the service stores of the Group for after-sales services, and vice versa.

Further increase productivity and profitability for the Enlarged Group as a whole by the creation of a vertically integrated business model

Upon Completion of the proposed Subscription, a vertically integrated business model is created by offering both upstream and downstream businesses of car dealership and after-sale services on a combined platform of the Group and the Target Group. The Group and the Target Group are favourably matched for an effective integration of businesses as both regard future business development opportunities to lie within the provision of auto after-sales service and sales of auto spare parts and accessories. In addition, synergies will be generated through the combination of overlapping businesses and the joint offering of complementary services, as further illustrated below:

- *Customer base:* Through the Subscription, the Group's customer base can be expanded to include more of the Target Group's customer base through customer referrals. On the other hand, the Target Group's customer base can also be expanded to include that of the Group's. By displaying new cars sold by the Target Group at the Group's service stores to attract its customers into purchasing new cars from the Target Group's stores. Car owners, being the Group's existing customers, tend to be more interested in upgrading to ultra-luxury or luxury cars as opposed to first time car purchasers, such that they become customers of the Target Group's car dealership business;

- *Automobile accessories and after-sales capacity:* Synergies between the Group and the Target Group are relevant in respect of automobile accessories and auto after-sales services. Since the Group manufactures a wide range of automobile spare parts and accessories, Completion aids the expansion of the Group's manufacturing base in relation to the ultra-luxury car and luxury car sector by allowing access to the manufacturing staff, techniques and equipment of auto spare parts and accessories for ultra-luxury and luxury automobiles, such that popular auto spare parts and accessories in high demand can be manufactured and supplied by the Group. In return, the spare parts and accessories manufactured by the Group can be pre-installed during refurbishment of pre-owned passenger vehicles for sale or used for carrying out automobile repair and maintenance by the Target Group. The Target Group currently sources such automobile accessories and parts from various suppliers. As such, Completion contributes to a reliable supply of auto spare parts and accessories for ultra-luxury cars and luxury cars for the Target Group, thereby lowering procurement and distribution costs of the Target Group while raising sales volume and market penetration of the Group's products, creating a fully integrated vertical supply chain, and greatly reducing supply risks and uncertainty in respect of sourcing from external parties. Moreover, the Subscription better equips the Group with auto spare parts of ultra-luxury and luxury cars through giving it access to the dealership stores of the Target Group. A well-stocked inventory of such parts enables the Group to enhance its market competitiveness for the ultra-luxury car and luxury car segment with respect to the provision of repair and maintenance services to car owners;

- *Expertise in aftersales business:* Since car owners visit the Group's service stores frequently, the Group has much interaction with its customers and in turn better understands customer needs, market trends and demand for new cars. As such, expertise of the Group's existing businesses lies in the art of customer management, particularly in relation to the provision of after-sales services. With such, the Group can adopt a demand driven/bottom-up marketing technique to selectively refer customers to purchase new cars or replace second-hand cars at the relevant departments within the Enlarged Group. At the same time, the Target Group can use service stores of the Group as its major sourcing channel of second-hand cars, whereby these second-hand cars can be resold online through the Target Group's used car trading platform. This effectively caters to customers' after-sales needs and offers a full-service hassle-free experience through this combined vertically integrated service platform; and

- *4S dealership business:* The addition of dealership stores of the Target Group plays a significant role in aiding the Group's market expansion. Dealership store sales account for the majority of new car sales through car dealerships, while a variety of stores provide auto after-sales services, including 4S/5S dealership stores, independent repair shops, authorized service stations, chain repair shops and street car beauty shops. Through the Subscription, the Group could gain control over dealership stores under the Target Group to greatly boost its market share and increase market penetration within this business sector.

Accordingly, Completion gives rise to greater cross-selling opportunities between the Group and the Target Group, and closely complements all their existing businesses, thus generating maximum synergy between each business component to increase productivity and profitability of the Enlarged Group as a whole.

Further strengthen the Target Group's strategic relationship with automobile manufacturers

Maintaining and improving relationship with automobile manufacturers is important to the Target Group's business, especially in the highly competitive ultra-luxury and luxury passenger vehicles dealership market. The Target Group plans to improve its relation with automobile manufacturers by continuing to promote and boost the popularity of the VVIP Auto Club, expanding its operational scale, intensifying its sales and marketing initiatives, further aligning its various operational procedures with manufacturers' standards, and upgrading its information technology systems.

Further improve the operational capabilities in each of the Target Group's stores

At the level of its stores, the Target Group intends to take a number of measures to promote management efficiency, monitor inventory stock and enhance customer satisfaction. For example, store managers will closely monitor market trend and sales performance of each type of automobiles for sale, and make corresponding adjustments to the types of automobiles to procure and types of services to provide.

All such abovementioned measures aim to increase sales, promote customer satisfaction and increase the efficiency of services provided by the Target Group. We believe this will help broaden the customer base, reduce costs and ultimately benefit the Enlarged Group as a whole.

In order to improve its gearing position and reduce its finance costs, the Target Group plans to repay some of the existing loans from the banks and other financial institutions by utilizing the RMB300,000,000 from the Consideration and RMB600,000,000 from the Financial Assistance. Following the aforesaid refinancing, it is expected that the financing costs of the Target Group can be reduced by approximately RMB50,000,000 per annum. The reduction in the financing costs will increase the profitability of the Target Group. The improvement in the financial position and profitability of the Target Group will enable the Target Group to renegotiate with the banks and financial institutions to conduct refinancing on terms and conditions more favourable to the Target Group, which will further reduce its financing costs and improve its gearing position.

The remaining balance of the Financial Assistance in the amount of RMB300,000,000 will be used as general working capital of the Target Group. For further details on the Financial Assistance, please refer to the section headed "Letter to the Board – Part A – The Subscription – The Subscription Agreement – Financial Assistance" in this circular.

Continue to attract, train and retain talent to support future growth and expansion

The Target Group plans to continue to focus on attracting, training and retaining talented management personnel, sales personnel and automotive engineers and technicians to support its continued growth and expansion. The Target Group will continue to invest in internal training programs for its employees at all levels, and further its cooperation with ultra-luxury and luxury brands automobile manufacturers to provide more sophisticated and comprehensive training courses for its employees.

Additionally, the Target Group will continue to evaluate and refine its human resources management processes to strengthen its ability to identify and promote talented employees. Employees' performance will be regularly evaluated so as to provide them with a clear career path within the Target Group. It will also continue to evaluate its merit-based compensation system to ensure that incentives are aligned with employees' performance.

HISTORY AND DEVELOPMENT

History

The history of the Target Group can be traced back to 5 September 2001 when the Target Company was established by Mr. Zhou and Ms. Qiu, contributing 60% and 40% respectively to its initial registered capital. The car dealership business has been the Target Group's main business segment, primarily comprising of the sale of passenger vehicles, while also including the provision of after-sale services such as automobile repair and maintenance services, sale of spare parts and accessories, as well as passenger vehicle recalls.

To complement its car dealership business, in September 2013, the Target Group began to provide pre-owned passenger vehicle services to allow for the expansion of its business into the sales and trade-in of pre-owned passenger vehicles.

Seeing a sparse supply of long-term automobile rental services in the PRC market, in December 2014, the Target Group officially rolled out its automobile rental services to cater to such increasing demand from corporate customers.

Further, in 2004 and 2010 respectively, the Target Group introduced automobile insurance and financing services with an aim of establishing a one-stop-shop for its customers.

The Target Group additionally launched its e-commerce platform, the VVIP Auto Club, in December 2014 to allow for more efficient and convenient access for its customers.

Key Business Development Milestones

Year	Milestone Event
2001	• The Target Company was established on 5 September 2001 in the PRC
2002	• The Target Company commenced operations in 2002, upon the establishment of its first 4S dealership store which houses Bentley cars in Shenzhen, the PRC
2008	• The Target Group was granted its first Rolls-Royce dealership in Guangzhou, the PRC
2010	• The Target Group was granted its first BMW dealership in Chongqing, the PRC
2011	• The Target Group was granted its first Maserati and Ferrari dealership in Zhengzhou, the PRC

Year	Milestone Event
2012	• The Target Group was granted its first Jaguar and Land Rover dealership in Changsha, the PRC
	• The Target Group was granted its first Cadillac dealership in Shenzhen, the PRC
	• The Target Group was granted its first Imported Volkswagen dealership in Shenzhen, the PRC
2013	• The Target Group was granted its first Audi and Infiniti dealership in Shenzhen, the PRC
2014	• The Target Group launched its first e-commerce platform, the VVIP Auto Club

As of the Latest Practicable Date, none of the Existing Shareholders was engaged or had interest in any business, apart from the business of the Target Group, which competes or is likely to compete, directly or indirectly, with it.

As of the Latest Practicable Date, the Directors do not expect any potential continuing connected transaction between the Target Group and the Existing Shareholders. The Company will comply with the relevant requirements under the Listing Rules for any connected transactions arising between the Target Group and the Existing Shareholders in the future.

THE DEALERSHIP BUSINESS OF THE TARGET GROUP

Overview

The Target Group is a leading dealership group in China that specializes exclusively in the sales and after-sales services of ultra-luxury and luxury passenger vehicles. The services it provides its customers include:

- sales of new passenger vehicles of ultra-luxury and luxury brands;
- after-sales services such as maintenance and repair services, detailing services, car recall services and car consulting services;
- other automobile-related businesses such as consulting services for car financing and car insurance services; and
- trading of new and pre-owned passenger vehicles through online platforms.

4S/5S dealership stores

The majority of the Target Group's stores are 4S dealership stores. Each 4S dealership store is authorized by an automobile manufacturer, and exclusively deals and services passenger vehicles of that brand. A 4S dealership store provides comprehensive and integrated passenger vehicle related services including after-sales services, as the 4 "S" stands for:

- *Sales*, referring to sales of new passenger vehicles of the authorized brand;
- *Spare parts*, referring to sales of spare parts of the authorized brand;
- *Service*, referring to various services provided to passenger vehicles of the authorized brand, including maintenance, repair and detailing services; and
- *Survey*, referring to the gathering of customer information and feedback for manufacturers' market research purposes.

As of the Latest Practicable Date, the Target Group operated a BMW 5S store in Shenzhen. A 5S store is a 4S store with an additional concept of "sustainability", such that it is equipped with certain recycling capacities and operated according to eco-friendly procedures set by the authorizing automobile manufacturer.

In addition to the 4S/5S dealership stores, the Target Group also operates a number of car exhibition galleries and service centers for specific ultra-luxury brands.

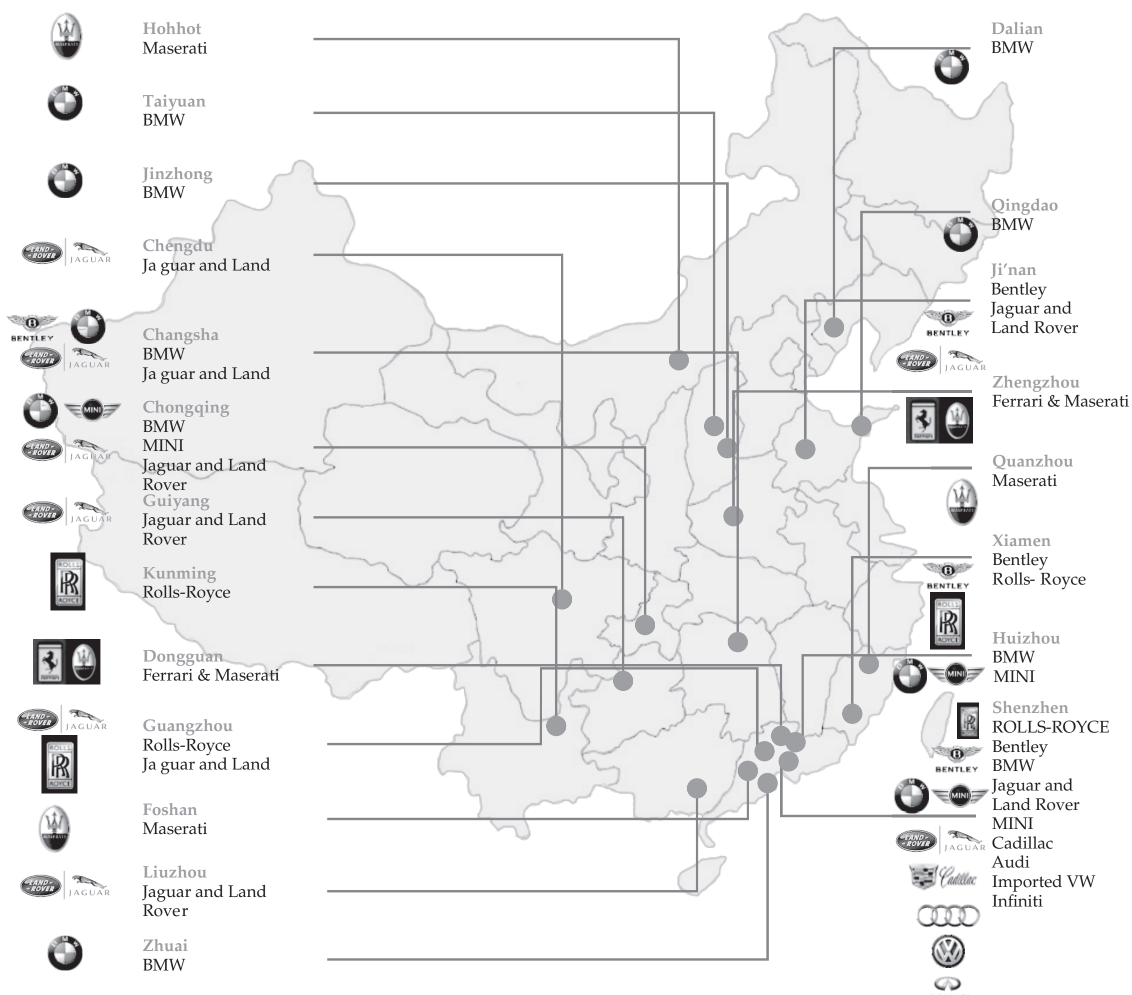
Business model of the Target Group

The Target Group is principally engaged in the business of sale and provision of after-sale services for automobile vehicles, sale and provision of after-sale services for second-hand automobile vehicles and other auto-related business in China. The Target Group therefore principally derives revenue from the sale of automobile vehicles and accessories, and the provision of automobile repair maintenance and related after-sales services, as well as commission income derived from the provision of agency services for insurance, financing and related arrangements.

Network coverage

The Target Group conducts its business through its sales network of manufacturer-authorized 4S/5S dealership stores, exhibition galleries and service centers. As of the Latest Practicable Date, the Target Group operated 27 stores in 14 cities in China. It is expected that the Target Group's network coverage will be expanded to 21 cities in China upon the opening of stores which are under construction as at the Latest Practicable Date.

The vast majority of the Target Group's stores are located in populous and affluent cities in China as well as rapidly developing regions where substantial demand for ultra-luxury and luxury automobiles are expected as a result of an increasingly affluent Chinese population. The following map illustrates the geographic coverage of its sales network in China in operation, under construction and under preparation for construction as at the Latest Practicable Date:



Brand coverage

As at the Latest Practicable Date, the Target Group has stores in operation or under construction that cover 12 ultra-luxury and luxury automobile brands, namely, Audi, Bentley, BMW, Cadillac, Ferrari, Imported Volkswagen, Infiniti, Jaguar and Land Rover, Maserati, Mini and Rolls-Royce. The following table sets forth the Target Group's stores in operation, under construction and under preparation for construction in China by brand as of the Latest Practicable Date:

Brand	No. of locations at the Latest Practicable Date
BMW	9 (4 in operation, 5 under construction)
Jaguar and Land Rover	8 (7 in operation, 1 under construction)
Maserati and Ferrari	5 (4 in operation, 1 under construction)
Rolls-Royce	4
Bentley	3
Mini	3 (2 in operation, 1 under construction)
Imported Volkswagen	1
Audi	1
Cadillac	1
Infiniti	1 (under construction)
Total	**36 (27 in operation, 9 under construction)**

Key terms of dealership authorization agreements

The operations of the Target Group's stores are primarily governed by the dealership authorization agreements it entered into with automobile manufacturers. The dealership authorization agreements are non-exclusive and typically for the term of one to three years, subject to periodic renewal by the automobile manufacturer. Pursuant to such agreements, the Target Group is required to, among other things:

- refrain from selling automobiles of other brands in the relevant automobile dealership store;

- limit the inventory storage and automobile sales of each automobile dealership store at the prescribed geographic area;
- provide particular services to customers, including warranty and other after-sales services, at stores of the Target Group;
- follow price guidelines for sales of new passenger vehicles and after-sales services as set out by automobile manufacturers;
- follow annual sales targets set by or pre-negotiated with automobile manufacturers;
- follow marketing guidelines and participate in marketing activities of automobile manufacturers;
- adhere to the automobile manufacturer's layout and design standards for the stores;
- procure employees of the Target Group to participate in relevant trainings held by manufacturers; and
- provide periodic reports to automobile manufacturers, including financial, sales and market research reports, as well as customer data.

The dealership authorization agreements do not contain a price range for a model or any minimum purchases or sales requirement for a store. However, each year automobile manufacturers typically set minimal inventory and sales volume target for each store. For each new store, automobile manufacturers typically enter into definitive authorization dealership agreement after they inspected and approved the respective new store. Further, the automobile manufacturers may from time to time conduct site-visits to the stores of the Target Group to evaluate the performance of such stores and inspect compliance with requirements under the relevant dealership authorization agreements.

The automobile manufacturers have the right to terminate the Target Group's dealership authorization agreements for reasons specified in the dealership authorization agreements, including without limitation, failure to abide by the agreements, unapproved business relationships with other automobile manufacturers and unapproved changes to its ownership or management structure. Moreover, automobile manufacturers may elect not to renew their agreements with the Target Group for various reasons, including changes in their business strategies. Please see the section headed "Risk Factors – Risks relating to the Target Group's business" to this circular.

As of the Latest Practicable Date, all of the Target Group's agreements governing its stores have been renewed or are in the process of being renewed with the relevant automobile manufacturers. From the Relevant Period until the Latest Practicable Date, none of the Target Group's dealership authorization agreements had been terminated by any automobile manufacturer, nor did any automobile manufacturer refuse to renew any of its dealership authorization agreements.

SERVICES OFFERED BY THE TARGET GROUP

Sales of new passenger vehicles

During the Relevant Period, the Target Group derived the majority of its turnover from sales of new passenger vehicles. For the years ended 31 December 2012, 2013 and 2014, turnover generated from sales of new passenger vehicles were RMB2,565,329,000, RMB5,883,697,000 and RMB8,052,296,000, respectively, representing 96.8%, 96.2% and 94.4% of the total turnover of the same years. The following table sets out the Target Group's turnover from sales of new passenger vehicle by different car brands for the years ended 31 December 2012, 2013 and 2014:

Brand	**Turnover for the year ended 31 December,**		
	2012	**2013**	**2014**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
BMW	1,078,325	2,245,525	2,893,528
Jaguar and Land Rover	48,735	1,163,595	2,435,288
Rolls-Royce	763,162	1,115,590	862,663
Bentley	656,304	703,435	810,909
Ferrari and Maserati	18,359	414,002	646,638
Cadillac	–	74,247	204,547
Imported Volkswagen	–	149,163	193,918
Audi	–	–	4,805
Others	444	18,140	–
Total	2,565,329	5,883,697	8,052,296

In relation to the sale of new automobile vehicles, the Target Group recognized the total amount of the sales price of such automobile vehicles as its revenue.

Pricing for a particular new passenger vehicle is generally based on a variety of factors, including the manufacturer's suggested retail price, market demand for a particular model and the number of passenger vehicles of the same model in inventory. Despite the manufacturer's suggested retail price, the Target Group retains some flexibility in determining the retail prices of its new passenger vehicles, which allows it to adjust its pricing strategy according to the market environment. The Target Group enters into written contracts with its customers for the sale of new passenger vehicles. Upon signing sales contracts with the Target Group, customers are typically required to pay a deposit or advance, the amount of which primarily depends on the relevant brands and models.

After-sales services

The Target Group provides comprehensive after-sales services to its customers. These services primarily consist of repair and maintenance, sales of spare parts and accessories, detailing services and other related services. For the years ended 31 December 2012, 2013 and 2014, turnover generated from after-sales services were RMB83,968,000, RMB201,642,000 and RMB389,520,000, respectively, representing 3.2%, 3.3% and 4.6% of the total turnover of the same years.

Primary customers of the Target Group's after-sales services include customers who previously purchased passenger vehicles at its dealership stores, while other customers include car owners who did not purchase their branded passenger vehicles from the Target Group. As after-sales services generate recurring and steady revenues from returning customers, the Target Group is dedicated to providing high-quality and quick after-sales services to attract new customers and increase customer loyalty. In addition, it is anticipated that the ease of access of most of the Target Group's stores in major cities will help bring new customers for after-sales services.

Repair and maintenance services

The Target Group's automobile dealership stores and service centers provide a range of repair and maintenance services, including repair of parts, major repairs to drive-train mechanisms and post-collision automobile body restoration. Maintenance and repair services are conducted by the Target Group's automotive engineers and technicians who are trained in maintaining and repairing the brands of automobiles retailed by the Target Group's dealership stores. Such services are generally charged based on the prices of the spare parts and accessories used, if any, and the hourly rates of the Target Group's technicians, both of which are determined by reference to the automobile manufacturers' pricing guidelines and the applicable regulations issued by the local government authorities.

In-warranty repair services

Automobile manufacturers generally offer new automobile customers warranty coverage for certain types of repairs. Automobile manufacturers offer repair warranties through the Target Group, and pays the Target Group for the in-warranty repair services that it performs and the costs of the related spare parts that it uses. While the terms of these warranties vary among different automobile manufacturers, the warranty typically covers the first 24 months of vehicle ownership or the first 50,000 kilometers driven, whichever comes first. When an automobile is brought to the Target Group's automobile dealership stores for repairs, qualified personnel of the Target Group examine the vehicle to assess and determine whether its problems fall within the relevant warranty coverage.

Out-of-warranty repair services

The Target Group also provides out-of-warranty repair services, including the replacement of parts due to wear and the repair of automobile damage resulting from collisions or other accidents. Customers pay the Target Group for out-of-warranty repairs and these services are charged according to the prices of the spare parts and the hourly rates of the technicians required to complete the repairs.

Maintenance services

The Target Group's maintenance services primarily include routine vehicle inspection, car oil change, and, depending on the service interval and the conditions of the vehicle, may include parts replacement, such as air filters, spark plugs, brake pads, and other parts, as well as tire rotation and other adjustments. Such maintenance services are charged based on the prices of the spare parts used and the hourly rates of the technicians required.

Sale of spare parts, accessories and other automobile-related products

The Target Group's dealership stores retail spare parts and accessories including automobile maintenance products such as motor oil, tires and polishes, automobile electronics such as GPS navigation devices and sound systems, automobile styling products such as seat covers and floor mats, and branded merchandise such as key chains, clothing and toy car models. The Target Group sources all of its spare parts and automobile accessories from the original automobile manufacturers or suppliers that are third parties independent of the Company and its connected persons.

Passenger vehicle recalls

The Target Group's 4S stores may be required to assist manufacturers to coordinate recalls of their passenger vehicles. The Target Group is not liable under PRC laws and regulations for any cost associated with vehicle recalls and are compensated by the manufacturers for providing assistance during the process. Each manufacturer has its own recall procedure, and will typically notify the Target Group with detailed procedural instructions prior to the public announcement of a recall. At the manufacturer's instruction, the Target Group will contact affected passenger vehicle owners and arrange for their vehicles to be inspected and repaired in its 4S stores. From the Relevant Period until the Latest Practicable Date, the Target Group has not received any customer complaints in connection with vehicle recalls that would have a material adverse effect on its business and operation, and it was not subject to any legal, regulatory or administrative proceedings as a result of any vehicle recalls.

Pre-owned passenger vehicle services

Pre-owned passenger vehicle services comprise of purchase, sales and trade-in of pre-owned passenger vehicles. Sales of pre-owned passenger vehicles are complementary to the sales of new passenger vehicle business, as pre-owned passenger vehicles are traded-in by customers in order to purchase new passenger vehicles. Sales of pre-owned passenger vehicles are conducted in a similar manner as sales of new passenger vehicles, as the Target Group enters into written contracts for its sales of pre-owned passenger vehicles upon which its customers are typically required to pay a deposit or an advance.

It is expected that the Target Group will open up to 100 pre-owned passenger vehicle showrooms in China, of which 2 have commenced operations in 2013 in Changsha and Shenzhen, respectively.

Automobile rental services

The Target Group operates a car rental business which provides primarily long-term rental services of six months or more as well as a relatively small portion of short-term rental services. As of the Latest Practicable Date, car rentals are available at all of the Target Group's dealership shops in operation, and the Target Group has a fleet of approximately 300 vehicles available for rental.

The Target Group's long-term rental services primarily serve corporate customers, including multinational and large local corporations, who typically have long-term rental needs for daily business use and require a luxury and well-maintained fleet of passenger vehicles. Short-term automobile rental services are mainly used by customers for short business trips, conventions and tourist activities.

Automobile insurance and financing services

The Target Group also provides insurance and financing services in connection with the sales of new passenger vehicles. The Target Group charges a commission for arranging financing for its customers in connection with their purchases of new automobiles at its automobile dealership stores. Such financing are typically provided by finance companies of certain automobile manufacturers or commercial banks.

Similarly, the Target Group also offers to arrange for car insurance on the new passenger vehicle, upon the request of the customer for such insurance. Such insurance products are typically provided by leading insurance companies in China. The Target Group charges commission from the insurance companies for selling such car insurance to the customers.

VVIP AUTO CLUB (全紅名車匯)

In 2014, the Target Group launched its e-commerce platform, the VVIP Auto Club, which specializes in the ultra-luxury and luxury passenger vehicle segment. The VVIP Auto Club is an integrated auto services platform combining the B2B (business-to-business), B2C (business-to-customer), C2C (customer-to-customer), C2B (customer-to-customer) and O2O (online-to-offline) business models. Such e-commerce platform provides four main service offerings: (i) online automobile rental services; (ii) online sales of new passenger vehicles; (iii) online sales of pre-owned passenger vehicles; and (iv) online sales of after-sale automobile services. Details of each of these service offerings are set out below.

The VVIP Auto Club has secured the strategic cooperation of a number of ultra-luxury and luxury automobile manufacturers, including Rolls-Royce, Bentley, Ferrari, McLaren, Maserati, Mini, Jaguar, Land Rover, BMW, Mercedes-Benz, Audi, Imported Volkswagen and Cadillac. Taking advantage of the Target Group's broad dealership network coverage in China, the VVIP Auto Club can easily serve its customers through the Target Group's stores in 21 cities in China as of the Latest Practicable Date.

As at the Latest Practicable Date, the WeChat public platform organization code number of the VVIP Auto Club reached over 100,000 hits since its inception. The VVIP Auto Club has also launched its own official e-commerce website (at www.vvipauto.com), Weibo, iOS and Android applications.

Online automobile rental services

The online automobile rental business under the VVIP Auto Club operates as follows:

- *Membership:* the VVIP Auto Club offers various ultra-luxury and luxury cars for rental at a daily rate far below the corresponding market rate after a customer becomes a member by depositing membership fee, which is refundable, for a two- or three-year period;

- *Procurement:* through the VVIP Auto Club's strategic cooperation with a number of ultra-luxury and luxury automobile manufacturers, passenger vehicles are procured from them at a lower price than the market price;

- *Market:* target customers of the VVIP Auto Club mainly comprise of business corporations and high net-worth individuals. Through its membership system, long-term customer relationships can be cultivated and customer loyalty as well as product stickiness can be greatly enhanced;

- *Operations:* relying on the Target Group's extensive network of stores, automobile rentals can be carried out with ease. The VVIP Auto Club also forms alliances with certain dealership stores to provide automobile repair and maintenance services;

- *Handling of used cars:* passenger vehicles used for short-term rentals under the VVIP Auto Club will be sold to individual customers or second-hand vehicle companies or put up for car auction after one to two years of usage. At the same time, this practice helps build up the VVIP Auto Club's own pre-owned passenger vehicles sales and auction platform; and

- *Information technology systems:* the VVIP Auto Club established its own nationwide electronic inventory system to effectively manage its vehicles and stores. Such system is accessible through mobile applications.

Online sales of new passenger vehicles

The VVIP Auto Club provides for sales of new passenger vehicles by the Target Group through a one-stop offering of a variety of ultra-luxury and luxury automobile brands on its online platform and uniform pricing, it is expected that economics of scale and closed loop transactions can be achieved through such online sales of new passenger vehicles, thereby lowering sales costs and resulting in greater efficiency.

Online sales of pre-owned passenger vehicles

The VVIP Auto Club provides for sales of pre-owned passenger vehicles. The VVIP Auto Club has secured the strategic cooperation of a number of second-hand car dealers, where pre-owned passenger vehicles are put up for sale by these second-hand car dealers such that through the VVIP Auto Club online platform, customers can access all the relevant car specifications and place their purchase orders in an efficient manner. As at the Latest Practicable Date, over 50 reputable second-hand car dealers in the Guangdong province participate in the VVIP Auto Club.

Features of the online platform regarding the sales of pre-owned passenger vehicles are set out as follows:

- *Real-time inventory indication:* with the VVIP Auto Club's real-time inventory system, customers can easily access accurate inventory information so as to avoid the problem of having placed a car purchase order yet facing a lack of inventory;

- *Fixed prices:* pre-owned passenger vehicles are sold at fixed prices to avoid to hassle of having to bid or negotiate prices;

- *Quality guarantee:* the VVIP Auto Club provides quality guarantees as to the source of the pre-owned passenger vehicle. All purchases of pre-owned passenger vehicles through the VVIP Auto Club are also entitled to unquestioned product return within seven days, and warranty periods of up to the first three months of purchase or the first 5,000 kilometers driven, whichever is earlier;

- *Availability of online payment and car purchase financing:* the VVIP Auto Club platform supports online payment of large dollar amounts through online banking or mobile banking. It also partners with third parties to provide car purchase financing. It is anticipated to support P2P (peer-to-peer) financing in the future as well;

- *Well-developed logistics network:* making use of the Target Group's well-developed logistics network in China, pre-owned vehicles can easily be delivered to customers; and

- *Solid supply of pre-owned passenger vehicles:* the VVIP Auto Club has a solid supply of pre-owned passenger vehicles from the Target Group's strong dealership network of ultra-luxury and luxury cars.

Online sales of after-sales automobile services

After-sales automobile services available through the VVIP Auto Club include sale of spare parts and accessories, automobile detailing services, automobile insurance services and automobile financing services.

The Target Group's stores form the core of the VVIP Auto Club's base for the provision of after-sales automobile services. Additionally, retail stores of automobile spare parts and accessories as well as independent repair and maintenance stores can participate through franchising. Through this online platform, customers are free to book automobile servicing and purchase spare parts and accessories with any or all such service providers. Automobile insurance products can also be bought and automobile financing can be obtained from all partner third party insurance or financing providers (as the case may be) through the online platform.

AWARDS AND ACHIEVEMENTS OF THE TARGET GROUP

The Target Group has received numerous awards and recognition from automobile manufacturers, industry trade associations, media and government bureaus for the period from the Relevant Period until the Latest Practicable Date, details of which are set forth as follows:

Awards	Granting Entity	Year
Top 100 Enterprise in Shenzhen	Shenzhen Enterprise Confederation and the Shenzhen Economic Daily	2012, 2013
Vice President Company of Shenzhen Automobile Repair Association	Shenzhen Automobile Repair Association	2011, 2013
Best Reputation Group Award of 2013 PC Auto Annual Honesty Automotive Dealer Selection	PC Group	2013
2013 Southern Metropolis Daily Annual Golden Automotive Dealer in Shenzhen and Excellent Automotive Group	Southern Metropolis Daily	2013
Best Team Logistics Award of 2013 Shenzhen-Hong Kong-Macau International Auto Show	Shenzhen-Hong Kong-Macau International Auto Show	2013

In addition, a number of stores of the Target Group have been honored accolades from automobile manufacturers for the period from the Relevant Period until the Latest Practicable Date, details of which are set forth as follows:

Awards	Brand	Store	Granting Entity	Year
Dealer of the Year, China	Rolls-Royce	Shenzhen	Rolls-Royce Motor Cars Limited	2012, 2013, 2014
Best Performance Dealer	Rolls-Royce	Shenzhen	Rolls-Royce Motor Cars Limited	2013
Most Improved Dealer of the Year	Rolls-Royce	Shenzhen	Rolls-Royce Motor Cars Limited	2013

Awards	Brand	Store	Granting Entity	Year
Nationwide Most Excellent General Manager	Rolls-Royce	Shenzhen	Rolls-Royce Motor Cars Limited	2013
Nationwide Most Excellent Service Station	Rolls-Royce	Shenzhen	Rolls-Royce Motor Cars Limited	2013
Best New Car Purchase Management	Rolls-Royce	Guangzhou	Rolls-Royce Motor Cars Limited	2013
Best Sales Manager	Rolls-Royce	Xiamen	Rolls-Royce Motor Cars Limited	2013
Best Improvement of Marketing	Rolls-Royce	Xiamen	Rolls-Royce Motor Cars Limited	2013
Best Cooperative Partner of BMC-Dealer	Bentley	Shenzhen	Bentley Motors China	2013
Best Service Technical Manager	Bentley	Shenzhen	Bentley Motors China	2013
Top 10 "Double-Excellent" Company of the Year	Bentley	Xiamen	West-Taiwan-Strait Auto Expo	2013
Best Spare Parts Manager	Bentley	Xiamen	Bentley Motors China	2013
First Place in CI Standard Auditing in Service Center of Bentley Xiamen	Bentley	Xiamen	Bentley Motors China	2012
BMW West Regional Best Insurance Team Award	BMW	Chongqing	BMW China	Q2, 2014
BMW West Regional Best Aftersales Performance Award	BMW	Chongqing	BMW China	Q2, 2014
BMW West Regional Best Customer Retention Award	BMW	Chongqing	BMW China	Q2, 2014

Awards	Brand	Store	Granting Entity	Year
BMW West Regional Insurance Best Practice Award	BMW	Chongqing	BMW China	Q2, 2014
Best Case Sharing Award of BMW China	BMW	Chongqing	BMW China	Q1, 2012
Second Prize of New BMW1 Series Public Soft Article Excellent	BMW	Chongqing	BMW China	Q1, 2012
Western of China Media Award in 2012-Goldern 4S Shop of the Year in Chongqing	BMW	Chongqing	West Main Media Union of China	2012
Auto Market Star in 2012-Excellent Automobile Dealer in Chongqing	BMW	Chongqing	BMW China	2012
1st Place of 2013 the 3rd Quarter Best Awards for Customer Obtaining	BMW	Changsha	BMW China	Q3, 2013
BMW Excellent Brand Architecture	BMW	Shenzhen	BMW China	2013
Best Dealer GM Award	BMW	Shenzhen	BMW China	2013
4th Quarter the Best Sales Team for Series M	BMW	Shenzhen	BMW China	Q4, 2013
Selection of 2013 Guangdong Automobile Dealer Industry among Brand Enterprise-Outstanding Brand Automobile Dealer	Jaguar & Land Rover	Guangzhou	Guangdong Automobile Dealers Association	2013

Awards	Brand	Store	Granting Entity	Year
Annual Award of Automobile Dealer Guangzhou List-The Best Imported Car 4S Dealer Award	Jaguar & Land Rover	Guangzhou	Guangdong Automobile Dealers Association	2013
Best Service Team Award	Jaguar & Land Rover	Guangzhou	PC Automobile	2013
Guangzhou Dealer Annual Award	Jaguar & Land Rover	Guangzhou	Soho Automobile	2012
Excellent Activity Award	Jaguar & Land Rover	Changsha	Jaguar Land Rover China	Q2, 2013
News Most Quickly Published Award	Jaguar & Land Rover	Changsha	Jaguar Land Rover China	2013
Excellent Case Award for 007 Activity	Jaguar & Land Rover	Changsha	Jaguar Land Rover China	2013
Best Sales Manager of South Region	Mini	Shenzhen	MINI China	2013
Emerging Dealer of the Year in South Region	Imported Volkswagen	Shenzhen	Volkswagen Group Import China	2013
Emerging Dealer of the 1st Quarter in South Region	Imported Volkswagen	Shenzhen	Volkswagen Group Import China	Q1, 2013
Best Emerging Dealer	Cadillac	Shenzhen	Shanghai General Motors	2013

SUPPLIERS AND PROCUREMENT

The Target Group procures new passenger vehicles directly from automobile manufacturers. The automobile manufacturers set annual sales targets, customer satisfaction rates and other performance indicators for each of their authorized stores. Achievement of these targets will be taken into account when the relevant automobile manufacturer assesses the dealership's performance, which may affect its allocation of new passenger vehicles for future sales and its chances to benefit from more favourable policies from the manufacturer.

All of the new automobiles that the Target Group sells are purchased in the PRC, regardless of whether they are imported or manufactured locally. Accordingly, the Target Group is not required to pay any import or custom duties or tariffs for its automobiles.

The lead time required for delivery of the new automobiles it sell ranges from three to five months to, in extreme cases, five to eight months, depending on the complexity of customization of the automobile as required by customers.

New automobiles are delivered to the Target Group regularly, on the basis of orders placed by each of its stores. The automobile manufacturers, being third parties independent of the Company and its connected persons, are responsible for the transportation of the new automobiles and bear the associated costs, such as insurance and logistical expenses, until such automobiles reach the Target Group's stores or warehouses and are in the custody of the Target Group. Title and risk of the new automobiles are transferred to the Target Group at its stores or warehouses. In line with industry practice, the automobile manufacturers often require the Target Group to make full payment of the purchase price before the delivery of such new automobiles. Certain manufacturers may also require a deposit in a fixed amount or calculated as a percentage of the purchase price upon placing the order.

In the event that the Target Group suffers any loss or damage arising from the transportation or delivery of automobile, it has the right to claim for such loss or damage in accordance with the claims policy stipulated in the relevant dealership agreement. During the Relevant Period, to the best knowledge and belief of the Directors, no material claim or dispute arose against the Target Group in respect of the aforesaid transportation or delivery of automobiles.

A predominant portion of the Target Group's cost base relates to the purchase of passenger vehicles for its dealership business. In 2012, 2013 and 2014, costs incurred in relation to passenger vehicle sales were approximately RMB2,430,223,000, RMB5,599,315,000 and RMB7,703,364,000, respectively, accounting for 97.8%, 97.3% and 96.3% of its total cost of sales and services, respectively.

The Target Group's top five suppliers are manufacturers of new automobiles and spare parts. In 2012, 2013 and 2014, purchases from its top five suppliers accounted for 99.9%, 94.9% and 91.3% of its total purchases, respectively, and purchases from its single largest supplier accounted for 51.7%, 41.1% and 32.0% of its total purchases, respectively. The table below sets forth the top five suppliers of the Target Group for each of the years ended 31 December 2012, 2013 and 2014:

For the year ended 31 December	**Ranking**	**Name of supplier**
2012	1	BMW China Automotive Trading Ltd. (寶馬(中國)汽車貿易有限公司)
	2	Bentley Shanghai Motor Sales Ltd. (上海賓利汽車銷售有限公司)
	3	BMW Brilliance Automotive Ltd. (華晨寶馬汽車有限公司)
	4	Jaguar Land Rover Automotive Trading (Shanghai) Co. Ltd. (捷豹路虎汽車貿易(上海)有限公司)

For the year ended 31 December	Ranking	Name of supplier
	5	Ferrari Maserati Cars International Trading (Shanghai) Co. Ltd. (法拉利瑪莎拉蒂汽車國際貿易(上海)有限公司)
2013	1	BMW China Automotive Trading Ltd. (寶馬(中國)汽車貿易有限公司)
	2	Jaguar Land Rover Automotive Trading (Shanghai) Co. Ltd. (捷豹路虎汽車貿易(上海)有限公司)
	3	BMW Brilliance Automotive Ltd. (華晨寶馬汽車有限公司)
	4	Volkswagen Group Import (China) Co., Ltd. (大眾汽車(中國)銷售有限公司)
	5	Ferrari Maserati Cars International Trading (Shanghai) Co. Ltd. (法拉利瑪莎拉蒂汽車國際貿易(上海)有限公司)
2014	1	Jaguar Land Rover Automotive Trading (Shanghai) Co. Ltd. (捷豹路虎汽車貿易(上海)有限公司)
	2	BMW China Automotive Trading Ltd. (寶馬(中國)汽車貿易有限公司)
	3	BMW Brilliance Automotive Ltd. (華晨寶馬汽車有限公司)
	4	Volkswagen Group Import (China) Co., Ltd. (大眾汽車(中國)銷售有限公司)
	5	Ferrari Maserati Cars International Trading (Shanghai) Co. Ltd. (法拉利瑪莎拉蒂汽車國際貿易(上海)有限公司)

All of the Target Group's top five suppliers are third parties independent of the Company and its connected persons. None of our Directors, their associates or any of our current Shareholders (who, to the knowledge of our Directors, own more than 5% of our share capital) has an interest in any of the Target Group's top five suppliers.

INVENTORY MANAGEMENT

The Target Group actively manages its inventories of new automobiles and spare parts at each of its stores to ensure cost efficiency, quality control and timely distribution, and strives to maintain optimal inventory levels of new passenger vehicles and spare parts to meet customer demand while managing its working capital requirements to finance its inventory. Its average inventory turnover days were 67.89 days, 61.37 days, and 65.05 days for the years ended 31 December 2012, 2013 and 2014, respectively. The Target Group's stores generally order their inventory on a monthly basis and plan their inventory purchases for each month based on an annual non-binding sales target set by the relevant automobile manufacturer at the start of each year. The monthly purchases made by each store is adjusted by taking into account its existing inventory levels, expected customer demand, projected sales trends and expected delivery times for different automobile models.

The Target Group has in place a real-time centralized inventory management system, whereby sales personnel of each store log each transaction carried out to allow for real-time tracking of sales and inventory levels. Using such inventory management system, the general manager and the sales manager of each store review the sales and inventory levels of their store on a daily basis to ensure that sales of different automobile models meet its expectations. With the assistance of the inventory management system, the Target Group's management team at its headquarters in Shenzhen also supervises and works with individual stores to manage their sales and inventory levels on a weekly basis, and evaluates and plans for inventory procurement for each store in response to changing market conditions. The Target Group coordinates its inventories within its dealership network, and subject to certain restrictions imposed by automobile manufacturers, the Target Group may also transfer automobiles from one store to another to rebalance inventory levels and meet customers' demands.

Moreover, inventory management is often integrated with sales and marketing activities of the Target Group, whereby the sales and marketing team coordinates with the stores to develop advertising and sales campaigns to promote the sales of specific models of automobiles in its inventory.

Please see the section headed "Risk Factors – Risks relating to the Target Group's business – The Target Group's business and financial performance depends on its ability to effectively manage its inventories" in this circular.

SALES AND MARKETING

The Target Group designs its stores in a way that will prominently display automobile brands and models, including various options and accessories that are available. It also maintains a database of information about potential and existing customers, which it utilizes to identify sales prospects. It also relies on referrals from its customers. Sales and marketing campaigns include personalized telephone, email and mail communications and invitations to promotional events at the Target Group's stores.

The Target Group advertises through various media channels including radio, magazines, newspaper, television and Internet advertisements through arrangements with Internet search engines and automobile-related websites. It also participates in the automobile manufacturers' marketing campaigns including new model launches, sponsorships, automobile fan club activities and other promotional events. Sales initiatives include gifts, discounts and complementary service packages.

For the years ended 31 December 2012, 2013 and 2014, the Target Group recorded advertisement and business promotion expenses of RMB25,695,000, RMB76,195,000 and RMB72,914,000, respectively.

CUSTOMERS AND CUSTOMER SERVICES

Customers

As the Target Group is a dealership group that specializes exclusively in ultra-luxury and luxury brand passenger vehicles, its customers are mainly high net-worth individuals who have demand for ultra-luxury and luxury cars as well as large corporations. Due to the retail nature of its business, the Target Group does not have a single major customer that accounted for over 1% of its total revenues and its top five customers in aggregate accounted for less than 1% of its total revenues during the Relevant Period.

Customer relationship management

The Target Group has implemented an advanced customer relationship management ("**CRM**") system, which includes a customer database containing profiles of its existing and potential customers. Coupled with a dedicated CRM sales team, the CRM system enhances the efficiency of sales and marketing by the Target Group and allows for a highly automated sales and marketing process based on customer profiling and targeting. Through the CRM system, the sales and marketing process of the Target Group is streamlined by generating marketing leads and targets via customer profiling and a hierarchy of potential customers ranked by their willingness to spend.

Customer service initiatives

The Target Group is committed to providing quality customer service and support, which is key to establishing long-term customer relationships and attracting new customers.

To meet the personal needs and preferences from its high-end customers, the Target Group is one of the pioneers in introducing butler services to the automobile industry in China so as to deliver the most dedicated services to its customers and further enhance the concept of a one-stop service. Butler services are available at each of the store locations of the Target Group to provide customers with a highly personalized car purchasing experience according to the customers' preferences, habits and needs as observed through interactions with customers and recorded in the centralized customer database of dealers under the Target Group. Accordingly, the Target Group offers personalized perks and services such as birthday promotions, home delivery of gifts and one-on-one car services to the airport.

The Target Group provides 24-hour hotlines to answer customer enquiries and deal with their complaints. It also provides its customers with 24-hour emergency assistance services, including car towing services.

COMPETITION

The passenger vehicle dealership market in China is highly competitive and fragmented. The Target Group competes primarily with other passenger vehicle dealership groups in China which focus on or specialize in ultra-luxury and luxury brands. It competes with such dealership groups for dealership authorization, prime store locations, customers, financing channels and employees. The Target Group's dealership business is also affected by competition among the automobile manufacturers and their brands in terms of quality, design and price. Furthermore, the Target Group competes with independent repair shops and auto parts retail centers in after-sales services and spare part sales. The Target Group's competitiveness depends on its ability to, among other things:

- maintain continuous favourable relationship with reputable automobile manufacturers of well-recognized brands;
- anticipate and cater to market trends, customer purchase sentiments and ramp up sales of new passenger vehicles;
- provide high quality after-sales services to customers;
- manage inventories of new passenger vehicles, automobile accessories and spare parts to keep them at optimum levels; and
- train and retain existing employees and attract new talents.

For further details, please see the section headed "Risk factors – Risks relating to the Target Group's business" in this circular.

EMPLOYEES

The success of the Target Group largely depends on its employees. As such, the Target Group is committed to recruiting, training and retaining adequately skilled and experience talents throughout its operations for better customer service. The Target Group provides competitive compensation packages and benefits to attract talented people, including discretionary bonuses.

As of the Latest Practicable Date, the Target Group had a total of 2,338 employees. The following table sets out the total number of the Target Group's employees by function as of the Latest Practicable Date:

Job function	Number of employees	Percentage
Management	359	15.35%
Administrative	172	7.36%
Sales and marketing	507	21.69%
After-sales service	740	31.65%
Finance and accounting	174	7.44%
Others	386	16.51%
Total	2,338	100.00%

The performance of the Target Group's employees is reviewed on a regular basis. Results of such reviews are used for determination of salary and promotion appraisal purposes. Key management employees are considered for annual incentive payments based on various performance indicators and their assessment results. Sales personnel are considered for bonuses based on various performance indicators, including whether their corresponding sales target has been met and customer feedback on the quality of their service. Staff remuneration packages are reviewed from time to time.

Employees of the Target Group regularly attend training courses provided by both the Target Group itself and the automobile manufacturers to improve their skill-set and stay up-to-date with new developments and trends in the industry. Automobile manufacturers generally provide a wide variety of training to the Target Group's management and other personnel, in particular sales, after-sales, marketing, customer services, technical and financial staff, and grant different levels of certifications to confirm the skills of the Target Group's staff.

INTELLECTUAL PROPERTY RIGHTS

The Target Group conducts its business under the brand names "Jiahong" (佳鴻) and "Jiahong Auto" (佳鴻名車) and it intends to continue to conduct its business using these brand names after Completion.

It has registered two trademarks with the Trademark Office of SAIC and the details of which are set forth below:

Registration Number	Registered holder	Trademark	Category	Validity
8299206	Target Company	佳鸿名车	Type 12	28 January 2013 – 27 January 2023
8299375	Target Company	佳鸿	Type 37	14 September 2011 – 13 September 2021

In addition, under its typical dealership agreements, the Target Group is typically entitled to use the trade names, trademarks and other branding materials in a manner consistent with the standards set by automobile manufacturers to promote the automobiles it sells in its stores.

PROPERTIES

The Target Group occupies certain properties in China in connection with its business operations. These properties principally include the premises of its stores, as well as certain ancillary buildings, offices and warehouses located in Shenzhen, Shantou, Dalian, Zhengzhou, Quanzhou, Changsha, Liuzhou, Jinan, Chongqing, Dongguan, Xiamen, Guangzhou, Kunming, Foshan, Guiyang, Zhuhai, Taiyuan, Huizhou, Chengdu, Qingdao and Hohhot.

Properties owned by the Target Group

As at the Latest Practicable Date, the Target Group owned five parcels of land use rights and three buildings located on its owned land use rights, of which two contain title defects. In addition, the Target Group owned 12 buildings located on leased land, all of which have title defects. All such buildings are used as automobile dealership stores. The title defects include (i) the non-compliance with the designated land use by using such land for commercial purposes; (ii) the failure to obtain planning permits; (iii) the failure to obtain construction permits for commencement of construction; (iv) the failure to obtain title certificates for buildings; and (v) the unauthorized use of collectively-owned land for commercial purposes.

Non-compliance with designated land use

As advised by the PRC Legal Adviser, in respect of the properties not in compliance with the designated use, the relevant competent land administration may re-enter the land and the Target Group may be subject to a fine calculated based on the total gross floor area in violation of the designated use at a rate ranging from RMB10 to RMB30 per square meter.

As at the Latest Practicable Date, the aggregate gross floor area of the properties which are not in compliance with the designated use was approximately 62,900 square meters. As such, the amount of fine that the Target Group may be subject to for the properties owned by it with title defects is estimated to be approximately RMB629,000 to RMB1,887,000, representing approximately 0.01% to 0.02% of the turnover of the Target Group for the year ended 31 December 2014 and 0.01% to 0.04% of the total assets and 0.51% to 1.52% of the net assets of the Target Group as at 31 December 2014.

Failure to obtain planning permits

As advised by the PRC Legal Adviser, in respect of the properties which have not been granted with the required planning permits, the relevant competent town planning department may order the Target Group to suspend construction. If such defect is capable of remedy for eliminating its impact on the due implementation of such town plans, a rectification order and a fine ranging between 5% to 10% of the construction cost may be imposed, otherwise it could lead to mandatory orders of demolition of relevant constructed buildings. If such demolition could not be executed, it may lead to confiscation of such constructed property or earnings derived, and a fine of less than 10% of the construction cost.

As at 31 December 2014, the aggregate amount of construction cost for the properties owned by the Target Group with title defects was RMB877,745,000. As such, the amount of fine that the Target Group may be subject to for such title defects is estimated to be approximately up to RMB87,775,000, representing approximately up to 1.03% of the turnover of the Target Group for the year ended 31 December 2014 and 1.66% of the total assets and 70.59% of the net assets of the Target Group as at 31 December 2014.

Failure to obtain construction permits for commencement of construction

As advised by the PRC Legal Adviser, in respect of the properties which have not been granted with the relevant construction permits for commencement of construction, the Target Group may be ordered to suspend construction and be required to remedy the situation, and may also be subject to a fine of an amount ranging from 1% to 2% of the total amount of consideration of the construction agreement.

As at 31 December 2014, the aggregate amount of consideration under the construction agreement for the properties owned by the Target Group with title defects was approximately RMB707,639,000. As such, the amount of fine that the Target Group may be subject to for such title defects is estimated to be approximately RMB7,076,000 to RMB14,153,000, representing approximately 0.08% to 0.17% of the turnover of the Target

Group for the year ended 31 December 2014 and 0.13% to 0.27% of the total assets and 5.69% to 11.38% of the net assets of the Target Group as at 31 December 2014.

Failure to obtain title certificates

As advised by the PRC Legal Adviser, in respect of the properties for which the Target Group have not obtained the title certificates, the Target Group may not be able to transfer or mortgage these properties due to lack of title certificates for buildings.

Unauthorized use of collectively-owned land

As advised by the PRC Legal Adviser, in respect of the properties owned by the Target Group located on leased land, the relevant lease may be rendered void in the event of any unauthorized use of collectively-owned land for commercial purposes.

Aggregate amount of fine and value of properties with title defects

Based on the foregoing, the maximum aggregate amount of fine that the Target Group may be subject to for the aforementioned title defects of the properties owned by the Target Group is estimated to be approximately up to RMB103,815,000, representing approximately up to 1.22% of the turnover of the Target Group for the year ended 31 December 2014 and 1.97% of the total assets and 83.49% of the net assets of the Target Group as at 31 December 2014. While the aforementioned maximum aggregate amount of fine may appear to be significant to the net assets of the Target Group, such amount only accounted for approximately 1.22% of the turnover and 1.97% of the total assets of the Target Group and is therefore considered to be insignificant. Accordingly, the Directors believe that the amount of fine for the title defects of the properties owned by the Target Group to be immaterial to the Target Group.

As at 31 December 2014, the aggregate value of properties owned by the Target Group with title defects was approximately RMB834,953,000, representing approximately 15.82% of the total assets of the Target Group of RMB5,278,094,000 as at 31 December 2014. While the aggregate value of the properties owned by the Target Group with title defects may appear to be significant compared to the total assets of the Target Group, having taken into account the legal practicable implications of such title defects as further elaborated in the section headed "Legal and practical implications" below, the Directors believe that such title defects will not have any material and adverse impact on the Target Group's business and operations as a whole.

Properties leased by the Target Group

As at the Latest Practicable Date, the Target Group leased 30 buildings, 28 of which have title defects. The title defects include (i) the non-compliance with the designated land use for industrial, hotel, storage and residential purposes by using such land for commercial purposes; (ii) the unauthorized use of collectively-owned land for commercial purposes; and (iii) the failure to provide or obtain relevant title certificates by the landlord. All such buildings are principally used as automobile dealership stores, automobile exhibition galleries, automobile service stations or offices.

As advised by the PRC Legal Adviser, in respect of the properties leased by the Target Group with title defects, the relevant lease may be rendered void. In addition, in the event of any non-compliance with the designated land use, the landlord may be required to return the land to the competent government and the relevant lease may be declared to be void by the relevant government.

If the leases for these properties are rendered void, the Target Group would relocate the relevant stores to alternative or comparable properties that it would lease from third parties. In the event that the Target Group is required to relocate its operations, the loss on the existing renovation cost of the stores is estimated to be approximately RMB25,823,000, representing approximately 0.30% of the turnover of the Target Group for the year ended 31 December 2014 and 0.49% of the total assets and 20.77% of the net assets of the Target Group as at 31 December 2014. In addition, the costs relating to such relocation, including the possible renovation costs of new stores, is estimated to be approximately RMB28,329,000, representing approximately 0.33% of the turnover of the Target Group for the year ended 31 December 2014 and 0.54% of the total assets and 22.78% of the net assets of the Target Group as at 31 December 2014. While the aforementioned loss on the existing renovation cost and the relocation costs may appear to be significant to the net assets of the Target Group, the loss on the existing renovation cost only accounted for 0.30% of the turnover and 0.49% of the total assets of the Target Group, whereas the relocation costs only accounted for 0.33% of the turnover and 0.54% of the total assets of the Target Group, and these amounts are therefore considered to be insignificant. As such, the Directors consider that the potential loss on the existing renovation cost of the stores and the estimated costs relating to the relocation to be immaterial to the Target Group.

The lease agreements for 16 out of the 28 leased properties with title defects contain certain compensation provisions whereby the Target Group may, in accordance with the compensation provisions, seek compensation from the landlord for the related losses if it is unable to use the leased properties. For example, under these lease agreements, if (i) the Target Group is unable to use the leased properties due to any reason of the landlord, the Target Group may terminate the relevant lease agreement and the landlord is required to compensate the Target Group for all the related losses; or (ii) there arises any dispute as to the property rights in relation to the leased property, the landlord shall be responsible for settling such dispute and compensate the Target Group for all related losses as a result thereof.

Excluding the 16 leases containing the aforementioned compensation provisions, if the remaining 12 leases for these properties are rendered void, the Target Group would relocate the relevant stores to alternative or comparable properties that it would lease from third parties. In the event that the Target Group is required to relocate its operations from these 12 properties, the loss on the existing renovation cost of the stores is estimated to be approximately RMB10,856,000, representing approximately 0.13% of the turnover of the Target Group for the year ended 31 December 2014 and 0.21% of the total assets and 8.73% of the net assets of the Target Group as at 31 December 2014. In addition, the costs relating to such relocation, including the possible renovation costs of new stores, is estimated to be approximately RMB8,614,000, representing approximately 0.10% of the turnover of the Target Group for the year ended 31 December 2014 and 0.16% of the total assets and 6.93% of the net assets of the Target Group as at 31 December 2014. As such, the

Directors consider that the potential loss on the existing renovation cost of the stores and the estimated costs relating to the relocation to be immaterial to the Target Group.

The Target Group does not anticipate that there will be any material practical difficulties in terms of costs and timing in relocating its operations to alternative and/or comparable premises, and any possible disruption to the uses of the relevant properties is likely to be transient. As such, the Directors believe that such defects will not have any material and adverse impact on the Target Group's business and operations as a whole.

Properties under construction by the Target Group

As at the Latest Practicable Date, the Target Group had 9 buildings under construction located on its leased land, all of which have title defects. The defects include (i) the failure to obtain planning permits and (ii) the failure to obtain construction permits for commencement of construction. As all such buildings are located on leased land, the Target Group was unable to apply for or obtain any of the required planning and construction permits aforementioned. All such buildings will be used by the Target Group as dealership stores.

Failure to obtain planning permits

As advised by the PRC Legal Adviser, in respect of such properties under construction which have not been granted with the required planning permits, the relevant competent town planning department may order the Target Group to suspend construction. If such defect is capable of remedy for eliminating its impact on the due implementation of such town plans, a rectification order and a fine ranging between 5% to 10% of the construction cost may be imposed, otherwise, it could lead to mandatory orders of demolition of relevant constructed buildings, and if such demolition could not be executed, it may lead to confiscation of such constructed property or earnings derived, and a fine of less than 10% of the construction cost.

As at 31 December 2014, the aggregate amount of construction cost for the properties under construction with title defects was RMB164,176,000. As such, the amount of fine that the Target Group may be subject to for such title defects is estimated to be approximately up to RMB16,418,000, representing approximately up to 0.19% of the turnover of the Target Group for the year ended 31 December 2014 and 0.31% of the total assets and 13.20% of the net assets of the Target Group as at 31 December 2014.

Failure to obtain construction permits for commencement of construction

As advised by the PRC Legal Adviser, in respect of the properties under construction which have not been granted with the relevant construction permits or approval for commencement of construction, the Target Group may be ordered to suspend construction and be required to remedy the situation, and may also be subject to a fine of an amount ranging from 1% to 2% of the total amount of consideration under the construction agreement.

As at 31 December 2014, the aggregate amount of consideration under the construction agreement for the properties under construction with title defects was approximately RMB163,139,000. As such, the amount of fine that the Target Group may be subject to for such title defects is estimated to be approximately RMB1,631,000 to RMB3,263,000, representing approximately 0.02% to 0.04% of the turnover of the Target Group for the year ended 31 December 2014 and 0.03% to 0.06% of the total assets and 1.31% to 2.62% of the net assets of the Target Group as at 31 December 2014.

Aggregate amount of fine and value of properties with title defects

Based on the foregoing, the maximum aggregate amount of fine that the Target Group may be subject to for the aforementioned title defects of the properties under construction is estimated to be up to approximately RMB19,680,000, representing up to approximately 0.23% of the turnover of the Target Group for the year ended 31 December 2014 and 0.37% of the total assets and 15.83% of the net assets of the Target Group as at 31 December 2014. While the aforementioned maximum aggregate amount of fine may appear to be significant to the net assets of the Target Group, such amount only accounted for 0.23% of the turnover and 0.37% of the total assets of the Target Group and is therefore considered to be insignificant. Accordingly, the Directors believe that the amount of fine for the title defects of the properties owned by the Target Group to be immaterial to the Target Group.

As at 31 December 2014, the aggregate value of properties under construction with title defects was approximately RMB164,176,000, representing approximately 3.11% of the total assets of the Target Group of RMB5,278,094,000 as at 31 December 2014. While the monetary amount of the aggregate value of the properties under construction with title defects may appear to be significant, however, given that it only represents 3.11% of the total assets of the Target Group, the Directors consider that the aggregate value of the properties under construction with title defects to be insignificant to the total assets of the Target Group. In addition, having taken into account the legal and practicable implications of such title defects as further elaborated in the section headed "Legal and practical implications" below, the Directors believe that such defects will not have any material and adverse impact on the Target Group's business and operations as a whole.

Legal and practical implications

Practice and custom of the automobile industry in the PRC

It is not uncommon in the Target Group's industry for automobile dealerships to operate on properties with certain title defects and the related risks are relatively low. For the operation of 4S automobile dealership stores, other factors such as the selection of brand portfolio, relationship with automobile manufacturers, design and layout of stores, variety and type of auto-related services offered and quality of services provided are more crucial in attracting customers and generating revenue of the Target Group than the premises on which the 4S dealership stores are constructed and operated.

According to ACMR, the PRC local governments play a significant role in developing automobile industry parks and automobile dealership cities, including planning land usage and allocating land. In order to attract automobile dealerships to move in, local governments sometimes agree to assist the operators in obtaining property title certificates. According to ACMR, it is fairly common for automobile dealerships to operate on properties, both self-owned and leased properties, with title defects, including non-compliance with designated use, failure to obtain planning permits, failure to obtain construction permits for commencement of construction, failure to obtain title certificates and unauthorized use of collectively-owned land, and the related risk is relatively low.

According to ACMR, based on the practice and custom of the automobile industry in the PRC and the aforementioned support from the PRC local government, the risk of the government authority taking action against the automobile dealership operating on properties with title defects, such as imposing a penalty or the properties being confiscated by the local government, is relatively low. As such, the operation of stores on properties with title defects would not usually have any material adverse impact on the business and operation of the automobile dealerships.

Practice of the relevant government authorities

The Target Group commenced its operations in 2002 upon the establishment of its first dealership store in the PRC. Since the commencement of its operation and up to the Latest Practicable Date, the relevant government authorities have not taken, nor indicated any intention to take, any action against the Target Group in respect of the title defects. In addition, over the past 13 years of its operation, the Target Group has not encountered any disruptions to its business or operations due to any disputes or claims in relation to the properties owned or leased by the Target Group.

The Target Group has engaged in oral conversations with the relevant government authorities to obtain confirmation as to its uses of all such properties with title defects. While no written confirmation letter or approval has been received, the relevant government authorities have verbally advised that they will not impose any penalties on the Target Group, require the Target Group to relocate its operations, or confiscate or demolish the building situated on the properties with title defects.

Rectification of the title defects

In respect of the properties owned by the Target Group with title defects of (i) the non-compliance with the designated land use by using such land for commercial purposes; (ii) the failure to obtain planning permits; (iii) the failure to obtain construction permits for commencement of construction; (iv) the failure to obtain title certificates for buildings; and (v) the unauthorized use of collectively-owned land for commercial purposes, as advised by the PRC Legal Adviser, there is no legal impediment for the Target Group to obtain the relevant title certificates and rectify such title defects if the Target Group (a) obtaining the approval for the conversion of collectively-owned land into state-owned granting land and the conversion of the relevant designated use into commercial use; (b) obtaining the required state-owned granting land use right certificate in respect of the aforesaid conversion; (c) retrospectively applying for and obtaining the relevant construction and planning permits; and (d) submitting all the required documents to the relevant authorities, completing all the required regulatory formalities and paying all the related fees in accordance with the requirements of the relevant government authorities and the PRC laws.

In respect of the leased properties with title defects of (i) the non-compliance with the designated land use for industrial, hotel, storage and residential purposes by using such land for commercial purposes; (ii) the unauthorized use of collectively-owned land for commercial purposes; and (iii) the failure to provide or obtain relevant title certificates by the landlord, as advised by the PRC Legal Adviser, there is no legal impediment for the landlord to lease such properties to the Target Group if (a) the landlord obtains the required state-owned granting land use right certificates and building certificates in respect of such leased properties being used for commercial or offices purposes; (b) all the required regulatory formalities are completed; and (c) the Target Group's use of such properties is in accordance with the terms and conditions of the such land use rights certificates and building certificates.

In respect of the properties under construction by the Target Group with title defects of (i) the failure to obtain planning permits and (ii) the failure to obtain construction permits for commencement of construction, as advised by the PRC Legal Adviser, there is no legal impediment for the Target Group to proceed with the approved construction of such properties if the Target Group (a) obtaining the required state-owned granting land use right certificates with the designated use of such land use right for commercial purposes in respect of the corresponding land use rights; (b) the retrospectively applying for and obtaining the relevant construction and planning permits; and (c) submitting all the required documents to the relevant authorities, completing all the required regulatory formalities and paying all the related fees in accordance with the requirements of the relevant government authority and PRC laws.

Ease of relocation from the leased properties with title defects

As at the Latest Practicable Date, the Target Group operated 27 stores in 14 cities in China. It is expected that the Target Group's network coverage will be expanded to 21 cities in China upon the opening of the stores which are under construction as at the Latest Practicable Date. As the business and operation of the Target Group is not concentrated in one city nor on one or a small number of properties and none of the properties have any unique qualities or facilities that would prevent the Target Group from replacing them at a commercially reasonable cost if it is required to do so, the Directors do not consider any of the properties occupied by the Target Group to be material. If required by the government to relocate its operations from the properties with title defects, the Target Group would relocate the relevant stores to alternative or comparable properties that it would lease from third parties. The Target Group does not anticipate that there will be any material practical difficulties in terms of costs and timing in relocating its operations to alternative and/or comparable premises, and any possible disruption to the uses of the relevant properties is likely to be transient.

In the event that the Target Group is required to relocate its operations from the leased properties, the Target Group may suffer loss on the existing renovation cost of the stores and incur costs relating to such relocation, including the possible renovation costs of new stores. However, the Directors consider that the potential loss on the existing renovation cost of the stores and the estimated relocation costs to be immaterial to the Target Group. Please refer to the section headed "Properties leased by the Target Group" above for further details.

Protection under the lease

As at the Latest Practicable Date, the Target Group leased 30 buildings, 28 of which have title defects. The lease agreements for 16 out of the 28 leased properties with title defects provide certain protection to the Target Group as the lessee. For example, under these lease agreements, if (i) the Target Group is unable to use the leased properties due to any reason of the landlord, the Target Group may terminate the relevant lease agreement and the landlord is required to compensate the Target Group for all the related losses; or (ii) there arises any dispute as to the property rights in relation to the leased property, the landlord shall be responsible for settling such dispute and compensate the Target Group for all related losses as a result thereof.

In the event that the Target Group is unable to use these leased properties with title defects whereby the lease agreements contain the aforementioned compensation provision, the Target Group may seek compensation from the landlord for the related losses in accordance with such compensation provision, including the loss on the existing renovation cost of the stores referred to in the section headed "Ease of relocation of the leased properties with title defects" above.

Indemnity from the Existing Shareholders

Pursuant to an indemnity dated as at the Latest Practicable Date, Mr. Zhou and Ms. Qiu, the existing shareholders of the Target Company, has on a joint and several basis, undertaken to indemnify each member of the Target Group in respect of all losses, including but not limited to any fine imposed on the Target Group and any losses (including operation losses) suffered by the Target Group due to the demolition or relocation of any of its properties with title defects, in the event that as a result of the title defects (i) any of the aforementioned properties of the Target Group is required by the relevant government authority or related interested party to be reclaimed or demolished; (ii) the Target Group is in any way prohibited from using or unable to use any of such properties; or (iii) any fine is imposed on the Target Group.

Directors' confirmation

Having considered the aforesaid legal and practical implications of the title defects, including the relevant aforesaid advice of the PRC Legal Adviser and ACMR, the Directors believe that the related risks associated with operating on the properties with title defects to be relatively low on the basis that (i) it is not uncommon for the automobile dealerships industry to operate on properties with certain title defects; (ii) based on the practice and custom of the automobile industry in the PRC and the support from the local government, the risk of the government authority taking action against the automobile dealership operating on properties with title defects is relatively low; (iii) since the commencement of its operation in 2002 and up to the Latest Practicable Date, the relevant government authorities have not taken any, nor indicated any intention to take, any action against the Target Group in respect of the title defects; (iv) over the past 13 years of its operation, the Target Group has not encountered any disruptions to its business or operations due to any disputes or claims in relation to the properties owned or leased by the Target Group; (v) the practice of, and the verbal advice from, the relevant government authorities; (vi) upon making the necessary application and complying with the procedures and requirements of the relevant government authorities and PRC laws, the title defects can be rectified and there is no legal impediment to the Target Group for rectifying such title defects; (vii) the business and operation of the Target Group are not concentrated in one city nor one or a small number of properties; (viii) none of the properties have any unique qualities or facilities that would prevent the Target Group from replacing them at a commercially reasonable cost; (ix) the Target Group can find alternative and/or comparable properties to relocate the relevant stores, if necessary; (x) the Target Group does not anticipate any material practical difficulties in relocating the relevant stores; (xi) any loss on the existing renovation cost of the stores and the estimated costs relating to such relocation are immaterial to the Target Group; (xii) the Target Group may seek compensation from the landlord under the lease agreements for the majority of the leased properties with title defects; and (xiii) the Existing Shareholders have provided an indemnity to the Target Group with respect to losses and damages arising from the properties with title defects.

Based on the aforesaid and having taken into account the legal and practicable implications of the title defects, the Directors are of the view that (i) the title defects would not have any material and adverse impact on the business and operation of the Target Group and (ii) no impairment or provision is required to be made by the Target Group in respect of any of such properties with title defects.

KPMG, the auditors of the Target Group have performed the audit in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. As part of the audit, the auditors have examined the Directors' judgments, estimate and assumptions in the application of the accounting policies about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The Directors considered a number of factors in making the judgment on whether a provision is necessary in relation to the title defects of the properties, including: (i) the current practice of automobile dealership industry in the PRC as advised by AMCR, (ii) the legal consequences of the title defects as advised by the PRC Legal Adviser; and (iii) other practicable implications. The auditors have performed procedures to examine the supporting information such as correspondences of the relevant local government supporting the development of local automobile dealership industry, visit to the dealership stores to observe no disruption of business operation, and enquiry with the Target Group's PRC legal adviser on the likelihood of legal action from local government and related exposure. Based on the foregoing, the Directors' judgment that the possibility of an outflow of resources embodying economic benefits was remote was not considered unreasonable in accordance with International Accounting Standard 37, "Provisions, Contingent Liabilities and Contingent Assets". The auditors issued opinion on the Target Group's historical financial information taken as a whole and was included in Appendix II to this Circular.

Internal control

The Target Group will adopt stricter internal control standards to prevent title defects in the properties and leases in the future.

In order to avoid the recurrence of the non-compliances, the Target Group will adopt the following enhanced internal control measures, mainly with the assistance of its legal and compliance team:

- The Target Group will review more prudently the premises for future projects, particularly the nature, designated usage and title certificates of the relevant properties, and seek advice from external third party property experts, internal control experts and counsel, as appropriate, before selecting premises for new stores and procuring properties or leases for the premises, particularly at the project planning stage.

- The Target Group will evaluate property defects issues as part of its standard procedures when procuring or leasing properties. For each candidate property that has any title defects, such as land with designated usage that may not be used to operate a store under PRC laws, the Target Group will procure or lease that property only if the title defects are remedied, or if it has obtained confirmation letters from the competent authorities confirming that they will not impose penalties on it or confiscate the relevant properties, as well as a confirmation letter from the relevant automobile manufacturer confirming that it will not claim any compensation or terminate the dealership authorization agreement due to the relevant property title defects.

- The Target Group will scrutinize in more details each candidate premise when procuring or leasing properties or establishing new stores. The Target Group's legal and compliance team will oversee the entire process to ensure that all required title documents or appropriate confirmation letters referred to above have been obtained, and provide professional opinions on defective properties to senior management for their consideration. Material projects will be submitted for approval by the Target Board depending on the nature of the investment, the amount involved and other relevant factors;

- In respect of acquisitions of other automobile dealerships, the Target Group's investment and development department will conduct compliance review for the project proposal, and at a later stage, form an acquisition working group, together with its finance, operation, legal and other relevant departments, to conduct due diligence and feasibility study for the project. The Target Group will also engage outside counsel to provide professional opinions on legal issues and risks involved in the acquisition project. Additionally, the Target Group will strengthen the implementation of its project management procedures at the subsidiary level to prevent recurrence of similar non-compliance incidents.

INSURANCE

The Target Group carries insurance covering risks including loss to its properties such as its fixed assets and inventories in the Target Group's stores, and losses due to fire, flood and a broad range of other natural disasters excluding earthquakes. The Target Group also maintains insurance policies that cover the Target Group's employee compensation liability for personal injury and illness, and cash insurance policies for loss of money in the Target Group's business premises.

LEGAL PROCEEDINGS

As of the Latest Practicable Date, the Target Group is involved in 11 unsettled litigation or arbitration proceedings pending against it or any of its subsidiaries, details of which are set forth as follows:

No.	**Date of filing**	**Issue**	**Amount involved** *(RMB)*
1	14 April 2014	Payment of construction fees	12,655,000
2	29 December 2014	Payment of deposits and liquidated damages for breach of contract	9,840,000
3	5 November 2013	Payment of land transfer fees	6,500,000
4	8 March 2013	Return of paid fees	2,150,000
5	16 May 2014	Payment of renovation fees and related interest	2,119,587
6	9 September 2014	Payment of advertisement and marketing fees	1,362,934
7	28 January 2015	Dispute as to a sale and purchase agreement	380,000
8	20 January 2015	Payment of rent	302,117
9	29 May 2014	Repayment of loan	300,000
10	21 January 2015	Labour dispute	99,000
11	3 July 2014	Return of agency fees and payment of liquidated damages for breach of contract	23,560

An aggregate amount of RMB33,617,800 was set aside as provisions for the aforesaid unsettled litigation or arbitration proceedings for the year ended 31 December 2014. Please refer to the financial statements of the Target Group set out in Appendix II to this circular.

To the best knowledge and belief of the Directors, considering the nature of dispute and dollar amount of damages involved, none of these unsettled litigation or arbitration proceedings could have a material adverse effect on the Target Group's business or operations.

REGULATORY COMPLIANCE

Road Transportation Licenses

The Target Group's repair and maintenance services business is subject to the Road Transportation Regulations (道路運輸條例), which were promulgated by the State Council on 30 April 2004 and became effective from 1 July 2004 and was subsequently amended on 9 November 2012. Such amendments became effective on 1 January 2013. According to the Road Transportation Regulations, prior to commencing a motor vehicle repair and maintenance business, an operator of such business must file an application with the local department of the Ministry of Transport of the PRC and obtain a Road Transportation License (道路運輸經營許可證) and complete the registration formalities to the administrations for industry and commerce in accordance with the law.

As at the Latest Practicable Date, the Target Group has been granted a total of 20 Road Transportation Licenses by the local department of the Ministry of Transport of the PRC. The Road Transportation Licenses are typically granted for a term of one to six years. The respective expiry dates of the Road Transportation Licenses granted to the Target Group range from June 2015 to March 2021. The Target Group was able to renew all of its Road Transportation Licenses that expired during the Relevant Period, and we expect the Target Group to be able to renew all such licenses before the respective expiry date.

Licenses for Concurrent-Business Insurance Agency

The Target Group's distribution of insurance products is subject to the Interim Measures on the Administration of Concurrent-Business Insurance Agents (保險兼業代理管理暫行辦法) (the "**Concurrent-Business Insurance Regulations**"), which were promulgated by the China Insurance Regulatory Commission (the "CIRC") on 4 August 2000 and became effective on 4 August 2000, and the Notice of the China Insurance Regulatory Commission on Suspending the Market Access Permission of Regional Insurance Agencies and Some Concurrent-Business Insurance Agencies (中國保險監督管理委員會委員關於暫停區域性保險代理機構和部分保險兼業代理機構市場准入許可工作的通知) (the "**Market Access Permission Suspension Notice**"), which was promulgated by the CIRC and became effective on 26 March 2012. The Concurrent-Business Insurance Regulations require, among other things, enterprises which distribute insurance products directly relating to its main business to apply for a License for Concurrent-Business Insurance Agency from the CIRC and obtain authorization documentation from the insurance companies, subject to the CIRC's supervision. According to the Market Access Permission Suspension Notice, the PRC government has decided to suspend the granting of the licenses for concurrent-business insurance agency to enterprises other than financial institutions and post offices since 26 March 2012 to re-examine the insurance agency market.

As at the Latest Practicable Date, the Target Group has been granted with two Licenses for Concurrent-Business Insurance Agency from CIRC, which would expire on 21 March 2016 and 26 September 2017, respectively. On 26 March 2012, the CIRC promulgated the Market Access Permission Suspension Notice, whereby the PRC government has decided to suspend the granting of the licenses for concurrent business insurance agency to enterprises other than financial institutions and post offices. As such, the Licenses for Concurrent-Business Insurance Agency granted to the Target Group as aforementioned may not be renewed upon expiration, but the Target Group will use its best efforts to seek for renewal of such licenses. If the Target Group fails to obtain a valid and effective License for Concurrent-Business Insurance Agency, it will cooperate with other licensed insurance agents to continue providing automobile insurance services to its customers. As at the Latest Practicable Date, the Target Group entered into master framework agreements with a number of third party licensed insurance agents and corresponding cooperation agreements with their respective subsidiaries to provide automobile insurance services to its customers. Such agents include the China Pacific Insurance Group, the People's Insurance Company of China Holdings Company and Ping An Insurance Company of China, Ltd. It is expected that the Target Group will be able to secure the continued cooperation with such insurance agents in the event that it fails to renew its Licenses for Concurrent-Business Insurance Agency.

For the three years ended 31 December 2012, 2013 and 2014, turnover generated from the Target Group's business of distribution of insurance products amounted to RMB6,415,000, RMB19,396,000 and RMB42,533,000, representing 0.24%, 0.32% and 0.50% of the Target Group's total turnover for the same period, respectively. In the event that the Target Group fails to renew its Licenses for Concurrent-Business Insurance Agency and is unable to secure the continued cooperation of the aforementioned insurance agents or seek cooperation with other licensed insurance agents, considering the insignificant share of turnover generated from its business of distribution of insurance products, the Directors believe that the corresponding impact on the Target Group's business and operation is immaterial to the Target Group as a whole.

THREE YEAR FINANCIAL INFORMATION

Financial information of the Group for the year ended 31 December 2012, the year ended 31 December 2013, and the year ended 31 December 2014 are disclosed on pages 47–144 of the 2012 annual report published on 25 April 2013, pages 44–128 of the 2013 annual report published on 29 April 2014, and pages 42–120 of the 2014 annual report published on 27 April 2015, respectively, which were published on both the Stock Exchange website (www.hkexnews.hk) and the Company's website (http://www.nfa360.com/).

STATEMENT OF INDEBTEDNESS

As at 30 April 2015, the Enlarged Group had the following indebtedness:

The Group

Borrowings

	RMB'000
Secured bank loans	1,301,961
Unsecured bank loans	557,882
Secured non-bank loans	295,846
Unsecured non-bank loans	207,347
Convertible bonds	139,132
	2,502,168

Trade bills under bank acceptance

	RMB'000
Trade bills under bank acceptance	1,283,623

Notes:

1. As at 30 April 2015, the unsecured interest-bearing borrowings amounted to RMB765,229,000 were guaranteed solely or jointly by Mr. Zhou, Ms. Qiu and Yunnan Ximai Mining Co., Ltd. (雲南西邁礦業有限公司), a related party of the Target Group.

2. As at 30 April 2015, the Enlarged Group's borrowings which were amounting to RMB1,597,807,000, was secured by the Enlarged Group's certain property and plant, leasehold land and land use rights, investment property, inventory, pledged bank deposit and the equity interest in certain subsidiaries held by the Target Company or its subsidiary.

3. In August 2013, the Company issued redeemable convertible bonds (the "**CDH CBs**") in the principal amount of US$48,685,000 (equivalent to RMB300,226,000) to CDH Fast Two Limited. The net proceeds of the CDH CBs available to the Group was RMB292,720,000, after net-off of issuance costs of RMB7,506,000. The coupon interest rate of CDH CBs is 5%. The maturity date of the CDH CBs will be the date falling on the fifth anniversary of the issue date (i.e. August 2018) and the CDH CBs can be converted into ordinary shares of the Company at the holder's option at initial conversion price of HK$0.2328 per share, subject to certain anti-dilutive adjustments.

   Unless there was redemption, cancellation or conversion, the CDH CBs can be redeemed on the maturity date only by the Company at the price equal to principal amount plus premium compounded at 5% from each anniversary of the issue date to the maturity date.

   If the shares are no longer listed or traded on the Stock Exchange, bondholders can redeem all CDH CBs at early redemption amount, which is the outstanding principal amount plus the amount of interest representing 30% of the internal rate of return of the principal amount of the bond from the issuance date to the payment date, on the twentieth business day after the Company gives the notice to the bondholders.

   The fair value of the liability component of the CDH CBs upon issuance is calculated by computing the present value of all future cash flows discounted by the prevailing market rate of interest for non-convertible borrowing of 9.72% per annum based on a professional valuation report issued by RHL Appraisal Limited, an independent firm of professionally qualified valuers. The residual amount, representing the value of the equity component, is included in convertible bonds reserve under shareholders' equity. The initially recognised liability component and equity component of the CDH CBs amounted to RMB234,945,000 and RMB57,775,000 respectively after net – off of the issuance costs on a pro-rata basis.

   On 12 June 2014, the Group partially converted CDH CBs in the principal amount of US$24,342,500. The Group allotted and issued a total of 813,507,946 shares to CDH Fast Two Limited at the conversion price of HK$0.2328. Upon the conversion, the Company de-recognised the liability component of RMB127,527,000 and transferred this amount with equity component (convertible bonds reserve) of RMB28,887,000 into share capital and share premium with the amount of RMB65,227,000 and RMB91,187,000 respectively, using the method in consistency with that used initially to allocate the net proceeds on the CDH CBs issuance date.

Save as disclosed above and apart from intra-group liabilities, as at the Latest Practicable Date, the Enlarged Group did not have any other debt securities, or any loan capital, bank overdrafts, loans, mortgages, charges or other similar indebtedness, or hire purchase of finance lease commitments, liabilities under acceptances or acceptance credits, guarantees or other material contingent liabilities.

WORKING CAPITAL

In determining the sufficiency of the working capital of the Enlarged Group, the Directors have made the assumption that the Proposed Placing will be completed and used to finance the Subscription.

Taking into account the financial resources available to the Enlarged Group, including the internally generated funds, cash and cash equivalents on hand, the available banking facilities and on the assumption that the Proposed Placing will be completed in due course as set out in the preceding paragraph, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the Latest Practicable Date.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014 (being the date to which the latest published audited consolidated financial statements of the Company were made up) up to the Latest Practicable Date.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

Set out below is the management discussion and analysis of the Group's business and performance for the three years ended 31 December 2012, 2013 and 2014.

(i) For the year ended 31 December 2012

Business review

In 2012, the Group focused on the construction of automotive chain service network in the Greater China region, based on channel construction and branding promotion as well as B2C retails service, providing and satisfying the basic needs of numerous automotive users, taking the market-leading position in the industry.

Segment information

Service business

The consolidated turnover of the Group's service business amounted to approximately RMB1,006,049,000 (2011: RMB1,012,076,000), representing a decrease of approximately 0.6%. The decrease was attributable to the on-going depressed global economy. Although layout design of the retail stores and innovative operation model achieved success and brought a significant improvement in operation result, the overall performance has still been impacted.

The gross profit of the Group's service business was approximately RMB213,525,000 (2011: RMB200,507,000), representing an increase of approximately 6.5%, while its gross margin was approximately 21.2% (2011: 19.8%). The increase in gross margin was due to a thoroughly reconstructive strategy changing the composition of existing business. Moreover, styling services which enjoys high gross profit was included into the service section of the Group, it is expected to help to enhance the revenue rapidly and maintain the market share of the Group's service business in the future.

Manufacturing business

For the year ended 31 December 2012, the consolidated turnover of the Group's manufacturing business amounted to approximately RMB391,836,000 (2011: RMB481,064,000), representing a decrease of approximately 18.5%. The decrease in the consolidated turnover was due to the inappropriate management of former management team, which resulted in loss of orders. After the appointment of the new management team, the performance of manufacturing business was improving remarkably.

The gross profit of the Group's manufacturing business was approximately RMB77,638,000 (2011: RMB102,338,000), representing a decrease of approximately 24.1%, while its gross margin was approximately 19.8% (2011: 21.3%). The decrease in the gross margin of the Group's manufacturing business was due to the cancellation of the export tax rebate for certain products since May 2011 in Mainland China, the relatively higher fixed cost in manufacturing industry as well as decrease in turnover during the year.

Financial review

Revenue

For the year ended 31 December 2012, the Group recorded a consolidated turnover of approximately RMB1,397,885,000 (2011: RMB1,493,140,000), representing a decrease of approximately 6.4%.

Gross profit and gross margin

The consolidated gross profit of the Group was approximately RMB219,164,000 in 2012 (2011: RMB302,845,000), down approximately 17%. Gross margin decreased from approximately 23.7% in 2011 to approximately 20.3% in 2012.

Expenses

Sales and marketing expenses for the year were approximately RMB201,338,000 (2011: RMB122,842,000), representing a growth of approximately 63.9%. The increase was mainly attributable to the expense arising from implementation of integration and renewal of brand name, reformation on stores as well as change of store signboards.

The administrative expenses for the year were approximately RMB159,909,000 (2011: RMB93,009,000), representing an increase of approximately 71.9%. The administrative expenses for the year increased by approximately RMB66,900,000, of which approximately RMB12,820,000 was due to the consolidation of the financial statements of Shandong Xingzhe Auto Supplies Services Co., Ltd (山東行者汽車用品服務有限公司), Hubei Autoboom Auto Accessories Supermarket Co., Ltd (湖北歐特隆汽車用品超市有限公司) ("**Hubei Autoboom**"), Shanghai Astrace, Changchun

Guangda) and IPO Automotive Corporation Limited (艾普汽車股份有限公司) ("**IPO Automotive**") into the Group, approximately RMB13,880,000 was bad debts recorded by Shanghai New Focus Auto Repair Services Co., Ltd (上海新焦點汽車維修服務有限公司) approximately RMB9,540,000 was increased remuneration including those paid to the new management team and approximately RMB10,160,000 was losses resulting from the closure of several service retail stores in Shanghai and Shenzhen.

Operating loss

The operating loss of the Group was approximately RMB346,238,000 (2011: operating profit of RMB103,573,000). The long term asset such as goodwill and intangible assets arising from mergers and acquisitions, the impairment of current assets such as inventories and receivables caused the Group to incur operating loss of RMB322,832,000. During the year, the sales and marketing expense and administrative expenses also increased significantly.

The Company incurred an impairment loss on goodwill in aggregate of approximately RMB164,673,000 for the year ended 31 December 2012, of which approximately RMB71,061,000 arose from the impairment loss on goodwill allocated to Zhejiang Autoboom, approximately RMB45,260,000 from the impairment loss on goodwill allocated to Liaoning Xin Tian Cheng Industrial Co., Ltd (遼寧新天成實業有限公司) ("**Liaoning XTC**"), approximately RMB18,058,000 from the impairment loss on goodwill allocated to Shanghai Astrace, approximately RMB20,979,000 from the impairment loss on goodwill allocated to Hubei Autoboom, approximately RMB9,213,000 from the impairment loss on goodwill allocated to Shenzhen Yonglonghang Auto Service Ltd (深圳市永隆行汽車服務有限責任公司) ("**Shenzhen Yonglonghang**") and approximately RMB102,000 from the impairment loss on goodwill allocated to Xinjiaodian (Chengdu) Auto Maintain Co., Ltd (新焦點(成都)汽車服務有限公司).

The Company incurred an impairment loss on other intangible assets in aggregate of approximately RMB123,288,000 for the year ended 31 December 2012, of which approximately RMB64,716,000 arose from the impairment loss on other intangible assets allocated to Zhejiang Autoboom, approximately RMB55,756,000 from the impairment loss on other intangible assets allocated to Liaoning XTC and approximately RMB2,816,000 from the impairment loss on other intangible assets allocated to other two subsidiaries of the Group which engage in automotive service retail business in Shanghai and Taiwan.

Zhejiang Autoboom and Liaoning XTC also incurred an impairment loss on property, plant and equipment of approximately RMB2,480,000 and approximately RMB1,661,000 respectively in 2012.

The Company expected that Zhejiang Autoboom would realize an annual growth rate of approximately 15% in its revenue in 2012. However, its revenue decreased by approximately 16% and its cost increased by approximately 18%. The Company expected that Liaoning XTC would realize an annual growth rate of approximately 15% in its revenue in 2012. However, its revenue decreased by approximately 6% and its cost increased by approximately 22%. The decrease in revenue was mainly attributable to the slowing economy of China. The substantial increase in the cost incurred by these two subsidiaries was mainly attributable to the increase in labor and rental cost. Zhejiang Autoboom and Liaoning XTC have both leased new spaces and recruited additional staff for its one and three stores opened in 2012 respectively. The increased minimum wage in Zhejiang and Liaoning, where the majority of the operations of Zhejiang Autoboom and Liaoning XTC respectively locate, which became effective in April and July 2011 respectively, further contributed to the increase in labor cost of Zhejiang Autoboom and Liaoning XTC.

The Company expected that Shanghai Astrace would realize an annual growth rate of approximately 50% in its revenue in 2012. However, its revenue increased by only approximately 5.5% and its cost increased by approximately 23%. The increase in the cost was mainly attributable to the increase in labor cost and travelling cost. Shanghai Astrace recruited more than 20 new employees in 2012 to meet the demand of its business expansion. In order to promote its business, Shanghai Astrace strengthened its marketing and promotion activities through various measures including attending exhibitions, which substantially increased its travelling costs.

Shenzhen Yonglonghang realized an annual growth rate of approximately 28% in its revenue and its cost increased by approximately 75%. This substantial increase in cost was mainly attributable to the cost incurred in the closure of several service retail stores and increase in the labor cost. The minimum wage in Shenzhen increased by approximately 12% starting from 1st February 2012, which substantially increased the labor cost including social insurance fee that Shenzhen Yonglonghang need to pay for its employees.

Considering the performance of Zhejiang Autoboom and Liaoning XTC was not as good as the Company expected, the Company anticipates that Hubei Autoboom would possibly realize an annual growth rate of 5% in its revenue in 2013 which is lower than the 15% expected by the Company in acquiring the 51% equity interest in Hubei Autoboom. That is the primary reason why there was an impairment loss RMB20,979,000 on goodwill allocated to Hubei Autoboom.

The initial considerations for the acquisition of 51% equity interests in Zhejiang Autoboom, Liaoning XTC, Shanghai Astrace, Hubei Autoboom and Shenzhen Yonglonghang are all subject to adjustment based on their actual performances during the specified consideration adjustment period. As the actual performances of Zhejiang Autoboom, Liaoning XTC and Shanghai Astrace during the forgoing period have all reached the relevant performance targets, the initial considerations for the acquisition of 51% equity interest in these three subsidiaries have not been adjusted. The initial consideration for the acquisition of 51% equity interest in Hubei Autoboom was RMB87,258,450 and the actual consideration was determined to be RMB83,977,023. The actual consideration for the acquisition of 51% equity interest in Shenzhen Yonglonghang will be determined in April 2013.

Finance costs

Net finance costs amounted to approximately RMB28,138,000 (2011: RMB19,630,000), representing an increase of approximately 43.3%. It was mainly attributable to the increase in interest expense arising from bank loans for mergers and acquisitions of the Group. The Group issued convertible bonds of USD38,201,000 in December 2011. The interest expense during the year amounted to RMB7,620,000.

Taxation

Income tax expenses were approximately minus RMB16,017,000 (2011: RMB25,251,000). If effect of impairment of long-term asset recognized during the year on the income tax expense was not taken into account, income tax expenses from operation was RMB14,101,000 during the year.

Loss attributable to owners of the Company

Loss attributable to owners of the Company was approximately RMB324,761,000 (2011: profit of approximately RMB26,304,000). The loss attributable to owners of the Company arising from impairment of long term assets such as goodwill and intangible assets, and impairment of current assets such as inventory and account receivables resulting from mergers and acquisitions was RMB243,443,000. Loss per share was approximately RMB47.50 cents (2011: profit per share of RMB4.59 cents).

Liquidity and financial resources

For the year ended 31 December 2012, the Group maintained a stable financial position and the liquidity of assets of the Group remained healthy. The Group recorded a net operating cash outflow of approximately RMB5,051,000 (2011: outflow RMB25,543,000).

The non-current assets were approximately RMB905,777,000 (31 December 2011: RMB921,649,000).

The net current liabilities were approximately RMB90,422,000 as at 31 December 2012 (31 December 2011: net current assets of RMB379,513,000), with a current ratio of approximately 0.90 (31 December 2011: 1.63).

Gearing ratio calculated by dividing total liabilities by total assets was approximately 68.97% as at 31 December 2012 (31 December 2011: approximately 54.01%). As at 31 December 2012, the total bank borrowings of the Group were approximately RMB262,955,000 (31 December 2011: RMB187,447,000).

The Group maintains strong and sufficient operating cash flow, bank deposits and banking facilities to finance its daily operation, capital expenditure, merger and acquisition activities and future investment opportunities for further expansion to the domestic market of the Greater China region.

Treasury policies

The Group's retail and wholesale service businesses were mainly in mainland China and their settlement currency was RMB, so there was no exchange risk. The settlement currency of the Group's manufacturing business was mainly US dollar. The Group reduced the exposure of USD assets by USD borrowings to minimize exchange risk.

Substantial acquisitions and disposals and material investments

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Acquisition of 12% equity interest in Zhejiang Autoboom and revocation of acquisition

On 30 March 2012, the Company entered into an equity transfer agreement with the minority shareholders (the "**Minority Shareholders**") of Zhejiang Autoboom, pursuant to which the Company acquired 12% equity interest in Zhejiang Autoboom at a consideration of RMB37,247,000. As the Group was committed to expand its service retail chain in the Greater China thereafter, the Company entered into a revocation agreement with the Minority Shareholders on 7 December 2012 to revoke the acquisition with a view to focusing its fund on the establishment of retail service chain system. After the completion of such revocation agreement on 20 December 2012, the Company's indirect equity interest in Zhejiang Autoboom decreased from 63% to 51%.

Proposed Acquisition of 100% equity interest in Mighty International and revocation of acquisition

On 30 March 2012, the Company entered into a conditional equity transfer agreement with the shareholders (the "**Transferor**") of Mighty International Limited ("**Mighty International**"), pursuant to which the Company proposed to acquire 100% equity interest in Mighty International at a consideration of RMB80,000,000. As the Group was committed to expand its service retail chain in the Greater China thereafter and considered the uncertainties in the future development of the Chinese real estate market, the Company entered into a revocation agreement with the Transferor on 7 December 2012 to revoke the acquisition with a view to focusing its fund on the establishment of retail service chain system.

Acquisition of 49% equity interest in Shenzhen Yonglonghang

On 28 June 2012, the Company entered into an equity transfer agreement with the minority shareholders of Shenzhen Yonglonghang, pursuant to which the Company successfully acquired 49% equity interest in Shenzhen Yonglonghang at a consideration of RMB37,240,000. After the completion of such acquisition on 29 June 2012, the Company indirectly held 100% equity interest in Shenzhen Yonglonghang.

Acquisition of 51% equity interest in Changchun Guangda

On 17 July 2012, the Company entered into an equity transfer agreement with the shareholders of Changchun Guangda, pursuant to which the Company successfully acquired 51% equity interest in Changchun Guangda at a consideration of RMB132,600,000 (subject to adjustment). After the completion of such acquisition on 25 October 2012, the Company indirectly held 51% equity interest in Changchun Guangda.

Acquisition of 100% equity interest in IPO Automotive

On 15 November 2012, Taiwan New Focus Car Services Co. Ltd, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Ai Feng Investment Company Limited, IPO Automotive, Magic Auto Detailer International Co., Ltd., Mr. Zeng Xin He and Ms. Yu Shu Mei, pursuant to which the Company decided to acquire 100% equity interest in IPO Automotive at a consideration of NTD210,000,000 (subject to adjustment). As at 31 December 2012, the transfer of 97.5% equity interest in IPO Automotive to the Group has been completed and the remaining 2.5% equity interest will be transferred to the Company on or about 7 June 2013.

Significant Investments

For the year ended 31 December 2012, the Group had no significant investments.

Charge of assets on the Group

As at 31 December 2012, the net book values of investment properties, property, plant and equipment and leasehold land and land use rights pledged as security for the Group's bank borrowings amounted to approximately RMB138,679,000 (31 December 2011: RMB119,468,000).

Contingent liabilities

As at 31 December 2012, the Group had no significant contingent liabilities.

Outlook and future prospects

Despite the slowdown of the global economy, the decline of the China domestic automobile market, and the dramatic restructuring measures taken within the Group in 2012, the Group showed strength of resilience, with just a 6% decline in revenue to approximately RMB1.4 billion in 2012 from approximately RMB1.5 billion in 2011.

It was notable that the contribution of revenue from the domestic China consumer service chain and the B2B wholesale components of the Group soared, accounting for approximately 72% of the overall group business compared to approximately 68% in 2011. Revenue of the Group's manufacturing business accounted for less than approximately 28% of the Group's total revenue from approximately 32% in 2011.

Looking back on the year, the new management, joined in the early half of 2012, continued to implement constructive restructuring measures, which we believe would yield significant and sustainable shareholders values for the Group in the long run. Consolidation and synergies across domestic consumer service retail chain and B2B wholesale operations continued.

In the consumer service retail chain front, operations in the Eastern China region, Southern China region and Taiwan are now 100 percent owned and managed by the Group. All brands have been consolidated under the Group. The Group expects to further consolidate the branding of the remaining China Northern and China Northeastern stores by the end of 2013, thus completely unifying the Group's identity and allowing a consistent appeal to consumers throughout Greater China region.

In addition to branding consolidation, new store format has been successfully tested and has proven to yield significantly higher store traffic, member visit frequency, loyalty and financial benefits. Unlike the old store format where the majority of the store floor space was devoted to car accessory retailing, the new store format devotes significantly higher percentage of floor space towards regular and quick maintenances, wash and detailing, body repair and modification. The new store format has generated higher operating margins, freed-up cash from inventory, reduced upfront capital expenditure requirements and shortened the time required to achieve store break-even and cash pay-back period. The Group intends to continue to renovate its remaining stores in 2013 and will roll-out all future stores under the new service-oriented store format.

The Group provided services to over 6 million car owners and thousands of small and business owners in 2012. At the end of 2012, the Group has 80 consumer service retailing stores and 18 B2B wholesaling stores across the Greater China region. With a focus on top-tier markets in Greater China, the Group is now the largest in its category. The Group's unique vast distribution scale has attracted the attention of many leading global enterprises wishing to enter into the Greater China automotive after-sales market. The Group has clearly positioned itself as the leading partner-of-choice for those who are interested to tap into the fast growing automotive after-sales market in China.

Employees and remuneration policies

As at 31 December 2012, the Group employed a total of 5,291 full-time employees (31 December 2011: 4,328), of which 921 were managerial staff (31 December 2011: 785). The remuneration package for the Group's employees includes wages, incentives (such as performance-based bonus) and allowances. The Group also provides social security insurance and benefits to its employees.

Dividend

During the year ended 31 December 2012, the Group did not declare or pay any dividend.

(ii) For the year ended 31 December 2013

Business review

In 2013, the Group focused on the automotive aftermarket chain service in the Greater China region, based on channel construction and branding promotion as well as one-stop retail service, providing and satisfying the basic needs of numerous automotive users, taking the market-leading position in the industry.

Segment information

Retail Service Business

The consolidated turnover of the Group's retail service business amounted to approximately RMB524,491,000 (2012: RMB502,657,000), representing an increase of approximately 4.3%. The increase was mainly attributable to the acquisition of Changchun Guangda by the Group in November 2012. The difference between the annual turnover of Changchun Guangda in 2013, which was consolidated into turnover under the statement of the Group, and that for the last two months of 2012 was approximately RMB89,563,000. Excluding the aforesaid difference, the turnover decreased approximately RMB67,729,000 when compared with 2012. The decrease was mainly attributable to the transformation of the Group's services business from traditional car wash and beauty services operating model to one-stop comprehensive shops, resulting in a decrease in turnover.

The gross profit of the Group's retail service business was approximately RMB112,667,000 (2012: RMB100,690,000), representing an increase of approximately 11.9%. The difference between the gross profit of Changchun Guangda in 2013, which was consolidated into gross profit under the statement of the Group, and that for the last two months of 2012 was approximately RMB38,278,000. Excluding the aforesaid difference, gross profit decreased approximately RMB26,301,000 mainly due to the decrease in turnover.

Wholesale Service Business

The consolidated turnover of wholesale service business of the Group was approximately RMB471,338,000 (2012: RMB503,392,000), representing a decrease of approximately 6.4%. The decrease was mainly attributable to the impact of e-commerce and the vigorous competition in the industry.

The gross profit of the Group's wholesale service business was approximately RMB92,522,000 (2012: RMB112,836,000), representing a decrease of approximately 18.0%, while its gross margin decreased from 22.4% to 19.6%. The decreases were mainly attributable to the impact of e-commerce and the vigorous competition in the industry which caused an adverse impact on the sales and gross profit of wholesales.

Manufacturing Business

The consolidated turnover of manufacturing business of the Group was approximately RMB418,787,000 (2012: RMB391,836,000), representing an increase of approximately 6.9%. The operation team put efforts to improve the performance. Even USD depreciated against RMB, the performance of manufacturing business had still improved.

The gross profit of the Group's manufacturing business was approximately RMB52,835,000 (2012: RMB77,638,000), representing a decrease of approximately 31.9%, while its gross margin was approximately 12.6% (2012: 19.8%). The decreases in the gross profit and gross margin of the Group's manufacturing business were mainly because the Group made a provision for inventory impairment of approximately RMB20,368,000 for inventory with net realizable value lower than its carrying amount (2012: RMB6,010,000), its labor cost increased for approximately RMB8,387,000 following the increase in minimum wage in Shanghai and continuous depreciation of USD in 2013.

Financial review

Revenue

For the year ended 31 December 2013, the Group recorded a consolidated turnover of approximately RMB1,414,616,000 (2012: RMB1,397,885,000), representing an increase of approximately 1.2%.

Gross profit and gross margin

The consolidated gross profit of the Group was approximately RMB258,024,000 in 2013 (2012: RMB291,164,000), down approximately 11.4%. Gross margin decreased from approximately 20.8% in 2012 to approximately 18.2% in 2013.

Expenses

Sales and marketing expenses for the year were approximately RMB252,116,000 (2012: RMB201,338,000), representing a growth of approximately 25.2%. The increase mainly included the difference of approximately RMB9,707,000 between the annual sales and marketing expenses of Changchun Guangda in 2013 and that for the last two months of 2012. In addition, Shanghai New Focus Auto Repair Services Co., Ltd (上海新焦點汽車維修服務有限公司), a subsidiary of the Group, incurred a loss of approximately RMB22,627,000 due to transformation of business model.

The administrative expenses for the year were approximately RMB160,159,000 (2012: RMB159,909,000), representing an increase of approximately 0.2%, which mainly included the difference of approximately RMB3,336,000 between the administrative expenses of Changchun Guangda in 2013 and that for the last two months of 2012.

Operating loss

The operating loss of the Group was approximately RMB539,627,000 (2012: operating loss of RMB346,238,000). The impairment of long term asset such as goodwill and intangible assets arising from the acquisition, the impairment of current assets such as inventories and receivables and the disposal loss of other long-term assets caused the Group to incur operating loss of approximately RMB435,767,000. Other reasons included the significant decrease in gross profit during the year and the substantial increase in sales and marketing expenses.

The Company incurred an impairment loss on goodwill in aggregate of approximately RMB154,696,000 for the year ended 31 December 2013, of which approximately RMB43,624,000 arose from the impairment loss on goodwill allocated to Hubei Autoboom, approximately RMB40,467,000 from the impairment loss on goodwill allocated to Changchun Guangda, approximately RMB26,617,000 from the impairment loss on goodwill allocated to IPO Automotive approximately RMB18,655,000 from the impairment loss on goodwill allocated to Shanghai Astrace, approximately RMB10,217,000 from the impairment loss on goodwill allocated to two subsidiaries situated in Shandong (山東愛義行) ("**Shandong Aiyihang**"), approximately RMB7,951,000 from the impairment loss on goodwill allocated to New Focus Richahaus Co., Ltd. (新焦點麗車坊股份有限公司) ("**Richahaus**") and approximately RMB7,165,000 from the impairment loss on goodwill allocated to Shenzhen Yonglonghang.

The Company incurred an impairment loss on other intangible assets in aggregate of approximately RMB211,722,000 for the year ended 31 December 2013, of which approximately RMB56,502,000 arose from the impairment loss on other intangible assets allocated to Zhejiang Autoboom, approximately RMB51,902,000 from the impairment loss on other intangible assets allocated to Liaoning XTC, approximately RMB49,033,000 from the impairment loss on other intangible assets allocated to Shanghai Astrace, approximately RMB29,376,000 from the impairment loss on other intangible assets allocated to Hubei Autoboom, approximately RMB13,068,000 from the impairment loss on other intangible assets allocated to Shenzhen Yonglonghang, approximately RMB7,134,000 from the impairment loss on other intangible assets allocated to Richahaus and approximately RMB4,707,000 from the impairment loss on other intangible assets allocated to IPO Automotive.

Hubei Autoboom, Zhejiang Autoboom, Shanghai Astrace and Liaoning XTC engage in the wholesale of auto accessories. The industry of wholesales business was substantially influenced by the development of e-commerce business. Due to the low market entry threshold, many small businesses operate the wholesale of auto accessories online and the business of these four acquired companies has been materially affected accordingly.

Taiwan Richahaus, Shenzhen Yonglonghang, Shandong Aiyihang, Changchun Guangda and IPO Automotive engage in auto accessories retail and service business. There has been no significant change in such business and industry after the relevant acquisitions except some changes mentioned in below.

The Directors believe that the main detailed reasons and changes in the circumstances during the financial year ended 31 December 2013 leading to the above impairment losses are as follows: (1) the increasingly competitive market in the retail business; (2) the rapid development of e-commerce automotive products influenced the traditional wholesale business of the Company, which caused the loss related to the Group's wholesale business; (3) the increase in the labour cost during the year ended 31 December 2013.

The impairment losses were mainly because the sales growth of certain subsidiaries of the Company in 2013 was below expectation and the increases in expenses were above expectation. In particular, the Company previously expected that:

(a) Hubei Autoboom would have realised an annual growth rate of approximately 5% in its revenue for the year ended 31 December 2013 as compared to that of the year of 2012. However, due to the vigorous competition in the industry arising from the development of e-commercial business, for the year ended 31 December 2013, its actual revenue decreased by approximately 27% and its distribution costs and administrative expenses increased by 22%, as compared to the year of 2012. Hubei Autoboom has already focused on the distribution of products with relatively higher gross profit ratio, but it will take some time to take effect.

(b) Zhejiang Autoboom would have realised an annual growth rate of approximately 5% in its revenue for the year ended 31 December 2013 as compared to that of the year of 2012. However, due to the vigorous competition in the industry arising from the development of e-commercial business, its actual revenue for the year ended 31 December 2013 decreased by approximately 5% as compared to that of the year of 2012.

(c) Shanghai Astrace would realise an annual growth rate of approximately 10% in its revenue for the year ended 31 December 2013 as compared to that of the year of 2012. However, due to the loss of certain big wholesale customers arising from the resignation of certain salesmen, its actual revenue for the year ended 31 December 2013 decreased by approximately 31% as compared to that of the year of 2012.

(d) Liaoning XTC would have realised an annual growth rate of approximately 10% in its revenue for the year ended 31 December 2013 as compared to that of the year of 2012. However, due to the vigorous competition in the industry arising from the development of e-commercial business, its actual revenue for the year ended 31 December 2013 only increased by approximately 1% as compared to that of the year of 2012. Such increase was mainly attributable to the cooperation with a well-known tyre manufacturer. Liaoning XTC was appointed as the sole agent in certain areas by this tyre manufacturer in the second half of 2013.

(e) Richahaus would have realised an annual growth rate of approximately 10% in its revenue for the year ended 31 December 2013 as compared to that of the year of 2012. However, due to the closure of one store, increasing labour cost in Taiwan and vigorous competition, for the year ended 31 December 2013, its revenue decreased by 25% and its distribution costs and administrative expenses increased by 3%, as compared to that of the year of 2012.

(f) Shenzhen Yonglonghang would have realised an annual growth rate of approximately 10% in its revenue for the year ended 31 December 2013 as compared to that of the year of 2012. However, due to the closure of two stores and dismissal of some staff, for the year ended 31 December 2013, its revenue decreased by 25% and its distribution costs and administrative expenses increased by 3%, as compared to that of the year of 2012.

(g) Shandong Aiyihang would have realised an annual increase rate of 36% in its revenue for the year ended 31 December 2013 as compared to that of the year of 2012. However, its actual revenue for the year ended 31 December 2013 only increased by approximately 7% as compared to that of the year of 2012 mainly due to competitive market and the increasing labour cost.

(h) Changchun Guangda would have realised an annual growth rate of approximately 25% to 45% in its revenue. However, due to the increasingly competitive market, the Company lowered such expectation to approximately 10% and the expectation of capital expenditures from RMB30 million to RMB3 million by changing to focus on the existing store layouts.

(i) IPO Automotive would have realised an increase in the net profit to NTD60,000,000 for the year ended 31 December 2013. However, the actual net profit of IPO Automotive for the year ended 31 December 2013 was only approximately NTD2,330,000 mainly due to the over-expectation of development of its high-end car washing and beauty business in Taiwan by the previous management team.

As mentioned above, due to certain factors as detailed above, competitive market and the increasing labour cost, the related business had incurred such impairment losses in 2013.

But in consideration of some emerging effects resulted from various measures implemented by new operating team, including formulation of city strategy which focus on in-depth expansion of existing market in connection with retail and services business, and transformation of business model in connection with wholesale business to overcome the challenges from the rapid development of online retails, and the expected rapid and high volume growth in the scale of automotive after-sales market in Greater China region, the Directors believe that the sales and operating results of the Group, including the above mentioned acquired companies will gradually improve on the basis of the performances in 2013.

Finance costs

Net finance costs amounted to approximately RMB25,635,000 (2012: RMB28,138,000), representing a decrease of approximately 8.9%.

Taxation

Income tax expenses were approximately minus RMB48,412,000 (2012: minus RMB16,017,000). If the effect of impairment of long-term asset recognized during the year on the income tax expenses was not taken into account, income tax expenses from operation were approximately RMB1,558,000 during the year.

Loss attributable to owners of the Company

Loss attributable to owners of the Company was approximately RMB446,700,000 (2012: loss of approximately RMB324,761,000). The loss attributable to owners of the Company arising from impairment of long term assets such as goodwill and intangible assets arising from acquisitions, impairment of current assets such as inventory and account receivables and disposal loss of other long-term assets was approximately RMB357,241,000. Loss per share was approximately RMB31.60 cents (2012: loss per share of RMB47.50 cents).

Financial position and liquidity

For the year ended 31 December 2013, the Group maintained a stable financial position and the liquidity of assets of the Group remained healthy. The Group had a net operating cash outflow of approximately RMB58,017,000 (2012: outflow of approximately RMB5,051,000).

The non-current assets were approximately RMB521,097,000 as at 31 December 2013 (31 December 2012: RMB905,777,000).

The net current assets were approximately RMB245,853,000 as at 31 December 2013 (31 December 2012: net current liabilities of approximately RMB90,422,000), with a current ratio of approximately 1.42 (31 December 2012: 0.90).

Gearing ratio calculated by dividing total liabilities by total assets was approximately 63.34% as at 31 December 2013 (31 December 2012: approximately 68.97%). As at 31 December 2013, the total bank borrowings of the Group were approximately RMB138,927,000 (31 December 2012: RMB262,955,000).

The Group maintains strong and sufficient operating cash flow, bank deposits and banking facilities to finance its daily operation, capital expenditure, merger and acquisition activities and future investment opportunities for further expansion in the domestic market of the Greater China region.

Treasury policies

The Group's retail and wholesale service businesses were mainly in mainland China and their settlement currency was RMB, so there was no exchange risk. The settlement currency of the Group's manufacturing business was mainly US dollar. The Group reduced the exposure of USD assets by USD borrowings to minimize exchange risk.

Substantial acquisitions and disposals and material investments

On 25 June 2013, with a view to improving its liquidity position and secure funding to carry out its business plans, the Company entered into, among others, the Placing Agreement (the "**2013 Placing Agreement**"), the Management Subscription Agreement (the "**Management Subscription Agreement**"), the STIC Amendment Deed (the "**STIC Amendment Deed**") and the Investment Agreement (the "**Investment Agreement**") (all as defined in the circular of the Company to its shareholders dated 17 July 2013) (the "**2013 Placing Circular**") to effect the transactions contemplated thereunder (the "**Transactions**").

Completion of the Transactions took place on 28 August 2013, pursuant to which:

(a) 1,008,804,000 new placing shares were placed by Morgan Stanley & Co. International plc (the "**2013 Placing Agent**") to more than six (6) independent placees pursuant to the Placing Agreement at the placing price of HK$0.30 per placing share (the "**2013 Placing**");

(b) 51,866,667 new management subscription shares were allotted and issued to Ms. Wang Chin-wei, the spouse of former executive director and chief executive officer Mr. Raymond N. Chang at the management subscription price of HK$0.30 pursuant to the terms of the Management Subscription Agreement (the "**Management Subscription**");

(c) the Company redeemed, by using the proceeds from the 2013 Placing and the Management Subscription, the convertible bonds in the principal amount of US$38,201,001 in aggregate from STIC Secondary Fund II, L.P. and STIC Korea Integrated-Technologies New Growth Engine Private Equity Fund and in full at an aggregate redemption price of US$40,000,000; and

(d) pursuant to terms of the Investment Agreement, 1,262,564,333 new investor subscription shares were allotted and issued to CDH Fast Two Limited at the investor subscription price of HK$0.30 per share and the convertible bonds in the aggregate principal amount of US$48,685,000 were issued to CDH Fast Two Limited at the same principal amount.

CDH Fast Two Limited is a special purpose vehicle managed by CDH China Management Ltd ("**CDH Management**"), an international alternative asset fund manager focusing on investments in private equity, venture capital and estate, mezzanine and public equity markets. The group of funds under the "CDH Investments" umbrella, including CDH Fast Two Limited and CDH Management, has clients which are international and domestic international investors, including sovereign wealth funds, China's National Social Security Fund, international pension funds, endowments, family offices and fund of funds.

For details, please see the announcement of the Company dated 26 June 2013, the 2013 Placing Circular, the announcement of the Company dated 17 July 2013, the announcement of the Company on the results of the voting in the extraordinary general meeting of the shareholders of the Company dated 9 August 2013, the announcement of the Company dated 13 August 2013, the announcements of the Company dated 28 August 2013 and the announcement of the Company dated 29 August 2013.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Acquisition of 18.68% equity interest in New Focus Richahaus

On 18 February 2013, the Company entered into a share purchase agreement with the minority shareholders of New Focus Richahaus Co., Ltd. ("**New Focus Richahaus**"), pursuant to which, the Company acquired 18.68% equity interest in New Focus Richahaus ("**Acquisition**") at a consideration of NTD42,029,326. After the completion of the Acquisition on 19 March 2013, the Company holds 100% indirect equity interest in New Focus Richahaus.

Supplemental Agreement to the Equity Transfer Agreement in relation to the Acquisition of 51% equity interest in Hubei Autoboom

On 23 September 2011, the Company and Chen Bing Yu (陳炳煜), Li Zhen Fei (李貞斐) and Li Zheng Guo (李正國) ("**Hubei Autoboom Vendors**") entered into the equity transfer agreement in relation to the acquisition of 51% equity interest in Hubei Autoboom (the "**Hubei Autoboom Equity Transfer Agreement**"), and this acquisition completed on 23 September 2011. On 18 February 2013, the Company and Hubei Autoboom Vendors entered into a supplemental agreement to amend the terms of the Hubei Autoboom Equity Transfer Agreement, including the method of consideration payment, pursuant to which the Company is obligated to pay Hubei Autoboom Vendors a sum of RMB27,621,178 for the outstanding consideration, of which RMB4,000,000 will be satisfied by way of cash and the remaining RMB23,621,178 will be satisfied by the issue of 29,749,744 new shares in the Company at the issue price of HK$0.98. The said sum of RMB4,000,000 has been settled and the new shares have been issued during the Period under review.

Determination and Settlement of consideration for Acquisition of 51% equity interest in Shenzhen Yonglonghang, 51% equity interest in Shanghai Astrace and 100% equity interest in IPO Automotive

In relation to the acquisitions of 51% equity interest in Shenzhen Yonglonghang on 25 November 2009, 51% equity interest in Shanghai Astrace on 28 June 2011 and 100% equity interest in IPO Automotive on 15 November 2012, the Company has updated the determination of the acquisition and settlement of consideration. Details are set out in the Company's announcements dated 26 July 2013, 13 September 2013 and 17 April 2014.

Significant Investments

For the year ended 31 December 2013, the Group had no significant investments.

Charge of assets on the Group

As at 31 December 2013, the net book values of investment properties, property, plant and equipment and leasehold land and land use rights pledged as security for the Group's bank borrowings amounted to approximately RMB134,790,000 (31 December 2012: RMB138,679,000).

Contingent liabilities

As at 31 December 2013, the Group had no significant contingent liabilities.

Outlook and future prospects

The sales of passenger vehicle in the PRC was 17,930,000 in 2013, which increased 15.7% year-on-year. Comparing the number of new cars in 2011 and 2012, the automotive market recovered significantly in 2013. Meanwhile, scale of automotive after-sales market in the PRC in 2013 has exceeded RMB500 billion. It is anticipated that scale of the whole automotive after-sales market will be over RMB800 billion in 2015. The rapid growth of the industry provides a stable and superior macro-environment for the subsequent development of the Group.

The market believes that, the forthcoming two years will be the years of industrial consolidation for automotive aftermarket. Manufacturers possessing capital, technologies, management advantages will increase their effort gradually and the development of automotive aftermarket will have a better standard. Aftermarket enterprises which have differentiated products and standardized service quality will obtain fast, long-lasting and good development opportunity.

As at the end of 2013, the services business of the Group has a total of 90 stores in the business layouts, in which 9 of them are newly added. To reduce the loss in cash and adjust the layout, 17 stores ceased part of the business.

Employees and remuneration policies

As at 31 December 2013, the Group employed a total of 4,879 full-time employees (31 December 2012: 5,291), of which 654 were managerial staff (31 December 2012: 921). The remuneration package for the Group's employees includes wages, incentives (such as performance-based bonus) and allowances. The Group also provides social security insurance and benefits to its employees.

Dividend

During the year ended 31 December 2013, the Group did not declare or pay any dividend.

(iii) For the year ended 31 December 2014

Business review

In 2014, the Group focused on the automotive aftermarket chain service in the Greater China region to satisfy the basic needs of numerous automotive users, taking the market-leading position in the industry.

As at 31 December of 2014, the Group had a total of 75 consumer service retail centres, 11 wholesale service stores and two manufacturing business factories.

Segment information

Retail service business

The consolidated turnover of the Group's retail service business amounted to approximately RMB516,898,000 (2013: RMB524,491,000), representing a decrease of approximately 1.5%. The decrease was mainly due to the limitation of government expenditure from the PRC government, resulting in a decrease of revenue from the government customers.

The gross profit of the Group's retail service business was approximately RMB122,934,000 (2013: RMB112,667,000), representing an increase of approximately 9.1%. The increase was mainly attributable to the initial success in the transformation of our retail service business in terms of optimization of product structure.

Wholesale service business

The consolidated turnover of wholesale service business of the Group was approximately RMB443,257,000 (2013: RMB471,338,000), representing a decrease of approximately 6.0%. The decrease was mainly attributable to the challenges from e-commerce and the vigorous competition in the industry.

The gross profit of the Group's wholesale service business was approximately RMB98,318,000 (2013: RMB92,522,000), representing an increase of approximately 6.3%, while its gross margin increased from 19.6% to 22.2%. The increase of gross profit was mainly because, in face of vigorous challenges from e-commerce, the Group has aggressively optimized the products structure and increased the proportion of sales of high gross profit products.

Manufacturing business

The consolidated turnover of manufacturing business of the Group was approximately RMB437,343,000 (2013: RMB418,787,000), representing an increase of approximately 4.4%. The increase was mainly due to the increase of orders from clients and the appreciation of USD.

The gross profit of the Group's manufacturing business was approximately RMB75,867,000 (2013: RMB52,835,000), representing an increase of approximately 43.6%, while its gross margin was approximately 17.3% (2013: 12.6%). The increase in the gross profit was mainly because the provision for impairment of inventory with net realizable value lower than its carrying amount decreased to approximately RMB4,292,000 (2013: RMB20,368,000) and the appreciation of USD in 2014.

Financial review

Revenue

For the year ended 31 December 2014, the Group recorded a consolidated turnover of approximately RMB1,397,498,000 (2013: RMB1,414,616,000), representing a decrease of approximately 1.2%.

Gross profit and gross margin

The consolidated gross profit of the Group was approximately RMB297,119,000 in 2014 (2013: RMB258,024,000), representing an increase of approximately 15.2%. Gross margin increased from approximately 18.2% in 2013 to approximately 21.3% in 2014.

Expenses

Sales and marketing expenses for the year were approximately RMB225,042,000 (2013: RMB252,116,000), representing a decrease of approximately 10.7%. The decrease was mainly due to the transformation of business model of the Group.

The administrative expenses for the year were approximately RMB121,268,000 (2013: RMB160,159,000), representing a decrease of approximately 24.3%, which was mainly due to the reduction of our workforce and tightening of other administrative expenses.

Operating loss

The operating loss of the Group was approximately RMB113,000 (2013: operating loss of RMB539,627,000). The operating loss decreased by approximately RMB539,514,000, of which approximately RMB401,791,000, which was recognized in 2013, was the amount of the impairment loss of long term assets such as goodwill and intangible assets arising from merger and acquisition activities and the loss on disposal of other long-term assets, while the remaining RMB137,723,000 was attributable to the transformation and consolidation of the Group's business in 2014, of which initial success has been achieved.

Finance costs

Net finance costs amounted to approximately RMB26,266,000 (2013: RMB25,635,000), representing an increase of approximately 2.5%.

Taxation

Income tax expenses were approximately RMB9,422,000 (2013: minus RMB48,412,000). Such increase was mainly attributable to reversal of deferred tax liabilities of approximately RMB48,261,000 resulting from the impairment of long-term asset which was recognized in 2013. Excluding this factor, income tax expenses for 2014 increased by RMB9,573,000 as compared with 2013. The increase was due to the increase of profit before tax of certain profitable subsidiaries of the Group in 2014.

Loss attributable to owners of the Company

Loss attributable to owners of the Company was approximately RMB43,223,000 (2013: loss of RMB446,700,000). Compared with 2013, the loss attributable to the owner of the Company decreased by RMB403,477,000. After deducting the impairment of long term assets such as goodwill and intangible assets arising from merger and acquisition activities and impairment of current assets such as inventories and receivables and loss on disposal of long-term assets that led to the loss attributable to the owners of the Company of RMB357,241,000 which was recognized in 2013, the loss attributable to owners of the Company decreased by RMB46,236,000, which was mainly due to the initial success in the transformation and consolidation of the Group's business in 2014. Loss per share was approximately RMB1.27 cents (2013: loss per share of RMB31.60 cents).

Capital structure, financial position and liquidity

Capital structure

Upon the receipt of a conversion notice on 11 June 2014 from CDH Fast Two Limited for partial conversion of the convertible bonds in the principal amount of US$24,342,500, the Company allotted and issued a total of 813,507,946 conversion shares to CDH Fast Two Limited at the conversion price of HK$0.2328 per conversion share on 12 June 2014. After the partial conversion of the convertible bonds as described above, the Company has convertible bonds outstanding in the principal amount of US$24,342,500. Please refer to the announcement of the Company dated 12 June 2014 for details.

As at 31 December 2014, the Group's total assets were RMB1,188,415,000 (31 December 2013: RMB1,346,733,000), comprising: (1) share capital of RMB307,931,000 (31 December 2013: RMB242,704,000), (2) reserves of RMB232,366,000 (31 December 2013: RMB250,971,000), and (3) debts of RMB648,118,000 (31 December 2013: RMB853,058,000).

Financial position and liquidity

For the year ended 31 December 2014, the Group maintained a stable financial position and the liquidity of assets of the Group remained healthy. The Group had a net operating cash inflow of approximately RMB64,321,000 (2013: outflow of RMB58,017,000).

The non-current assets were approximately RMB469,881,000 as at 31 December 2014 (31 December 2013: RMB521,097,000).

The net current assets were approximately RMB234,232,000 as at 31 December 2014 (31 December 2013: RMB245,853,000), with a current ratio of approximately 1.48 (31 December 2013: 1.42).

Gearing ratio calculated by dividing total liabilities by total assets was approximately 54.54% as at 31 December 2014 (31 December 2013: 63.34%). As at 31 December 2014, the total bank borrowings of the Group were approximately RMB161,829,000 (31 December 2013: RMB138,927,000).

The Group maintains strong and sufficient operating cash flow, bank deposits and banking facilities to finance its daily operation, capital expenditure, merger and acquisition activities and future investment opportunities for further expansion in the domestic market of the Greater China region.

The announcement of the Company dated 28 July 2014 disclosed the actual use of net proceeds from the issuance of the Investor Subscription Shares and the Convertible Bonds (as defined in the circular dated 17 July 2013 of the Company). The Company previously intended to apply the remaining proceeds of approximately US$14 million (equivalent to approximately HK$108.9 million) to (i) the settlement of the outstanding RMB20,000,000 payable to the vendor under a supplement agreement in relation to the acquisition of 51% equity interest in Changchun Guangda as disclosed in the announcement of the Company dated 29 January 2014; (ii) potential mergers and acquisitions of the Group's service business and (iii) general working capital of the Group. At the end of 2014, the Board reasonably estimated that the Audited Net Profit After Taxation of 2014 (as defined in the announcement of the Company dated 29 January 2014) could not reach RMB26,000,000, therefore the Company should not be required to pay the aforesaid RMB20,000,000. Considered that there are no immediate mergers and acquisitions for the business of the Group and our operation capital is still sufficient, the Company has applied the aforesaid US$14 million together with other internal resources of the Group for the provision of entrusted loans in the principal amount of RMB100,000,000 (representing approximately HK$126,826,000) to the Target Company.

Treasury policies

The Group's retail and wholesale service businesses were mainly in mainland China and their settlement currency was RMB, so there was no exchange risk. The settlement currency of the Group's manufacturing business was mainly US dollar. The Group reduced the exposure of USD assets by USD borrowings to minimize exchange risk.

Substantial acquisitions and disposals and material investments

Substantial acquisitions and disposals of subsidiaries and associated companies

Supplemental agreements to Equity Transfer Agreement regarding acquisition of 51% equity interest in Changchun Guangda and determination of consideration

The Company and Ms. Gao Xiu Min ("**Ms. Gao**") entered into a supplemental agreement with effect from 29 January 2014 to amend the terms of the equity transfer agreement dated 17 July 2012 entered into by and among the Company, Ms. Gao and other parties. The amendments included the change of payment methods and the additional guarantee on future performance of Changchun Guangda by Ms. Gao. For this purpose, Equity Interest as Collateral (as defined in the announcement of the Company dated 29 January 2014) will be transferred to the designated subsidiary of the Company by Ms. Gao to secure the performance of her guarantee. For further details, please refer to the announcement of the Company dated 29 January 2014. The transfer of Equity Interest as Collateral was completed on 19 February 2014.

According to the aforesaid supplementary agreement, if the Audited Net Profit After Taxation of 2014 (as defined in the announcement of the Company dated 29 January 2014) does not reach RMB26,000,000, the Company will not need to pay RMB20,000,000 to Ms. Gao. Based on the Audited Report of 2014 (as defined in the announcement of the Company dated 29 January 2014), the Audited Net Profit After Taxation of 2014 is RMB10,344,000, hence the Company was not required to pay RMB20,000,000 to Ms. Gao.

Disposal of 51% equity interest in Hubei Autoboom

NFLP, a subsidiary of the Group that held directly 51% equity interest in Hubei Autoboom, entered into an equity transfer agreement with Mr. Chen Bing Yu and Mr. Li Zheng Guo (collectively the "**Purchasers**") which became effective on 17 December 2014. According to the agreement, the Purchasers agreed to purchase by way of cash, and NFLP has agreed to sell, 51% equity interest in Hubei Autoboom with the total consideration of RMB23,000,000. The disposal of 51% equity interest in Hubei Autoboom was completed on 31 December 2014. For further details, please refer to the announcement of the Company dated 17 December 2014.

Significant investments

For the year ended 31 December 2014, the Group had no significant investments. The Group has no specific future plans for material investments.

Charge of assets on the Group

As at 31 December 2014, the net book values of investment properties, property, plant and equipment and leasehold land and land use rights pledged as security for the Group's bank borrowings amounted to approximately RMB130,322,000 (31 December 2013: RMB134,790,000).

Contingent liabilities

As at 31 December 2014, the Group had no significant contingent liabilities.

Outlook and future prospects

In 2015, increasing the number of auto service stores and improving our operation model will be the main focus of the Group, thus we will continue to adopt the following operational strategies:

(i) continue to carry out our urban strategies, focus on the development of key markets, open new stores in the combined form of large and small stores, and steadily improve market share and the number of stores in these markets, so as to lay the foundation for expansion to new markets. The Group will fully implement cooperation and venture plans so as to attract the participation by outstanding key employees and aspiring teams;

(ii) actively adjust the product mix of wholesale business, and focus on automobile repair and maintenance products with rigid demand and improve logistics efficiency and service quality, enabling the Group to become an indispensable comprehensive supplier that provides integrated repair and maintenance products for automobile after-sales service stores in target markets; and

(iii) select bulk commodities such as the repair and maintenance products of the Group and directly cooperate with manufacturers, carry out purchase by way of original equipment manufacturer (OEM) with our own brands, thus reduce costs and improve the impact of the Group's products.

In addition, the Group will also continue to actively search for and negotiate with potential targets the acquisition of which will help us achieve the strategic objectives of the Group, consider acquisition in due course and explore opportunities to introduce a new business scope of automotive after-sales market, such as professional automotive repair, automotive insurance and automotive finance, so as to provide car owners with a more comprehensive automotive after-sales service to improve our competitive advantages.

The manufacturing business of the Group will continue with the market expansion in Europe and Asia Pacific, a market with giant potential, and continue to explore the upgrading needs of customers in North America. It will also enlarge the categories of authorized products by leveraging on the partnership with Michelin Lifestyle Limited to expand the domestic markets and actively explore the research and development of new product categories according to the latest industry development.

Employees and remuneration policies

As at 31 December 2014, the Group employed a total of 4,135 full-time employees (31 December 2013: 4,879), of which 573 were managerial staff (31 December 2013: 654). The remuneration package for the Group's employees includes wages, incentives (such as performance-based bonus) and allowances. The Group also provides social security insurance and benefits to its employees.

Dividend

During the year ended 31 December 2014, the Group did not declare or pay any dividend.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

30 June 2015

The Directors
New Focus Auto Tech Holdings Limited

Dear Sirs,

Introduction

We set out below our report on the financial information relating to Shenzhen Jiahong Trading Development Co., Ltd ("Jiahong") and its subsidiaries (hereinafter collectively referred to as the "Target Group") comprising the consolidated statements of financial position of the Target Group and the statements of financial position of Jiahong as at 31 December 2012, 2013 and 2014 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Target Group for each of the years ended 31 December 2012, 2013 and 2014 (the "Relevant Period"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular of New Focus Auto Tech Holdings Limited (the "Company") dated 30 June 2015 (the "Circular") in connection with the proposed share subscription of Jiahong (the "Proposed Subscription").

Jiahong was established in the People's Republic of China ("PRC") on 5 September 2001 with limited liability under the PRC Company Law. The registered office of Jiahong is located in Shenzhen, Guangdong province, PRC. During the Relevant Period, the Target Group is principally engaged in the business of sale and provision of after-sales services for luxury cars and other auto-related business in the PRC.

As at the date of this report, no audited financial statements have been prepared for Jia Hong and its subsidiaries, as they are not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

All companies comprising the Target Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Period are set out in note 12 of Section B.

The directors of Jiahong have prepared the consolidated financial statements of the Target Group for the Relevant Period (the "Underlying Financial Statements") in accordance with IFRSs issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended 31 December 2012, 2013 and 2014 were audited by KPMG Huazhen (Special General Partnership) in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular in connection with the Proposed Subscription of the Target Group based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' responsibility for the financial information

The directors of the Company are responsible for the preparation of the Financial Information that give a true and fair view in accordance with IFRSs issued by the IASB and the applicable disclosure provision of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of Jiahong, its subsidiaries or the Target Group in respect of any period subsequent to 31 December 2014.

Opinion

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Group and Jiahong as at 31 December 2012, 2013 and 2014 and the Target Group's consolidated results and cash flows for the Relevant Period then ended.

A FINANCIAL INFORMATION

1 Consolidated statements of profit or loss and other comprehensive income

		Years ended 31 December		
	Section B	**2012**	**2013**	**2014**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	2	2,651,185	6,117,319	8,532,663
Cost of sales and services		(2,486,073)	(5,752,060)	(8,002,905)
Gross profit		165,112	365,259	529,758
Other revenue and gains and losses	3	24,351	65,854	135,958
Distribution costs		(101,326)	(288,066)	(405,766)
Administrative expenses		(84,550)	(145,615)	(205,210)
Profit/(loss) from operation		3,587	(2,568)	54,740
Finance costs	4	(48,760)	(139,093)	(249,195)
Loss before taxation	4	(45,173)	(141,661)	(194,455)
Income tax expenses	5	1,155	(2,559)	915
Loss and total comprehensive income for the year		(44,018)	(144,220)	(193,540)
Loss and total comprehensive income for the year attributable to				
– Owners of Jiahong		(38,694)	(124,676)	(188,636)
– Non-controlling interests		(5,324)	(19,544)	(4,904)
		(44,018)	(144,220)	(193,540)

2 Consolidated statements of financial position

	Section B Note	Years ended 31 December 2012 RMB'000	2013 RMB'000	2014 RMB'000
Non-current assets				
Property, plant and equipment	9	354,788	1,022,293	1,423,730
Leasehold land and land use rights	10	87,649	87,554	85,753
Intangible assets	11	1,629	1,771	1,956
Deferred tax assets	21(b)	7,904	15,022	28,549
Other non-current assets		5,223	4,016	2,795
		457,193	1,130,656	1,542,783
Current assets				
Inventories	13	740,528	1,193,599	1,659,095
Trade receivables	14	6,129	17,472	23,270
Deposits, prepayments and other receivables	15	488,954	949,386	1,035,451
Amounts due from related parties	26	114,752	177,354	241,449
Pledged bank deposits	16	172,538	454,604	461,999
Cash and cash equivalents	17	57,736	229,257	314,047
		1,580,637	3,021,672	3,735,311
Current liabilities				
Loans and borrowings	18	888,308	2,124,442	2,197,074
Trade and bills payables	19	562,561	1,066,662	1,761,154
Accruals and other payables	20	253,897	439,519	700,573
Amounts due to related parties	26	78,746	29,154	105,097
Tax payable	21(a)	621	7,190	17,590
		1,784,133	3,666,967	4,781,488
Net current liabilities		(203,496)	(645,295)	(1,046,177)
Total assets less current liabilities		253,697	485,361	496,606

		Years ended 31 December		
	Section B	**2012**	**2013**	**2014**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities				
Loans and borrowings	*18*	–	153,500	366,350
Deferred tax liabilities	*21(b)*	1,388	3,972	5,907
		1,388	157,472	372,257
NET ASSETS		252,309	327,889	124,349
CAPITAL AND RESERVES				
Share capital	*22*	100,000	300,000	300,000
Reserves	*23*	93,980	(20,696)	(219,332)
Total equity attributable to equity shareholders of Jiahong		193,980	279,304	80,668
Non-controlling interests	*12*	58,329	48,585	43,681
TOTAL EQUITY		252,309	327,889	124,349

3 Statements of financial position

		Years ended 31 December		
	Section B	**2012**	**2013**	**2014**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	9	18,608	144,557	152,486
Intangible assets		1,337	1,194	1,401
Investment in subsidiaries	12	344,450	548,260	664,250
Other non-current asset		–	–	142
		364,395	694,011	818,279
Current assets				
Inventories	13	216,685	162,566	131,266
Trade receivables	14	–	4,982	5,457
Deposits, prepayments and other receivables	15	90,716	196,867	100,743
Amounts due from related parties	26	87,696	100,105	218,506
Amounts due from subsidiaries	12	252,927	610,987	770,737
Pledged bank deposits		18,402	45,000	126
Cash and cash equivalents	17	9,160	34,399	103,968
		675,586	1,154,906	1,330,803
Current liabilities				
Loans and borrowings	18	298,449	822,761	546,180
Trade and bills payables		68,202	33,871	29,974
Accruals and other payables	20	145,660	41,032	26,385
Amounts due to related parties	26	77,901	28,250	40,364
Amounts due to subsidiaries	12	272,345	624,091	1,101,530
		862,557	1,550,005	1,744,433
Net current liabilities		(186,971)	(395,099)	(413,630)
Total assets less current liabilities		177,424	298,912	404,649

		Years ended 31 December		
	Section B	**2012**	**2013**	**2014**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities				
Loans and borrowings	*18*	–	–	241,550
		–	–	241,550
NET ASSETS		177,424	298,912	163,099
CAPITAL AND RESERVES				
Share capital	*22*	100,000	300,000	300,000
Reserves	*23*	77,424	(1,088)	(136,901)
TOTAL EQUITY		177,424	298,912	163,099

4 Consolidated statements of changes in equity

	Attributable to owners of Jiahong						
	Share capital	Capital reserve	Statutory reserve fund	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 22)	*(Note 23(a))*	*(Note23(b))*				
Balance at 1 January 2012	100,000	10,000	2,787	129,887	242,674	33,903	276,577
Loss and total comprehensive income for the year	–	–	–	(38,694)	(38,694)	(5,324)	(44,018)
Contributions by non-controlling interests	–	–	–	–	–	29,750	29,750
Distribution to owners of Jiahong	–	(10,000)	–	–	(10,000)	–	(10,000)
Balance at 31 December 2012	100,000	–	2,787	91,193	193,980	58,329	252,309
Balance at 1 January 2013	100,000	–	2,787	91,193	193,980	58,329	252,309
Loss and total comprehensive income for the year	–	–	–	(124,676)	(124,676)	(19,544)	(144,220)
Capital injection by the shareholders of Jiahong	200,000	10,000	–	–	210,000	–	210,000
Contributions by non-controlling interests	–	–	–	–	–	9,800	9,800
Balance at 31 December 2013	300,000	10,000	2,787	(33,483)	279,304	48,585	327,889
Balance at 1 January 2014	300,000	10,000	2,787	(33,483)	279,304	48,585	327,889
Loss and total comprehensive income for the year	–	–	–	(188,636)	(188,636)	(4,904)	(193,540)
Distribution to owners of Jiahong	–	(10,000)	–	–	(10,000)	–	(10,000)
Balance at 31 December 2014	300,000	–	2,787	(222,119)	80,668	43,681	124,349

5 Consolidated cash flow statements

	Years ended 31 December		
	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*
Loss before income tax expenses	(45,173)	(141,661)	(194,455)
Adjustments for:			
– Depreciation of property, plant and equipment	20,458	64,948	119,192
– Amortization of leasehold land and land use rights	1,148	1,536	1,801
– Amortization of intangible assets	122	535	176
– Impairment on property, plant and equipment	–	–	15,484
– Interest income from bank deposits	(4,080)	(3,612)	(9,425)
– Finance cost	48,760	139,093	249,195
– (Gain)/loss on disposal of property, plant and equipment	(1,365)	(3,247)	1,684
Operating cash flows before working capital changes	19,870	57,592	183,652
Increase in inventories	(556,219)	(453,071)	(465,496)
Decrease/(increase) in trade receivables	12,967	(10,761)	(5,068)
Decrease/(increase) in deposits, prepayments and other receivables	17,061	(360,033)	(152,449)
Decrease in amounts due from related parties	–	(583)	(1,768)
Increase in pledged deposits for issuance of commercial bills and bank acceptance	(43,387)	(176,343)	(84,801)
Increase in trade and bills payables	125,655	503,785	677,119
Increase in accruals and other payables	68,362	8,789	177,656
Increase in amounts due to related parties	–	630	17,566
Cash (used in)/generated from operations	(355,691)	(429,995)	346,411
Income tax paid	(3,954)	(524)	(277)
Interest paid	(48,760)	(138,713)	(249,080)
Net cash (used in)/generated from operating activities	(408,405)	(569,232)	97,054

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Purchase of property, plant and equipment and other intangible assets	(304,046)	(699,852)	(453,929)
Proceeds from disposal of property, plant and equipment	16,493	31,380	96,003
(Increase)/decrease in pledged deposits for bank loans	(8,550)	(105,723)	77,406
Interest received	4,080	3,612	9,425
Net cash used in investing activities	(292,023)	(770,583)	(271,095)
Contribution by equity shareholders of Jiahong	–	210,000	–
Contribution by non-controlling interests	29,750	9,800	–
Proceeds from new bank loans	948,611	3,705,798	4,578,702
Repayment of bank loans	(330,064)	(2,316,164)	(4,293,221)
Advances from related parties	172,291	206,191	783,630
Repayment to related parties	(235,391)	(296,486)	(803,929)
Advance from third party companies	–	660,734	424,553
Repayment of advance from third party companies	(1,676)	(668,537)	(430,904)
Net cash generated from financing activities	583,521	1,511,336	258,831
Net (decrease)/increase in cash and cash equivalents	(116,907)	171,521	84,790
Cash and cash equivalents at beginning of year	174,643	57,736	229,257
Cash and cash equivalents at end of year	57,736	229,257	314,047

B NOTES TO FINANCIAL INFORMATION

1 Significant accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes International Accounting Standards and related interpretations, promulgated by the International Accounting Standards Board ("IASB"). The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Target Group has adopted all applicable new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2014. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2015 are set out in Note 29.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of measurement

During the Relevant Period the Financial Information is presented in Renminbi ("RMB"), rounded to nearest thousand. It is prepared on the historical cost basis.

(c) Going concern

The Financial Information has been prepared assuming the Target Group will continue as a going concern.

As at 31 December 2012, 2013 and 2014, the Target Group had net current liabilities of RMB203,496,000, RMB645,295,000, and RMB1,046,177,000, respectively. A principal factor contributing to the negative working capital is that the Target Group borrowed short-term bank loans to fund the construction of the Target Group's 4S car dealership stores in recent years. The management of Target Group has been in discussion with the lending banks and is confident to renew and extend certain of the Target Group's bank loans before due date according to history experience. As of 6 April 2015, bank facilities with an amount of RMB670 million have been obtained for a one-year term to extend current loans. In addition, the net proceeds from the proposed share subscription of Jiahong by New Focus Auto Tech Holding Limited ("New Focus") will increase the Target Group's working capital in the way of share issuance and financial assistance as agreed in Subscription Agreement. The Company also has agreed that it will continue to provide financial supports to the Target Group once the Target Group is unable to meet its obligations as and when they fall due in the foreseeable future. Thus, the Directors are of view that the Target Group will have sufficient liquid funds to finance its working capital and capital expenditure requirements.

(d) Use of estimates and judgments

The preparation of Financial Information in conformity with IFRSs requires the directors 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.

Judgements made by the directors in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 28.

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to Jiahong, and in respect of which the Target Group has not agreed any additional terms with the holders of those interests which would result in the Target Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Target Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the owners of Jiahong. Non-controlling interests in the results of the Target Group are presented on the face of the consolidated statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of Jiahong. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statements of financial position in accordance with notes 1(m) or 1(n) depending on the nature of the liability.

Changes in the Target Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Target Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In Jiahong's statements of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)).

(f) Business combination for entities under common control

Business combinations arising from transfer of interests in entities that are under the control of the shareholder that controls the Target Group are accounted for as if the acquisition had occurred at the beginning of the years or, if later, at the date that common control was established. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Target Group's shareholder's consolidated financial statements.

Upon transfer of interest in an entity to another entity that are under the control of the shareholder that controls the Target Group, any difference between the Target Group's interest in the carrying value of the assets and liabilities and the cost of transfer of interest in the entity is recognized directly in equity.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

–	Buildings situated on leasehold land	Over the shorter of the unexpired term of lease and their estimated useful life, being 20 years after the date of completion
–	Leasehold improvements	Over the shorter of unexpired term of the lease and 5 years
–	Plant and machinery	3 –10 years
–	Motor vehicles	4 years
–	Office equipment, furniture and fixtures	3 – 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Intangible assets

Intangible assets that are acquired by the Target Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 1(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

–	Software and others	5 years

Both the period and method of amortization are reviewed annually.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Target Group

Assets that are held by the Target Group under leases which transfer to the Target Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Target Group are classified as operating leases.

(ii) Operating lease charges

Where the Target Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term.

(j) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, if any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Target Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– leasehold land and land use rights;

– intangible assets; and

– investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated on specific identification or weighted average basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expenses in the period in which the reversal occurs.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Target Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statements.

(p) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave; contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Target Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(q) Income tax

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group or Jiahong has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Target Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of motor vehicles

Revenue arising from the sale of motor vehicles is recognised upon delivery of motor vehicles which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Sales of motor spare parts

Revenue arising from the sale of motor spare parts is recognised when significant risks and rewards of ownership have been transferred to the buyers.

(iii) Maintenance services income

Revenue arising from maintenance services is recognised when the relevant service is rendered without further performance obligations.

(iv) Commission income

Commission income is recognised at the time when the services concerned are rendered to customers.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(vi) Government grants

Government grants are recognised in the statements of financial position initially when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Related parties

(a) For the purposes of the Financial Information, a person, or a close member of that person's family, is related to the Target Group if that person:

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

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the Financial Information provided regularly to the Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Target Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Turnover and segment reporting

(a) Turnover

The Target Group is principally engaged in the business of sale and provision of after-sales services for luxury cars and other auto-related business in the PRC. Turnover represents the sales of goods and services income rendered to customers.

The amount of each significant category of turnover recognised in the Relevant Period is as follows:

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Sales of motor vehicles	2,565,329	5,883,697	8,052,296
Provision of maintenance services	83,968	201,642	389,520
Others	1,888	31,980	90,847
	2,651,185	6,117,319	8,532,663

(b) Segment reporting

The Target Group has one reportable segment, which is the sales and provision of after-sales services for luxury cars and other auto-related business in the PRC. Therefore no additional reportable segment has been presented and no additional information about geographical area has been disclosed.

Since none of the Target Group's sales to a single customer amounted to 10% or more of the Target Group's turnover during the Relevant Period, no major customer segment information is presented.

3 Other revenue and gains and losses

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Other revenue			
Commission income	12,883	46,757	109,012
Advertisement support received from automobile suppliers	1,096	2,481	2,163
Interest income from bank deposits	4,080	3,612	9,425
Government grant	506	3,734	–
Others	224	5,634	8,105
	18,789	62,218	128,705
Gains and losses			
Gain/ (loss) on disposal of property, plant and equipment, net	1,365	3,247	(1,684)
Others	4,197	389	8,937
	5,562	3,636	7,253

4 Loss before taxation

Loss before taxation is arrived at after charging:

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
(a) Finance costs			
Interests on loans and borrowings wholly repayable within five years	33,593	90,163	159,796
Other finance costs (i)	20,720	59,544	97,946
Total interest expense on financial liabilities not at fair value through profit and loss	54,313	149,707	257,742
Less: Interest capitalized*	5,553	10,614	8,547
	48,760	139,093	249,195

* *The borrowing costs have been capitalized at a rate of 5.60%–8.25%, 5.60%–8.25%, and 5.88%–9.60% per annum for the year ended 31 December 2012, 2013 and 2014, respectively.*

	2012	2013	2014
(b) Staff cost			
Salaries, wages and other benefits	48,546	127,367	200,546
Contribution to defined contribution retirement scheme (ii)	2,625	7,756	10,732
	51,171	135,123	211,278
(c) Other items			
Cost of inventories	2,476,887	5,729,652	7,959,203
Depreciation of property, plant and equipment	20,458	64,948	119,192
Amortization of leasehold land and land use rights	1,148	1,536	1,801
Amortization of intangible assets	122	535	176
Operating lease expense	26,390	63,976	91,167
Impairment loss of property, plant and machinery	–	–	15,484

Notes:

(i) Other finance costs mainly represent the interest expenses arising from discount of bills.

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

The Target Group has no other material obligation for the payment of retirement benefits other than the annual contributions described above.

5 Income tax in the consolidated statements of profit or loss and other comprehensive income

(a) Income tax in the consolidated statements of profit or loss or other comprehensive income represents:

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Current tax expense-the PRC Corporate Tax			
Provision for the year	1,823	6,951	10,677
Under-provision in respect of prior years	1,223	142	–
	3,046	7,093	10,677
Deferred tax			
Origination of temporary differences	(4,201)	(4,534)	(11,592)
	(1,155)	2,559	(915)

Jiahong and the subsidiaries of the Target Group established in the PRC are subject to PRC Corporate Income Tax at 25% consistently for the years ended 31 December 2012, 2013 and 2014, except for Shantou Hongfa Trading Co., Ltd., which is levied based on 1.75% of its total revenue.

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

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Loss before income tax	(45,173)	(141,661)	(194,455)
Tax calculated at applicable tax rate of 25%	(11,293)	(35,415)	(48,614)
Tax effect of non-deductible expenses	298	1,635	5,177
Tax effect of unused tax losses not recognized	8,617	36,197	42,522
Under-provision in respect of prior years	1,223	142	–
Income tax	(1,155)	2,559	(915)

6 Directors' remuneration

2012

	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director					
ZHOU Jianming	–	505	–	4	509
Total	–	505	–	4	509

2013

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director					
ZHOU Jianming	–	506	–	5	511
Total	–	506	–	5	511

2014

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director					
ZHOU Jianming	–	605	200	5	810
Total	–	605	200	5	810

7 **Individuals with highest emoluments**

Of the five individuals with the highest emoluments, one is director whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other four individuals are as follows:

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowance and benefits in kind	994	1,895	2,626
Discretionary bonuses	170	1,445	1,745
Contributions to retirement benefit schemes	15	17	23
	1,179	3,357	4,394

The emoluments of the four individuals with the highest emoluments are within the following bands:

	Years ended 31 December		
	2012	**2013**	**2014**
	Number of individuals	*Number of individuals*	*Number of individuals*
Nil – HKD 1,000,000	4	3	1
HKD 1,000,001 – HKD1,500,000	–	–	1
HKD 1,500,001 – HKD2,000,000	–	–	2
HKD 2,500,001 – HKD3,000,000	–	1	–

8 **Earnings per share**

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

9 **Property, plant and equipment**

(a) The Target Group

	Buildings	Leasehold Improvements	Plant and machinery	Motor vehicles	Office equipment and furniture	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2012	46,395	8,060	7,224	14,085	14,640	5,998	96,402
Additions	–	–	13,771	53,838	9,541	233,171	310,321
Transfer	31,494	20,001	–	–	1,496	(52,991)	–
Disposals	–	(2,550)	(248)	(15,440)	(631)	–	(18,869)
At 31 December 2012	77,889	25,511	20,747	52,483	25,046	186,178	387,854
At 1 January 2013	77,889	25,511	20,747	52,483	25,046	186,178	387,854
Additions	–	–	32,480	136,339	36,343	555,424	760,586
Transfer	623,368	49,051	152	–	–	(672,571)	–
Disposals	–	–	(1,108)	(36,555)	(587)	(620)	(38,870)
At 31 December 2013	701,257	74,562	52,271	152,267	60,802	68,411	1,109,570
At 1 January 2014	701,257	74,562	52,271	152,267	60,802	68,411	1,109,570
Additions	–	–	19,924	180,735	24,777	408,364	633,800
Transfer	154,046	39,657	–	–	–	(193,703)	–
Disposals	–	–	(54)	(124,768)	(382)	(174)	(125,378)
At 31 December 2014	855,303	114,219	72,141	208,234	85,197	282,898	1,617,992

	Buildings RMB'000	Leasehold Improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation and impairment loss							
At 1 January 2012	(3,816)	(3,414)	(1,208)	(1,812)	(6,100)	–	(16,350)
Charge for the year	(3,827)	(3,077)	(1,532)	(8,051)	(3,971)	–	(20,458)
Written back on disposals	–	1,204	33	2,041	464	–	3,742
At 31 December 2012	(7,643)	(5,287)	(2,707)	(7,822)	(9,607)	–	(33,066)
At 1 January 2013	(7,643)	(5,287)	(2,707)	(7,822)	(9,607)	–	(33,066)
Charge for the year	(20,541)	(7,123)	(3,937)	(23,621)	(9,726)	–	(64,948)
Written back on disposals	–	–	1	10,602	134	–	10,737
At 31 December 2013	(28,184)	(12,410)	(6,643)	(20,841)	(19,199)	–	(87,277)
At 1 January 2014	(28,184)	(12,410)	(6,643)	(20,841)	(19,199)	–	(87,277)
Charge for the year	(39,109)	(14,766)	(6,875)	(41,820)	(16,622)	–	(119,192)
Impairment	–	(14,632)	(493)	(38)	(321)	–	(15,484)
Written back on disposals	–	–	47	27,555	89	–	27,691
At 31 December 2014	(67,293)	(41,808)	(13,964)	(35,144)	(36,053)	–	(194,262)
Net book value							
At 31 December 2012	70,246	20,224	18,040	44,661	15,439	186,178	354,788
At 31 December 2013	673,073	62,152	45,628	131,426	41,603	68,411	1,022,293
At 31 December 2014	788,010	72,411	58,177	173,090	49,144	282,898	1,423,730

(i) All the Target Group's property, plant and equipment are located in the PRC.

(ii) In 2014, the Target Group decided to close the showrooms and dealer shops of certain subsidiaries. The Target Group assessed the recoverable amounts of the property, plant and equipment held by those subsidiaries and as a result the carrying amount of them was written down to their recoverable amount. An impairment loss of RMB15,484,000 was recognised in the consolidated statements of profit or loss and other comprehensive income. The estimates of recoverable amount were based on the property, plant and equipment's fair values less costs of disposal, using market comparison approach by reference to recent sales price of similar assets within the same industry, adjusted for differences such as remaining useful lives.

(iii) Buildings with carrying amount of RMB56,411,000 and RMB54,824,000 are pledged against bank loans as at 31 December 2013 and 2014, respectively.

(iv) The Target Group has yet to obtain property ownership certificates of certain buildings with carrying amount of RMB17,951,000, RMB616,662,000, and RMB733,186,000 as at 31 December 2012, 2013 and 2014, respectively. Notwithstanding this, the director is of the opinion that the Target Group owned the beneficial title to these buildings as at 31 December 2012, 2013 and 2014, respectively.

(b) Jiahong

	Buildings	Leasehold improvements	Plant and machinery	Motor vehicles	Office equipment and furniture	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2012	–	3,423	162	2,127	7,374	1,352	14,438
Additions	–	–	216	11,553	1,694	11,168	24,631
Transfer	–	12,108	–	–	–	(12,108)	–
Disposals	–	(2,550)	(247)	(7,221)	(631)	–	(10,649)
At 31 December 2012	–	12,981	131	6,459	8,437	412	28,420
At 1 January 2013	–	12,981	131	6,459	8,437	412	28,420
Additions	–	–	634	1,950	2,305	128,117	133,006
Transfer	127,972	557	–	–	–	(128,529)	–
Disposals	–	–	–	(580)	–	–	(580)
At 31 December 2013	127,972	13,538	765	7,829	10,742	–	160,846
At 1 January 2014	127,972	13,538	765	7,829	10,742	–	160,846
Additions	–	–	1,957	2,591	2,569	14,119	21,236
Transfer	13,486	–	–	–	–	(13,486)	–
Disposals	–	–	–	(850)	–	–	(850)
At 31 December 2014	141,458	13,538	2,722	9,570	13,311	633	181,232
Accumulated depreciation							
At 1 January 2012	–	(1,719)	(63)	(1,102)	(5,389)	–	(8,273)
Charge for the year	–	(593)	(39)	(1,386)	(1,274)	–	(3,292)
Written back on disposals	–	1,204	33	52	464	–	1,753
At 31 December 2012	–	(1,108)	(69)	(2,436)	(6,199)	–	(9,812)
At 1 January 2013	–	(1,108)	(69)	(2,436)	(6,199)	–	(9,812)
Charge for the year	(2,738)	(1,271)	(45)	(1,296)	(1,173)	–	(6,523)
Written back on disposals	–	–	–	46	–	–	46
At 31 December 2013	(2,738)	(2,379)	(114)	(3,686)	(7,372)	–	(16,289)
At 1 January 2014	(2,738)	(2,379)	(114)	(3,686)	(7,372)	–	(16,289)
Charge for the year	(7,663)	(1,240)	(237)	(1,792)	(2,128)	–	(13,060)
Written back on disposals	–	–	–	603	–	–	603
At 31 December 2014	(10,401)	(3,619)	(351)	(4,875)	(9,500)	–	(28,746)
Net book value							
At 31 December 2012	–	11,873	62	4,023	2,238	412	18,608
At 31 December 2013	125,234	11,159	651	4,143	3,370	–	144,557
At 31 December 2014	131,057	9,919	2,371	4,695	3,811	633	152,486

10 Leasehold land and land use rights

The Target Group

	For the years of		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Cost			
At 1 January	88,061	89,275	90,716
Additions	1,214	1,441	–
At 31 December	89,275	90,716	90,716
Accumulated amortisation			
At 1 January	(478)	(1,626)	(3,162)
Charge for the year	(1,148)	(1,536)	(1,801)
At 31 December	(1,626)	(3,162)	(4,963)
Net book value	87,649	87,554	85,753

Leasehold land and land use rights represent cost of land use rights located in the PRC with a lease period of 40 years when granted.

Leasehold land and land use rights with carrying amount of RMB70,071,000 and RMB64,312,000 are pledged against bank loans as at 31 December 2013 and 2014, respectively.

11 Intangible assets

The Target Group

	For the years of		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Cost			
At 1 January	649	1,751	2,428
Additions	1,102	677	361
At 31 December	1,751	2,428	2,789
Accumulated amortisation			
At 1 January	–	(122)	(657)
Charge for the year	(122)	(535)	(176)
At 31 December	(122)	(657)	(833)
Net book value	1,629	1,771	1,956

The intangible assets of the Target Group mainly include software.

12 Investment in subsidiaries

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted shares, at cost	344,450	548,260	694,250
Less: Impairment loss on investment in subsidiaries	–	–	30,000
	344,450	548,260	664,250
Amounts due from subsidiaries	252,927	610,987	802,737
Less: Impairment loss on amounts due from subsidiaries	–	–	32,000
	252,927	610,987	770,737
Amounts due to subsidiaries	272,345	624,091	1,101,530

Amounts due from subsidiaries are unsecured, interest-free and in substance represent Jiahong's interests in the subsidiaries in the form of quasi-equity loans.

Amounts due to subsidiaries are unsecured, interest free and will be repaid on demand.

As at 31 December 2014, an impairment loss of RMB30,000,000 and RMB32,000,000 on investment in subsidiaries and amount due from subsidiaries, respectively, was recognized for the carrying amount of the interests in subsidiaries and amount due from subsidiaries in the aggregate amount of RMB30,000,000 and RMB32,000,000 (before deducting the impairment losses) because the relevant subsidiaries had suffered losses during the Relevant Period.

Particulars of Jiahong's subsidiaries as at 31 December 2014 are as follows:

			Percentage of equity attributable to Jiahong			
Name of company*	**Place and date of incorporation/ establishment**	**Registered capital**	**Group's effective interest**	**Held by Jiahong**	**Held by Subsidiaries**	**Principal activities**
Chongqing Baoxun Automobile Sales Services Co., Ltd. ("Chongqing Baoxun" 重慶市寶馴汽車銷售服務有限公司)	PRC 11/05/2010	RMB100,000,000	51%	51%(i)	–	Automobile dealership
Guangdong Zhuoyue Automobile Investment Co., Ltd. (廣東卓越汽車投資有限公司)	PRC 05/02/2002	RMB50,000,000	100%	100%	–	Automobile dealership
Shantou Hongfa Trading Co., Ltd. (汕頭市泓發貿易有限公司)	PRC 18/01/2008	RMB100,000	100%	100%	–	Property management
Xiamen Haoyu Automobile Sales Services Co., Ltd. (廈門市浩羽汽車銷售服務有限公司)	PRC 20/08/2008	RMB10,000,000	100%	100%	–	Automobile dealership

Name of company*	Place and date of incorporation/ establishment	Registered capital	Percentage of equity attributable to Jiahong: Group's effective interest	Held by Jiahong	Held by Subsidiaries	Principal activities
Taiyuan Chibao Automobile Sales Services Co., Ltd. ("Taiyuan Chibao" 太原馳寶汽車銷售服務有限公司)	PRC 14/04/2011	RMB10,000,000	70%	–	70%	Automobile dealership
Dalian Chibao Automobile Sales Services Co., Ltd. ("Dalian Chibao" 大連馳寶汽車銷售服務有限公司)	PRC 20/05/2011	RMB10,000,000	70%	–	70%	Automobile dealership
Dalian Yizhong Automobile Sales Services Co., Ltd. (大連義眾汽車銷售服務有限公司)	PRC 22/07/2011	RMB10,000,000	100%	100%	–	Automobile dealership
Xiamen Fenghua Automobile Sales Services Co., Ltd. (廈門豐華汽車銷售服務有限公司)	PRC 12/08/2011	RMB40,000,000	100%	100%	–	Automobile dealership
Beijing Fenghua Holding Co., Ltd. ("Beijing Fenghua" 北京豐華控股有限公司)	PRC 26/08/2011	RMB100,000,000	70%	70%	–	Investment holding
Xian Shengshi Automobile Sales CO., Ltd. (西安盛世汽車銷售有限公司)	PRC 28/09/2011	RMB2,000,000	100%	100%	–	Automobile dealership
Xian Shengshi Zhuoyue Automobile Sales CO., Ltd. (西安盛世卓越汽車銷售服務有限公司)	PRC 28/09/2011	RMB2,000,000	100%	100%	–	Automobile dealership
Changsha Chibao Automobile Sales Services Co., Ltd. ("Changsha Chibao" 長沙馳寶汽車銷售服務有限公司)	PRC 30/09/2011	RMB10,080,000	70%	–	70%	Automobile dealership
Shenzhen Chibao Automobile Sales Services Co., Ltd. ("Shenzhen Chibao" 深圳市馳寶汽車銷售服務有限公司)	PRC 19/12/2011	RMB10,000,000	70%	–	70%	Automobile dealership
Shenzhen Haoyi Automobile Sales Services Co., Ltd. (深圳市浩翼汽車銷售服務有限公司)	PRC 20/12/2011	RMB20,000,000	100%	100%	–	Automobile dealership
Shenzhen Shengkangyou Investment Management Co., Ltd. (深圳市盛康友投資管理有限公司)	PRC 20/12/2011	RMB10,000,000	51%	51%	–	Property management
Taiyuan Junjia Investment Co., Ltd. (太原駿嘉投資有限公司)	PRC 12/01/2012	RMB10,000,000	100%	100%	–	Investment
Changsha Lubao Automobile Co., Ltd. (長沙路豹汽車有限公司)	PRC 17/01/2012	RMB15,000,000	85%	85%	–	Automobile dealership

Name of company*	Place and date of incorporation/ establishment	Registered capital	Percentage of equity attributable to Jiahong: Group's effective interest	Held by Jiahong	Held by Subsidiaries	Principal activities
Shenzhen Huake Automobile Sales Services Co., Ltd. (深圳市驊克汽車銷售服務有限公司)	PRC 10/02/2012	RMB10,000,000	100%	100%	–	Automobile dealership
Zhengzhou Fali Automobile Sales Services Co., Ltd. (鄭州法利汽車銷售服務有限公司)	PRC 20/02/2012	RMB50,000,000	100%	100%	–	Automobile dealership
Qingdao Shengchibao Automobile Sales Services Co., Ltd. ("Qingdaoshi Shengchibao" 青島市勝馳寶汽車銷售有限公司)	PRC 28/02/2012	RMB10,000,000	70%	–	70%	Automobile dealership
Eerduosi Fali Automobile Sales Services Co., Ltd. (鄂爾多斯市法利汽車銷售服務有限公司)	PRC 08/03/2012	RMB50,000,000	100%	100%	–	Automobile dealership
Shenzhen Lizhong Automobile Sales Services Co., Ltd. (深圳市立眾汽車銷售服務有限公司)	PRC 26/04/2012	RMB10,000,000	100%	100%	–	Automobile dealership
Shenzhen Lubao Automobile Sales Services Co., Ltd. ("Shenzhen Lubao" 深圳市路豹汽車銷售有限公司)	PRC 27/04/2012	RMB20,000,000	100%	100%	–	Automobile dealership
Dalian Lizhong Automobile Sales Services Co., Ltd. (大連利眾汽車銷售服務有限公司)	PRC 05/06/2012	RMB10,000,000	100%	100%	–	Automobile dealership
Guangzhou Lubao Automobile Co., Ltd. (廣州路豹汽車有限公司)	PRC 11/06/2012	RMB20,000,000	85%	85%	–	Automobile dealership
Shenzhen Haoyu Automobile Sales Services Co., Ltd. (深圳市浩羽汽車服務有限公司)	PRC 27/06/2012	RMB10,000,000	100%	100%	–	Automobile dealership
Shenzhen Haopin Culture Media Co., Ltd. (深圳市豪品文化傳媒有限公司)	PRC 07/09/2012	RMB500,000	100%	100%	–	Advertisement
Guangdong Dongwan Mashafali Automobile Sales Services Co., Ltd. (廣東東莞瑪莎法利汽車銷售服務有限公司)	PRC 11/09/2012	RMB50,000,000	100%	100%	–	Automobile dealership
Shenzhen Aoyu Automobile Sales Services Co., Ltd. (深圳市奧羽汽車銷售服務有限公司)	PRC 30/01/2013	RMB20,000,000	51%	51% (ii)	–	Automobile dealership
Jinan Haoyu Automobile Sales Services Co., Ltd. (濟南市浩羽汽車銷售服務有限公司)	PRC 13/03/2013	RMB10,000,000	100%	100%	–	Automobile dealership

Name of company*	Place and date of incorporation/ establishment	Registered capital	Percentage of equity attributable to Jiahong: Group's effective interest	Held by Jiahong	Held by Subsidiaries	Principal activities
Chongqing Lubao Automobile Sales Services Co., Ltd. (重慶路豹汽車銷售服務有限公司)	PRC 18/03/2013	RMB20,000,000	100%	100%	–	Automobile dealership
Yunnan Haoheshengshi Automobile Sales Services Co., Ltd. (雲南浩河盛世汽車銷售服務有限公司)	PRC 18/03/2013	RMB40,000,000	100%	–	100%	Automobile dealership
Shenzhen Huake Automobile Sales Services Co., Ltd. (深圳市驊克西麗汽車銷售服務有限公司)	PRC 08/04/2013	RMB3,000,000	100%	100%	–	Automobile dealership
Shenzhen Jianjiahong Automobile Sales Services Co., Ltd. (深圳市建佳鴻甄選二手車銷售服務有限公司)	PRC 08/04/2013	RMB2,000,000	100%	100%	–	Automobile dealership
Guizhou Lubao Automobile Co., Ltd. (貴州路豹汽車有限公司)	PRC 11/04/2013	RMB15,000,000	100%	100%	–	Automobile dealership
Quanzhou Mingguan Automobile Sales Services Co., Ltd. (泉州明冠汽車銷售服務有限公司)	PRC 18/06/2013	RMB20,000,000	100%	100%	–	Automobile dealership
Zhuhai Shengchibao Automobile Sales Services Co., Ltd. (珠海市勝馳寶汽車銷售服務有限公司)	PRC 22/07/2013	RMB10,000,000	100%	100%	–	Automobile dealership
Huizhou Shengchibao Automobile Sales Services Co., Ltd. (惠州市勝馳寶汽車銷售服務有限公司)	PRC 24/07/2013	RMB10,000,000	100%	100%	–	Automobile dealership
Shandong Jinan Lubao Automobile Sales Services Co., Ltd. (山東省濟南市路豹汽車銷售服務有限公司)	PRC 29/07/2013	RMB20,000,000	100%	100%	–	Automobile dealership
Liuzhou Lubao Automobile Sales Services Co., Ltd. (柳州市路豹汽車銷售服務有限公司)	PRC 09/08/2013	RMB20,000,000	100%	100%	–	Automobile dealership
Huhehaote Mashafali Automobile Sales Services Co., Ltd. (呼和浩特市瑪莎法利汽車銷售服務有限公司)	PRC 28/08/2013	RMB1,000,000	100%	100%	–	Automobile dealership
Jinzhong Chibao Automobile Sales Services Co., Ltd. (晉中馳寶汽車銷售服務有限公司)	PRC 05/09/2013	RMB10,000,000	100%	100%	–	Automobile dealership

Name of company*	Place and date of incorporation/ establishment	Registered capital	Percentage of equity attributable to Jiahong: Group's effective interest	Held by Jiahong	Held by Subsidiaries	Principal activities
Chengdu Honglubao Automobile Sales Services Co., Ltd. (成都市鴻路豹汽車銷售服務有限公司)	PRC 13/11/2013	RMB20,000,000	100%	100%	–	Automobile dealership
Foshan Mingguan Automobile Sales Services Co., Ltd. (佛山市明冠汽車銷售服務有限公司)	PRC 11/12/2013	RMB20,000,000	100%	100%	–	Automobile dealership
Shenzhen Jiahong Luxury Automobile Investment Management Co., Ltd. (深圳市佳鴻名車投資管理有限公司)	PRC 07/01/2014	RMB5,000,000	100%	100%	–	Investment
Chendu Liming Investment Management Co., Ltd. (成都市立名投資管理有限公司)	PRC 24/01/2014	RMB10,000,000	100%	100%	–	Property management
Changsha Mingyi Automobile Sales Services Co., Ltd. (長沙建路豹汽車銷售服務有限公司)	PRC 27/01/2014	RMB2,000,000	100%	100%	–	Automobile dealership
Shenzhen Maowo Automobile Sales Services Co., Ltd. (深圳市茂沃汽車銷售服務有限公司)	PRC 28/02/2014	RMB10,000,000	100%	100%	–	Automobile dealership
Hunan Zunhuijiahong Automobile Sales Services Co., Ltd. (湖南尊匯佳鴻汽車銷售服務有限公司)	PRC 17/03/2014	RMB2,000,000	100%	100%	–	Automobile dealership
Shenzhen Zhuoyuejiahong Automobile Sales Services Co., Ltd. (深圳市卓越佳鴻汽車銷售服務有限公司)	PRC 25/04/2014	RMB10,000,000	100%	100%	–	Automobile dealership
Shenzhen Maozhifei Automobile Sales Services Co,. Ltd (深圳市茂之菲汽車銷售服務有限公司)	PRC 8/10/2014	RMB500,000	100%	100%	–	Automobile dealership

* *The English translation of the names is for reference only. The official names of these entities are in Chinese.*

(i) 51% interest in Chongqing Baoxun was held by Mr. ZHOU Jianming on behalf of Jiahong.

As at 31 December 2013 and 2014, the Target Group's certain bank borrowings were pledged by 100% equity interest in Shenzhen Lubao and 100% equity interest in Shenzhen Chibao which were held by Jiahong or Jiahong's subsidiary;

The following table lists out the information relating to Chongqing Baoxun and Beijing Fenghua, the subsidiaries of the Target Group which have material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*
Chongqing Baoxun			
NCI percentage	49%	49%	49%
Current assets	382,903	340,625	475,014
Non-current assets	116,614	122,747	115,165
Current liabilities	(406,463)	(380,168)	(475,648)
Net assets	93,054	83,204	114,531
Carrying amount of NCI	45,596	40,770	56,120
Revenue	1,127,767	1,262,946	1,351,338
(Loss)/profit and total comprehensive income	(5,633)	(9,850)	31,327
(Loss)/profit attributable to NCI	(2,760)	(4,826)	15,350
Cash flows used in operating activities	(96,500)	(19,417)	(24,040)
Cash flows generated from/(used in) financing activities	115,560	(12,421)	36,147
Cash flows used in investing activities	(32,723)	(13,706)	(8,920)
Beijing Fenghua*			
NCI percentage	30%	30%	30%
Current assets	54,400	568,995	614,580
Non-current assets	109,601	316,192	359,850
Current liabilities	(155,487)	(926,231)	(1,070,269)
Net assets/ (liabilities)	8,514	(41,044)	(95,839)
Carrying amount of NCI	2,554	(12,313)	(28,752)
Revenue	–	1,043,818	1,697,948
Loss and total comprehensive income	(8,640)	(49,558)	(54,796)
Loss attributable to NCI	(2,592)	(14,867)	(16,439)
Cash flows generated from operating activities	109,036	210,814	250,214
Cash flows (used in)/generated from financing activities	(10,000)	160,664	(126,596)
Cash flows used in investing activities	(108,341)	(219,684)	(67,407)

* *The financial information of Beijing Fenghua represents consolidated result of Beijing Fenghua and its subsidiaries, Taiyuan Chibao, Dalian Chibao, Changsha Chibao, Shenzhen Chibao and Qingdaoshi Shengchibao, all of which were 100% owned by Beijing Fenghua*

13 Inventories

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

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Motor vehicles	715,256	1,122,754	1,556,547
Spare parts	25,272	70,845	102,548
	740,528	1,193,599	1,659,095

Jiahong

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Motor vehicles	214,870	156,581	123,278
Spare parts	1,815	5,985	7,988
	216,685	162,566	131,266

As at 31 December 2012, 2013 and 2014, the Target Group's bank borrowings and bills payables was secured by the Target Group's inventories with carrying amount of RMB603,000,000, RMB847,000,000 and RMB1,259,000,000 respectively.

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

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of inventories sold	2,476,887	5,729,652	7,959,203

14 Trade receivables

Trade receivables of the Target Group are expected to be recovered within 1 month.

As at 31 December 2012, 2013 and 2014, the ageing analysis of trade debtors and bills receivable, based on the invoice date (or date of revenue recognition, if earlier), is as follows:

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	6,129	17,472	23,270

Trade receivables are due within 1 month from the date of billing. Further details on the Target Group's credit policy are set out in note 24(a).

15 Deposits, prepayments and other receivables

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Rebate due from automobile suppliers	81,106	221,378	335,920
Deposits and prepayments for the purchase of motor vehicles and spare parts	240,764	359,708	368,139
Loans to third party companies *(note i)*	1,677	102,076	35,692
Value-added tax recoverable	105,982	160,379	173,088
Others	59,425	105,845	122,612
	488,954	949,386	1,035,451

Jiahong

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Rebate due from automobile suppliers	7,815	13,163	12,650
Deposits and prepayments for the purchase of motor vehicles and spare parts	27,385	48,096	17,915
Loans to third party companies *(note i)*	1,677	62,344	21,620
Value-added tax recoverable	26,909	23,043	7,143
Others	26,930	50,221	41,415
	90,716	196,867	100,743

(i) Loans to third party companies are unsecured and interest-free.

16 Pledged bank deposits

The Target Group

	Years ended 31 December		
	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*
Pledged for bank acceptance	163,988	340,331	425,132
Pledged for bank borrowings	8,550	114,273	36,867
	172,538	454,604	461,999

17 Cash and cash equivalents

The Target Group

	Years ended 31 December		
	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*
Cash in bank	53,892	227,779	312,897
Cash on hand	3,844	1,478	1,150
	57,736	229,257	314,047

Jiahong

	Years ended 31 December		
	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*
Cash in bank	5,942	33,532	103,354
Cash on hand	3,218	867	614
	9,160	34,399	103,968

18 Loans and borrowings

(a) The analysis of the carrying amount of borrowings:

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Current			
Unsecured bank loans (i)	308,710	585,894	473,023
Unsecured borrowings from other financial institutions (i)	143,938	471,304	368,705
	452,648	1,057,198	841,728
Secured borrowings from the Company (ii) (iii)	–	–	100,000
Secured bank loans (iii)	335,190	1,025,634	975,663
Secured borrowings from other financial institutions (iii)	100,470	25,610	189,683
	435,660	1,051,244	1,265,346
Add: current portion of non-current loans and borrowings	–	16,000	90,000
	888,308	2,124,442	2,197,074
Non-current			
Unsecured bank loans (i)	–	109,500	154,800
Unsecured borrowings from other financial institutions (i)	–	60,000	60,000
	–	169,500	214,800
Secured bank loans (iii)	–	–	241,550
	–	169,500	456,350
Less: current portion of non-current loans and borrowings	–	16,000	90,000
	–	153,500	366,350
Total	888,308	2,277,942	2,563,424

Jiahong

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Current			
Unsecured bank loans (i)	–	124,415	60,000
Unsecured borrowings from other financial institutions (i)	–	125,182	–
	–	249,597	60,000
Secured borrowings from the Company (ii) (iii)	–	–	100,000
Secured bank loans (iii)	238,500	573,164	377,610
Secured borrowings from other financial institutions (iii)	59,949	–	8,570
	298,449	822,761	546,180
Non-current			
Secured bank loans (iii)	–	–	241,550
Total	298,449	822,761	787,730

(i) As at 31 December 2012, 2013 and 2014, the below unsecured interest-bearing borrowings were guaranteed solely or jointly by ZHOU Jianming, QIU Ping, and Yunnan Ximai Mining Co., Ltd. (雲南西邁礦業有限公司, hereinafter referred to as "Yunnan Ximai"), a related party of the Target Group.

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Current	452,648	1,057,198	841,728
Non-current	–	169,500	214,800
	452,648	1,226,698	1,056,528

Jiahong

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Current	–	249,597	60,000

(ii) On 29 December 2014, New Focus Lighting & Power Technology (Shanghai) Co., Ltd., a subsidiary of the Company, instructed a lending bank (as the entrusted party and the lending agent) to release a loan in the principal amount of RMB100,000,000 to Jiahong for a term of 12 months, at an annual interest rate of 12%. Such entrusted loan is:

- guaranteed by each of the two shareholders of Jiahong as sureties who collectively own 100% equity interest in Jiahong;
- guaranteed by Shenzhen Haoyu;
- pledged by 30% of shares in a mineral company which was indirectly owned as to 100% by ZHOU Jianming.

(iii) As disclosed in note 9, 10, 12, 13 and 16, as at 31 December 2012, 2013 and 2014, the Target Group's bank borrowings which were amounting to RMB435,660,000, RMB1,051,244,000 and RMB1,506,896,000 respectively, was secured by the Target Group's certain property and plant, leasehold land and land use rights, inventory, pledged bank deposit and the equity interest in certain subsidiaries held by Jiahong or Jiahong's subsidiary.

Meanwhile, the below secured bank borrowing of the Target Group was also guaranteed solely or jointly by ZHOU Jianming, QIU Ping and Yunnan Ximai.

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Current	249,949	503,164	422,633
Non-current	–	–	241,550
	249,949	503,164	664,183

Jiahong

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Current	249,949	503,164	274,570
Non-current	–	–	241,550
	249,949	503,164	516,120

(b) The interest rates on borrowings are as follows:

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Current			
Unsecured bank loans	6.60%–7.96%	6.00%–8.59%	6.00%–8.25%
Unsecured borrowings from other financial institutions	8.00%–8.25%	6.00%–8.25%	6.00%–8.00%
Secured borrowings from the Company	–	–	12.00%
Secured bank loans	5.60%–7.20%	5.60%–8.10%	5.88%–9.60%
Secured borrowings from other financial institutions	7.20%–8.25%	6.55%–8.25%	6.00%–8.25%
Non-current			
Unsecured bank loans	–	7.60%	6.00%–7.96%
Unsecured borrowings from other financial institutions	–	6.00%–6.60%	6.00%
Secured bank loans	–	–	7.50%

Jiahong

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Current			
Unsecured bank loans	–	6.00%–6.60%	6.24%–7.50%
Unsecured borrowings from other financial institutions	–	6.30%–7.60%	–
Secured borrowings from the Company	–	–	12.00%
Secured bank loans	6.56%–7.20%	6.00%–8.10%	6.71%–7.50%
Secured borrowings from other financial institutions	7.20%	–	7.50%
Non-current			
Secured bank loans	–	–	7.50%

(c) The borrowings are repayable as follows:

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Within one year or on demand	888,308	2,124,442	2,197,074
After one year but within two years	–	86,000	366,350
After two years but within five years	–	67,500	–
	–	153,500	366,350
	888,308	2,277,942	2,563,424

Jiahong

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Within one year or on demand	298,449	822,761	546,180
After one year but within two years	–	–	241,550
	298,449	822,761	787,730

19 Trade payables

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	13,943	58,126	99,888
Bills payables	548,618	1,008,536	1,661,266
	562,561	1,066,662	1,761,154

As of the end of each reporting period, the ageing analysis of trade creditors, based on the invoice date, is as follows:

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	87,235	748,096	527,196
31 to 60 days	218,761	219,168	265,244
61 to 90 days	192,216	93,212	374,639
Over 90 days	64,349	6,186	594,075
	562,561	1,066,662	1,761,154

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

20 Accruals and other payables

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Advance from customers	178,668	230,079	335,592
Payables to contractors and equipment suppliers	8,593	71,668	252,110
Salary and welfare payables	8,281	11,379	12,202
Advance from third party companies	47,031	98,413	31,918
Others	11,324	27,980	68,751
	253,897	439,519	700,573

Jiahong

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Advance from customers	96,756	31,967	9,916
Payables to contractors and equipment suppliers	314	2,055	1,793
Salary and welfare payables	1,060	2,000	2,000
Advance from third party companies	46,880	–	7,728
Others	650	5,010	4,948
	145,660	41,032	26,385

21 Income tax in the consolidated statements of financial position

(a) Current taxation in the consolidated statements of financial position represents:

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	1,529	621	7,190
Provision for PRC Income Tax for the year	1,823	6,951	10,677
Under-provision in respect of prior year	1,223	142	–
Income tax paid	(3,954)	(524)	(277)
At 31 December	621	7,190	17,590

(b) Deferred tax assets and liabilities recognised:

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

The Target Group

Deferred tax arising from:

	Future benefit of tax losses	**Interest capitalised**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2012	2,315	–	2,315
Credited to profit or loss *(Note 5)*	5,589	(1,388)	4,201
At 31 December 2012	7,904	(1,388)	6,516
At 1 January 2013	7,904	(1,388)	6,516
Credited to profit or loss *(Note 5)*	7,118	(2,584)	4,534
At 31 December 2013	15,022	(3,972)	11,050
At 1 January 2014	15,022	(3,972)	11,050
Charged to profit or loss *(Note 5)*	13,527	(1,935)	11,592
At 31 December 2014	28,549	(5,907)	22,642

(ii) Reconciliation to the consolidated statements of financial position

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Net deferred tax asset recognised in the statements of financial position	7,904	15,022	28,549
Net deferred tax liability recognised in the statements of financial position	(1,388)	(3,972)	(5,907)
	6,516	11,050	22,642

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(q), the Target Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB25,040,000, RMB173,373,000 and RMB351,053,000 as at 31 December 2012, 2013 and 2014 respectively, as the directors consider it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. For the unused tax losses as at 31 December 2014, RMB654,000, RMB1,058,000, RMB23,328,000, RMB148,333,000, and RMB177,680,000, if unused, will expire at the end of year 2015, 2016, 2017, 2018 and 2019, respectively.

22 Share capital

For the purpose of the Financial Information, the share capital of the Target Group as at 31 December 2012, 2013 and 2014 represents the amount of the paid-in capital of Jiahong.

23 Reserves

(a) Capital reserves

Except for capital surplus, the equity account of the subsidiaries which were acquired during the Relevant Period from the owners of Jiahong has been reflected as capital reserve. On acquisition date, the consideration for acquired shares were reflected as a distribution to the owners of Jiahong, and resulted in a reduction of capital reserves of RMB10 million in 2012 and 2014 respectively.

(b) PRC statutory reserves

Jiahong and the Target Group's subsidiaries established in the PRC are required to transfer no less than 10% of the profit after taxation, as determined in accordance with the applicable PRC accounting standards, to statutory reserve fund until the fund aggregates to 50% of their respective registered capital.

The statutory reserve fund can only be used, upon approval by the respective board of directors, to offset accumulated losses or increase capital.

(c) Capital risk management

The Target Group's primary objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Target Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Target Group monitors its capital structure on the basis of a debt-to-equity ratio. For this purpose, adjusted net debt is defined as interest-bearing loans and borrowings less cash and cash equivalents and pledged deposits. Adjusted capital comprises all components of equity. It is the director's intention to restrict the ratio at a range considered as reasonable by management.

The adjusted net debt-to-capital ratio at 31 December 2012, 2013and 2014 was as follow:

	Years ended 31 December		
	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*
Debts	888,308	2,277,942	2,563,424
Cash and cash equivalents and pledged deposits	(230,274)	(683,861)	(776,046)
Net debt position	658,034	1,594,081	1,787,378
Equity attributable to equity shareholders of Jiahong	194,080	279,404	80,668
Net debt to equity ratio	3.39	5.71	22.16

Neither Jiahong nor any of its subsidiaries are subject to externally imposed capital requirements.

24 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity and interest rate arises in the normal course of the Target Group's business.

The Target Group's exposure to these risks and the financial risk management policies and practices used by the Target Group to manage these risks are described below.

(a) Credit risk

The Target Group's credit risk is primarily attributable to trade and other receivables. The director has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. Credit risk in respect of trade receivables is limited since credit sales are offered in rare cases subject to approval by high level management of Jiahong. Trade receivables balances mainly represent mortgage granted by major financial institutions to customers of the Target Group, which is normally settled within one month directly by major financial institutions. Normally, the Target Group does not obtain collateral from customers.

At the end of each reporting period, the Target Group has certain concentration of credit risk as prepayments to vendors and other receivables due from vendors constitute a large portion of trade and other receivables. The receivables from the five largest debtors at 31 December 2012, 2013 and 2014 represented 6%, 39% and 40% of the total trade and other receivables respectively, while 2%, 11% and 12% of the total trade and other receivables were due from the largest single debtor respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position. The Target Group or Jiahong does not provide any guarantees which would expose the Target Group or Jiahong to credit risk.

(b) Liquidity risk

The Target Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutes to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each reporting period of the Target Group's financial information, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Target Group and Jiahong can be required to pay:

The Target Group

	As at 31 December 2012					
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 year but less than 5 years**	**More than 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loan and borrowings	888,308	951,285	951,285	–	–	–
Trade and bills payables	562,561	562,561	562,561	–	–	–
Accruals and other payables	253,897	253,897	253,897	–	–	–
Amounts due to related parties	78,746	78,746	78,746	–	–	–
Total	1,783,512	1,846,489	1,846,489	–	–	–

	As at 31 December 2013					
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 year but less than 5 years**	**More than 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loan and borrowings	2,277,942	2,450,607	2,281,014	96,862	72,731	–
Trade and bills payables	1,066,662	1,066,662	1,066,662	–	–	–
Accruals and other payables	439,519	439,519	439,519	–	–	–
Amounts due to related parties	29,154	29,154	29,154	–	–	–
Total	3,813,277	3,985,942	3,816,349	96,862	72,731	–

	As at 31 December 2014					
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 year but less than 5 years**	**More than 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loan and borrowings	2,563,424	2,757,324	2,381,799	375,525	–	–
Trade and bills payables	1,761,154	1,761,154	1,761,154	–	–	–
Accruals and other payables	700,573	700,573	700,573	–	–	–
Amounts due to related parties	105,097	105,097	105,097	–	–	–
Total	5,130,248	5,324,148	4,948,623	375,525	–	–

Jiahong

	As at 31 December 2012					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loan and borrowings	298,449	317,757	317,757	–	–	–
Trade and bills payables	68,202	68,202	68,202	–	–	–
Accruals and other payables	145,660	145,660	145,660	–	–	–
Amounts due to related parties and subsidiaries	350,246	350,246	350,246	–	–	–
Total	862,557	881,865	881,865	–	–	–

	As at 31 December 2013					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loan and borrowings	822,761	880,191	880,191	–	–	–
Trade and bills payables	33,871	33,871	33,871	–	–	–
Accruals and other payables	41,032	41,032	41,032	–	–	–
Amounts due to related parties and subsidiaries	652,341	652,341	652,341	–	–	–
Total	1,550,005	1,607,435	1,607,435	–	–	–

	As at 31 December 2014					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loan and borrowings	787,730	850,931	591,265	259,666	–	–
Trade and bills payables	29,974	29,974	29,974	–	–	–
Accruals and other payables	26,385	26,385	26,385	–	–	–
Amounts due to related parties and subsidiaries	1,141,894	1,141,894	1,141,894	–	–	–
Total	1,985,983	2,049,184	1,789,518	259,666	–	–

(c) Interest rate risk

(i) Interest rate profile

The Target Group's interest rate risk arises primarily from cash at bank and interest-bearing borrowings. Cash at bank are with fixed interest rates ranging from 0.35% to 4.40% per annum as at 31 December 2012, 2013 and 2014.

The Target Group's interest-bearing borrowings and interest rates as at 31 December 2012, 2013 and 2014 are set as follows:

	2012		2013		2014	
	Effective interest rate		**Effective interest rate**		**Effective interest rate**	
	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*
Fixed rate borrowings	5.6%–8.25%	888,308	5.6%–8.59%	2,318,765	5.6%–12.0%	2,874,563
Variable rate borrowings	–	–	7.5%–7.8%	57,112	7.5%–7.8%	73,800
Total net borrowings		888,308		2,375,877		2,948,363
Net fixed rate borrowings as a percentage of total net borrowings		100%		98%		97%

(ii) Sensitivity analysis

At 31 December 2012, 2013 and 2014, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Target Group's profit after tax and retained profits by approximately nil, RMB214,000 and RMB491,000 respectively. Other components of consolidated equity would have decreased/increased by RMB214,000 and RMB491,000 respectively, in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Target Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Target Group at the end of the reporting period, the impact on the Target Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualized impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for the Relevant Period.

(d) Fair values

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2012, 2013 and 2014, except for the amounts due from/to related parties which have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair value of such balances.

25 Commitments

(a) Capital commitments

Capital commitments of the Target Group in respect of property, plant and equipment outstanding at the end of each reporting period not provided for in the Financial Information were as follows:

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for	274,424	140,247	111,679
Authorized but not contracted for	370,941	427,452	219,662
	645,365	567,699	331,341

(b) Operating lease commitments

At the end of each reporting period, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

The Target Group

	Years ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	49,188	91,015	95,742
After 1 year but within 5 years	190,088	319,706	296,620
After 5 years	162,485	585,830	596,461
	401,761	996,551	988,823

The Target Group leases a number of warehouses, leasehold land and office premises under operating leases. The leases typically run for an initial period of 1 to 20 years, with an option to renew the leases after that date. Leasehold land and land use rights are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

26 Material related party transactions

In addition to the related party information disclosed elsewhere in the Financial Information, the Target Group entered into the following material related party transactions.

During the Relevant Period, the management of Jiahong are of the view that the following individual/companies are related parties of the Target Group:

Name of party	Relationship
Zhou Jian Ming 周建明	The Controlling Shareholder
Qiu Ping 邱萍	Connected person of the Controlling Shareholder
Qinghai Fengzhen Investment Co., Ltd. (“Qinghai Fengzhen”) 青海豐鎮投資有限公司	Controlled by the Controlling Shareholder
Shenzhen Maolongxing Co., Ltd. (“Shenzhen Maolongxing”) 深圳市茂隆興實業發展有限公司	Controlled by the Controlling Shareholder
Yunnan Ximai Mining Co., Ltd. (“Yunnan Ximai”) 雲南西邁礦業有限公司	Controlled by the Controlling Shareholder
Shenzhen Chuangfuxin Investment Co., Ltd. (“Shenzhen Chuangfuxin”) 深圳市創富鑫投資有限公司	Controlled by the Controlling Shareholder
Guangdong Chikai Automobile Sales and Service Co., Ltd. (“Guangdong Chikai”) 廣東馳凱汽車銷售服務有限公司	Controlled by the Controlling Shareholder
Yichun Xingyi Automobile Sales and Service Co., Ltd. (“Yichun Xingyi “) 宜春市星宜汽車銷售服務有限公司	Controlled by the Controlling Shareholder
Wenzhou Jianni Automobile Sales and Service Co., Ltd. (“Wenzhou Jianni “) 溫州堅尼汽車銷售服務有限公司	Controlled by the Controlling Shareholder

Notes: The English translation of the companies’ names is for reference only. The official names of the companies established in the PRC are in Chinese.

(a) Transactions with related parties

	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*
Sales of motor vehicle:			
Shenzhen Maolongxing	–	1,622	1,725
Purchase of spare parts:			
Guangdong Chikai	–	–	250
Purchase of motor vehicle			
Wenzhou Jianni	–	19,619	–
Advance to related parties			
ZHOU Jianming	43,338	31,817	120,245
QIU Ping	36,189	19,408	3,809
Shenzhen Chuangfuxin	30,036	–	–
Qinghai Fengzhen	29,004	47,610	16,500
Shenzhen Maolongxing	81,558	164,994	618,971
Guangdong Chikai	5,257	30,656	2,128
Yichun Xingyi	–	–	20,086
Others	9	2,000	–
	225,391	296,485	781,739
Advance from related parties			
ZHOU Jianming	74,086	52,593	112,670
QIU Ping	19,200	5,355	62,579
Shenzhen Maolongxing	67,567	125,956	574,854
Guangdong Chikai	6,437	87	23,342
Yichun Xingyi	–	–	20,184
Others	5,002	13	–
	172,292	184,004	793,629

(b) Balances with related parties

	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*
Other receivables due from Controlling Shareholder			
ZHOU Jianming	72,859	52,084	59,658
QIU Ping	16,989	31,061	906
	89,848	83,145	60,564
Other receivables due from:			
Shenzhen Maolongxing	24,895	63,951	171,800
Guangdong Chikai	–	30,258	9,045
Others	9	–	40
	24,904	94,209	180,885
Subtotal of receivables due from related parties	114,752	177,354	241,449

According to the agreed payment schedule signed by Mr. Zhou on behalf of himself, Ms. Qiu and the other related parties controlled by him, total amount of RMB209 million, among the receivables due from related parties listed above, will be repaid to the Target Group by installment with RMB80 million repaid in 2015, and the remaining part in 2016.

	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*
Payables due to Controlling Shareholder			
ZHOU Jianming	776	776	775
QIU Ping	70	89	28,705
	846	865	29,480
Other payables due to:			
Qinghai Fengzhen	75,590	27,984	11,485
Shenzhen Maolongxing	–	39	63,768
Others	2,310	266	364
	77,900	28,289	75,617
Subtotal of payables due to related parties	78,746	29,154	105,097

(c) ***Guarantee given by related parties***

As disclosed in Note 18(a)(i) and (ii), as at 31 December 2012, 2013 and 2014, bank borrowings amounting to RMB702,597,000, RMB1,729,861,000 and RMB1,720,711,000 was solely or jointly guaranteed by ZHOU Jianming, QIU Ping and Yunnan Ximai.

(d) ***Key management personnel remuneration***

Key management personnel remuneration is disclosed in note 6 and note 7.

27 Contingent liabilities

As at 31 December 2014, the Target Group and Jiahong did not have any significant contingent liabilities.

28 Critical accounting judgments and key sources of estimation uncertainty

In the application of the Target Group's accounting policies, the director are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

(a) Critical judgments in applying accounting policies

The following is the critical judgement that the management has made in the process of applying the Target Group's accounting policies and that have the most significant effect of the amounts recognised in the financial statements.

(i) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Target Group reviews annually the useful life of an asset and its residual value, if any, in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Target Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(ii) Other intangible assets and amortisation

The Target Group determines the estimated useful lives and related amortisation for the Target Group's other intangible assets. The useful lives of other intangible assets are assessed to be either finite or indefinite, based on the expected usage and technical obsolescence from the changes in the market demands or services output from the assets. Other intangible assets with finite useful lives are amortised over the expected useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for the intangible assets with finite useful lives are reviewed by the management at least at the end of each reporting period.

(b) Key sources of estimation uncertainty

Information about assumption and estimation uncertainties that has a significant risk of resulting in a material adjustment in the year ended 31 December 2012, 2013 and 2014 is as follows:

(i) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Target Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(ii) Provision for inventories

The Target Group reviews the carrying amounts of the inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value. Management estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down and affect the Target Group's net asset value.

(iii) Impairment losses on trade and other receivables

Impairment losses on trade and other receivables are assessed and provided based on management's regular review of ageing analysis and evaluation of collectability. A considerable level of judgment is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debt would affect the consolidated statements of comprehensive income in future years.

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the relevant period

Up to the date of issue of the Financial Information, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Period and which have not been adopted in the Financial Information.

	Effective for accounting periods beginning on or after
Amendments to IAS 19, Defined benefit plans: Employee contributions	1 July 2014
Annual improvements to IFRSs 2010–2012 cycle	1 July 2014
Annual improvements to IFRSs 2011–2013 cycle	1 July 2014
Amendments to IFRS 11, Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to IAS 16 and IAS 38, Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IFRS 15, Revenue from contracts with customers	1 January 2017
IFRS 9, Financial instruments	1 January 2018

The management have confirmed that the Target Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Target Group's results of operations and financial position.

D SUBSEQUENT EVENTS

There were no material subsequent events subsequent to 31 December 2014.

E SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by Jiahong and its subsidiaries comprising the Target Group in respect of any period subsequent to 31 December 2014. No dividend or distribution has been declared or made by any companies comprising the Target Group in respect of any period subsequent to 31 December 2014.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

30 June 2015

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF NEW FOCUS AUTO TECH HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of New Focus Auto Tech Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2014 and the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2014 and related notes as set out in Part A of Appendix III to the circular dated 30 June 2015 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Appendix III to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of proposed subscription of the registered capital of Shenzhen Jiahong Trading Development Co., Ltd ("Jiahong") in the amount of RMB300 million (the "Proposed Subscription"), on the Group's financial position as at 31 December 2014 and the Group's financial performance and cash flows for the year ended 31 December 2014 as if the Proposed Subscription had taken place at 31 December 2014 and 1 January 2014, respectively. As part of this process, information about the Group's financial position as at 31 December 2014 and the Group's financial performance and cash flows for the year ended 31 December 2014 has been extracted by the Directors from the consolidated financial statements of the Group for the year then ended, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 31 December 2014 or 1 January 2014 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) Introduction to the unaudited pro forma financial information

The following is the unaudited pro forma financial information of the Enlarged Group (being the Company and its subsidiaries (collectively, the "Group") together with Shenzhen Jiahong Trading Development Co. Ltd. ("Jiahong") and its subsidiaries (collectively, the "Target Group")) which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the subscription of 50% registered capital of Jiahong (the "Subscription") in the amount of RMB300 million, as if it had taken place on 31 December 2014 for the unaudited pro forma consolidated statement of financial position, and on 1 January 2014 for the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flow.

The unaudited pro forma financial information of the Enlarged Group has been prepared in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and has been prepared by the directors of the Company for illustrative purposes only.

The unaudited pro forma financial information of the Enlarged Group is based upon (i) the audited consolidated financial statements of the Group as of and for the year ended 31 December 2014, which have been extracted from the Company's annual report for the year then ended dated 19 March 2015; (ii) the consolidated financial information of the Target Group as extracted from the accountants' report as set out in Appendix II to this Circular, and adjusted on a pro forma basis to reflect the effect of the Subscription. These pro forma adjustments are (i) directly attributable to the Subscription and not relating to other future events and decision and (ii) factually supportable based on the terms of the Subscription Agreement as defined in this circular.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates and uncertainties. As a result of these assumptions, estimates and uncertainties, the unaudited pro forma financial information of the Enlarged Group does not purport to describe the true picture of the financial position or results of operations of the Enlarged Group that would have been attained had the Subscription been completed as at the specified dates. Further, the unaudited pro forma financial information of the Enlarged Group does not purport to predict the future financial position or results of operations of the Enlarged Group.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the historical financial information of the Group set out in the annual report of the Company for the year ended 31 December 2014, and other financial information included elsewhere in this circular.

(2) Unaudited pro forma consolidated statement of financial position as at 31 December 2014

	The Group	The Target Group	Total	Pro Forma Adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				Note 1(i)	*Note 2*	*Note 3*	
Non-current assets							
Property, plant and equipment	185,696	1,423,730	1,609,426	6,149			1,615,575
Leasehold land and land use rights	32,324	85,753	118,077	5,147			123,224
Investment properties	42,033	–	42,033				42,033
Goodwill	146,256	–	146,256	4,749			151,005
Other intangible assets	47,919	1,956	49,875	296,577			346,452
Deferred tax assets	15,653	28,549	44,202				44,202
Other non-current asset	–	2,795	2,795				2,795
	469,881	1,542,783	2,012,664				2,325,286
Current assets							
Inventories	214,646	1,659,095	1,873,741				1,873,741
Tax recoverable	5	–	5				5
Trade receivables	131,356	23,270	154,626				154,626
Deposits, prepayments and other receivables	199,618	1,035,451	1,235,069		(100,000)		1,135,069
Amounts due from related parties	3,186	241,449	244,635				244,635
Pledged bank deposits	6,212	461,999	468,211				468,211
Cash and cash equivalents	163,511	314,047	477,558			(6,300)	471,258
	718,534	3,735,311	4,453,845				4,347,545

	The Group	The Target Group	Total	Pro Forma Adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				Note 1(i)	*Note 2*	*Note 3*	
Current liabilities							
Loans and borrowings	152,620	2,197,074	2,349,694		(100,000)		2,249,694
Trade and bills payables	190,445	1,761,154	1,951,599				1,951,599
Accruals and other payables	134,639	700,573	835,212				835,212
Amount due to related parties	–	105,097	105,097				105,097
Amounts due to non-controlling owners of subsidiaries	5,000	–	5,000				5,000
Tax payable	1,598	17,590	19,188				19,188
	484,302	4,781,488	5,265,790				5,165,790
Net current assets/(liabilities)	234,232	(1,046,177)	(811,945)				(818,245)
Total assets less current liabilities	704,113	496,606	1,200,719				1,507,041
Non-current liabilities							
Loans and borrowings	9,209	366,350	375,559				375,559
Convertible bonds	134,755	–	134,755				134,755
Deferred tax liabilities	19,852	5,907	25,759	76,968			102,727
	163,816	372,257	536,073				613,041
NET ASSETS	540,297	124,349	664,646				894,000

	The Group	The Target Group	Total	Pro Forma Adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				Note 1(i)	*Note 2*	*Note 3*	
CAPITAL AND RESERVES							
Share capital	307,931	300,000	607,931	(300,000)			307,931
Reserves	102,824	(219,332)	(116,508)	219,332		(6,300)	96,524
Total equity attributable to owners of the Company	410,755	80,668	491,423				404,455
Non-controlling interests	129,542	43,681	173,223	316,322			489,545
TOTAL EQUITY	540,297	124,349	664,646				894,000

(3) Unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2014

	The Group	The Target Group	Total	Pro Forma Adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				Note 1(i)	*Note 1(ii)*	*Note 3*	
Turnover	1,397,498	8,532,663	9,930,161				9,930,161
Cost of sales and services	(1,100,379)	(8,002,905)	(9,103,284)				(9,103,284)
Gross profit	297,119	529,758	826,877				826,877
Other revenue and gains and losses	49,078	135,958	185,036				185,036
Distribution costs	(225,042)	(405,766)	(630,808)				(630,808)
Administrative expenses	(121,268)	(205,210)	(326,478)	(16,111)		(6,300)	(348,889)
Loss from operations	(113)	54,740	54,627				32,216
Finance costs	(26,266)	(249,195)	(275,461)				(275,461)
Loss before taxation	(26,379)	(194,455)	(220,834)				(243,245)
Income tax expenses	(9,422)	915	(8,507)	4,028		1,575	(2,904)
Loss for the year	(35,801)	(193,540)	(229,341)				(246,149)
Other comprehensive income							
Item that may be reclassified subsequently to profit or loss:							
Exchange differences on translation of foreign operations	(7,037)	–	(7,037)				(7,037)
Other comprehensive income for the year, net of tax	(7,037)	–	(7,037)				(7,037)
Total comprehensive income for the year	(42,838)	(193,540)	(236,378)				(253,186)
Loss for the year attributable to:							
– Owners of the Company	(43,223)	(188,636)	(231,859)	(5,274)	94,318	(4,725)	(147,540)
– Non-controlling interests	7,422	(4,904)	2,518	(6,809)	(94,318)		(98,609)
	(35,801)	(193,540)	(229,341)				(246,149)
Total comprehensive income attributable to							
– Owners of the Company	(50,260)	(188,636)	(238,896)	(5,274)	94,318	(4,725)	(154,577)
– Non-controlling interests	7,422	(4,904)	2,518	(6,809)	(94,318)		(98,609)
	(42,838)	(193,540)	(236,378)				(253,186)

(4) Unaudited pro forma consolidated statement of cash flow for the year ended 31 December 2014

	The Group	The Target Group	Total	Pro Forma Adjustments		The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				Note 2	*Note 3*	
Operating activities:						
Loss before income tax expense	(26,379)	(194,455)	(220,834)			(220,834)
Adjustments for:						
– Impairment of inventories	5,721	–	5,721			5,721
– Depreciation of property, plant and equipment	41,820	119,192	161,012			161,012
– Amortisation of leasehold land and land use rights	1,260	1,801	3,061			3,061
– Amortisation of intangible assets	–	176	176			176
– Additional allowance for doubtful debts on trade receivables	1,872	–	1,872			1,872
– Impairment on property, plant and equipment	–	15,484	15,484			15,484
– Equity-settled share-based payments	2,246	–	2,246			2,246
– Interest income from bank deposits	(5,331)	(9,425)	(14,756)			(14,756)
– (Gain)/loss on disposal of property, plant and equipment	(7,550)	1,684	(5,866)			(5,866)
– Fair value gain on investment properties	(1,075)	–	(1,075)			(1,075)
– Interest expenses on bank borrowings	8,730	249,195	257,925			257,925
– Imputed interest on convertible bonds	17,536	–	17,536			17,536
– Gain on disposal of a subsidiary and trading securities	(2,094)	–	(2,094)			(2,094)
– Written-off of consideration payables and other payables	(24,202)	–	(24,202)			(24,202)
Operating cash flows before working capital changes	12,554	183,652	196,206			196,206

	The Group	The Target Group	Total	Pro Forma Adjustments		The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				Note 2	*Note 3*	
Decrease/(increase) in inventories	11,527	(465,496)	(453,969)			(453,969)
Decrease/(increase) in trade receivables	5,013	(5,068)	(55)			(55)
Decrease/(increase) in deposits, prepayments and other receivables	32,063	(154,217)	(122,154)			(122,154)
Decrease in amounts due from related companies	808	–	808			808
Increase in pledged deposits for issuance of bank acceptance	–	(84,801)	(84,801)			(84,801)
Increase in trade and bills payables	5,135	677,119	682,254			682,254
Increase in accruals and other payables	16,059	195,222	211,281			211,281
Cash generated from operations	83,159	346,411	429,570			429,570
Income tax paid	(10,284)	(277)	(10,561)			(10,561)
Interest paid	(8,554)	(249,080)	(257,634)			(257,634)
Net cash generated from operating activities	64,321	97,054	161,375			161,375
Investing activities						
Purchase of property, plant and equipment	(22,858)	(453,929)	(476,787)			(476,787)
Proceeds from disposal of property, plant and equipment and investment properties	17,200	96,003	113,203			113,203
Loan to a third party	(100,000)	–	(100,000)	100,000		–
Considerations paid for acquisition of subsidiaries	(72,820)	–	(72,820)			(72,820)
Decrease in pledged deposits	14,670	77,406	92,076			92,076
Interest received	5,331	9,425	14,756			14,756
Proceeds from disposal of a subsidiary and trading securities	23,306	–	23,306			23,306
Payment for transaction costs incurred for Subscription of subsidiaries	–	–	–		(6,300)	(6,300)
Net cash used in investing activities	(135,171)	(271,095)	(406,266)			(312,566)

	The Group	The Target Group	Total	Pro Forma Adjustments		The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				Note 2	*Note 3*	
Financing activities						
Proceeds from loans and borrowings	152,621	4,578,702	4,731,323	(100,000)		4,631,323
Repayment of loans and borrowings	(129,718)	(4,293,221)	(4,422,939)			(4,422,939)
Repayment of loan from a non-controlling owner of a subsidiary	(4,511)	–	(4,511)			(4,511)
Advance from related parties	–	783,630	783,630			783,630
Repayment of advance from related parties	–	(803,929)	(803,929)			(803,929)
Advance from third party companies	–	424,553	424,553			424,553
Repayment of advance from third party companies	–	(430,904)	(430,904)			(430,904)
Dividend paid to non-controlling owners of subsidiaries	(18,785)	–	(18,785)			(18,785)
Net cash (used in)/generated from financing activities	(393)	258,831	258,438			158,438
Net (decrease)/increase in cash and cash equivalents	(71,243)	84,790	13,547			7,247
Cash and cash equivalents at beginning of year	234,865	229,257	464,122			464,122
Effect of foreign exchange rate changes	(111)	–	(111)			(111)
Cash and cash equivalents at end of year	163,511	314,047	477,558		(6,300)	471,258
Analysis of the balances of cash and cash equivalents						
Cash at bank and in hand	163,511	314,047	477,558		(6,300)	471,258

(5) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. Upon completion of the Subscription, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the purchase method of accounting in accordance with International Financial Reporting Standard No. 3 (Revised), "Business Combinations".

   For the purposes of the Unaudited Pro Forma Financial Information, the allocation of the purchase price is determined based on the Director's estimates of the fair value of the identifiable assets and liabilities of the Target Group as at 31 December 2014, and with reference to a valuer report dated 4 June 2015 prepared by RHL Appraisal Limited, an independent valuer. The independent valuer report are prepared using the income approach and with reference/benchmark to the valuer's industry knowledge and past experience of comparable cases, as well as a high-level analysis on the proportions of potential intangible assets as compared to the business enterprise value implied by the purchase consideration.

   The actual fair values of the assets and the liabilities will be determined as of the date of Subscription and may differ materially from the amounts disclosed in the unaudited pro forma financial information because of changes in fair values of the assets and liabilities to the date of the transaction, and as further analysis is completed. Consequently, the actual allocation of the purchase price will likely result in different amounts than those in the unaudited pro forma financial information.

   (i) This adjustment represents the recognition of identifiable intangible assets as identified through the valuation report arising from the Subscription at their respective fair value (namely car dealerships and favourable lease contracts of approximately RMB296,577,000 in total), the revaluation gain of property, plant and equipment and prepayment of leasehold land and land use right of approximately RMB11,296,000, and the recognition of related deferred tax liabilities of RMB76,968,000, as if the Subscription had been completed on 31 December 2014 or 1 January 2014, as appropriate.

   Detail of identifiable intangible assets is as follows:

	RMB'000
Car dealerships	281,956
Favourable lease contracts	14,621
	296,577

	RMB'000
Fair value of the Consideration	300,000
Net asset acquired:	
Net assets value of the Target Group before the Proposed Subscription	124,349
Cash injected into the Target Group	300,000
Fair value adjustment	
– Property, plant and equipment	6,149
– Leasehold land and land use rights	5,147
– Car dealerships	281,956
– Favorable lease contracts	14,621
Effect of deferred tax liabilities estimated at the tax rate of 25%	(76,968)
Fair value adjustment attributable to non controlling shareholders	(21,071)
Total net asset acquired	634,183
Non-controlling interests in the Target Group (being non-controlling interest of the Target Group before the Proposed Subscription of RMB43,681,000, shares of net asset value of the Target Group before the Proposed Subscription of RMB40,334,000 and share of the injected capital and fair value adjustment of RMB254,917,000)	(338,932)
Identified assets acquired and liabilities assumed	295,251
Goodwill arising from the Proposed Subscription	4,749

According to the Group's accounting policies, the car dealerships are estimated to be amortised over their respective useful lives (generally 20 years which represent the best estimate made by the directors of the Company, considering the length of time the Company can maintain the dealerships and therefore get benefit from it) on a straight-line basis, the favourable lease contracts are estimated to be amortised over the lease term of 10 years on a straight-line basis. The revaluation gain on property, plant and equipment and leasehold land and land use rights are estimated to be depreciated or amortised over the remaining useful life of the revaluated assets on a straight-line basis.

The pro forma adjustments in relation to the increase in administrative expense by RMB16,111,000 for the year ended 31 December 2014 relate to depreciation of RMB410,000 and amortisation of RMB15,701,000 for the year as if the Subscription had been completed on 1 January 2014. This adjustment has a continuing effect on the Enlarged Group.

	Fair value adjustment	**Remaining/ estimated useful life**	**Residual value**	**Depreciation and amortisation charged for the year**
	RMB'000	*Years*		*RMB'000*
Property, plant and equipment	6,149	13-18	5%	410
Leasehold land and land use rights	5,147	36-37	–	141
Car dealership	281,956	20	–	14,098
Favorable lease contract	14,621	10	–	1,462
				16,111

According to the Group's accounting policies, goodwill arising from the acquisition of the Target Group will be tested for impairment at least annually or whenever events or changes in circumstances indicate its carrying amount may not be recoverable in accordance with the requirements of International Accounting Standards 36 "Impairment of Assets" ("IAS 36"). For the purpose of impairment testing, goodwill will be allocated to the cash generating units ("CGUs") that are expected to benefit from the synergies of the acquisition of the Target Group. Similarly, the identifiable intangible assets acquired by the Group are tested for impairment when there is an indicator of impairment.

Based on internal assessment and with reference to the valuer report, the directors of the Company do not consider that there was any indication that the car dealerships, the favourable lease contract or the goodwill may be impaired, and the directors of the Company confirm that the Company will adopt consistent accounting policies, valuation method and principal assumptions as used in the pro forma financial information to assess the impairment of the Enlarged Group's goodwill and other intangible assets in the future financial periods ends.

In connection with the pro forma financial information as set out in page III-5 to III-11, our reporting accountants conducted their work in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA and their report is set forth in page III-1 to III-3. In reporting on the pro forma financial information, our reporting accountants considered whether the basis on which the pro forma financial information has been complied is consistent with the Group's accounting policies, including the accounting policies related to impairment assessment on goodwill and other identifiable intangible assets described above.

(ii) This adjustment is to adjust the non-controlling interests' share of the Target Group's loss for the year. This adjustment has a continuing effect on the Enlarged Group's consolidated statement of comprehensive income.

	RMB'000
Loss of the Target Group for the year attributable to equity shareholders of Jiahong before the Subscription	188,636
Loss shared by the non-controlling interests at 50%	94,318

2. On 29 December 2014, New Focus Lighting & Power Technology (Shanghai) Co., Ltd., a subsidiary of the Company, instructed the lending bank (as the entrusted party and the lending agent) to release a loan in the principal amount of RMB100,000,000 to Jiahong for a term of 12 months. The loan is eliminated as intra-group transaction of the Enlarged Group.

3. This adjustment represents payment for estimated subscription-related costs (including fees to legal advisers, independent valuer, reporting accountants, printer and other expenses) of approximately RMB6,300,000 in cash, which would be expensed in the consolidated statement of comprehensive income in accordance International Financial Reporting Standard No. 3 (Revised), "Business Combinations".

   This adjustment does not have continuing effect on the Enlarged Group.

4. No adjustment has been made to the unaudited pro forma financial information to reflect any trading results on other transactions of the Enlarged Group entered into subsequent to 31 December 2014.

OVERVIEW

(i) For the year ended 31 December 2012

In 2012, the Target Group was principally engaged in the sales of motor vehicles and provision of auto-related services in the PRC. To realize its strategic expansion into the dealership business, the Target Group opened six additional stores, bringing its total number of stores of from five stores as at 31 December 2011 to eleven stores as at 31 December 2012.

The Target Group's Shenzhen Rolls-Royce dealership store was awarded with the Rolls-Royce Dealer of the Year 2012 for the China Region by Rolls-Royce Motor Cars Limited. The Target Group was also selected as one of the top 100 companies in Shenzhen jointly by the Shenzhen Enterprise Confederation and the Shenzhen Economic Daily. For further details on the awards and achievements of the Target Group, please see the section headed "Business of the Target Group — Awards and Achievements of the Target Group" in this circular.

During the year, the Target Group landed a total of four new Rolls-Royce dealerships, giving rise to its steady increase in market share and its position as the largest Rolls-Royce dealership group in China. It also landed five new Jaguar and Land Rover dealerships, completing the brand's strategic geographical distribution within China. Other significant developments include the signing of three new BMW dealerships as well as dealerships for Maserati, Bentley, Cadillac and imported Volkswagen.

(ii) For the year ended 31 December 2013

In 2013, the Target Group continued its strategic expansion into the dealership business and opened ten additional stores, bringing its total number of stores from 11 stores as at 31 December 2012 to 21 stores as at 31 December 2013. With an increased number of dealership stores, the Target Group experienced rapid growth in respect of both sales of motor vehicles and the provision of auto maintenance services, whereby both of the corresponding turnover amounts more than doubled during the period under review.

The Target Group's Shenzhen Rolls-Royce dealership store was awarded with the Rolls-Royce Dealer of the Year 2013 for the China Region by Rolls-Royce Motor Cars Limited. The Target Group was also selected as one of the top 100 companies in Shenzhen jointly by the Shenzhen Enterprise Confederation and the Shenzhen Economic Daily. For further details on the awards and achievements of the Target Group, please see the section headed "Business of the Target Group — Awards and Achievements of the Target Group" in this circular.

During the year, the Target Group signed two new Jaguar and Land Rover dealerships, two new Maserati dealerships, as well as dealerships for BMW and Infiniti. The Jaguar and Land Rover dealerships under the Target Group are distributed in northern, western and southern China.

(iii) For the year ended 31 December 2014

In 2014, the Target Group continued to consolidate its network of dealership stores by opening another six additional stores, bringing its total number of stores from 21 stores as at 31 December 2013 to 27 stores as at 31 December 2014. Benefitting from its extensive network of 4S dealership stores, the turnover of the Target Group reached new highs for both sales of motor vehicles and the provision of auto maintenance services.

Due to its outstanding sales results and high customer satisfaction, the Target Group's Shenzhen Rolls-Royce dealership store was awarded with the Rolls-Royce Dealer of the Year 2014 for the China Region by Rolls-Royce Motor Cars Limited. For further details on the awards and achievements of the Target Group, please see the section headed "Business of the Target Group — Awards and Achievements of the Target Group" in this circular.

Other significant developments of the Target Group include its plan to develop the VVIP Auto Club business to focus on online sales of ultra-luxury and luxury imported cars and related businesses, including online sales of first-hand and second-hand cars, online car rentals and other online shopping businesses.

BASIS OF PRESENTATION

The financial information of the Target Group have been prepared for the Relevant Period (the "**Underlying Financial Statements**") in accordance with IFRSs issued by the International Accounting Standards Board. The Underlying Financial Statements for each of the years ended 31 December 2012, 2013 and 2014 were audited by KPMG Huazhen (Special General Partnership) in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

Such financial information has been prepared by the Directors for inclusion in this circular in connection with the Subscription of the Target Group based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Listing Rules.

SEGMENT INFORMATION

The Target Group has one reportable segment, which is the sales of motor vehicles and provision of auto-related services in the PRC. Therefore no additional reportable segment has been presented and no additional information about geographical area has been disclosed.

Since none of the Target Group's sales to a single customer amounted to 10% or more of the Target Group's turnover during the Relevant Period, no major customer segment information is presented.

FACTORS AFFECTING THE TARGET GROUP'S RESULTS OF OPERATIONS

Demand for automobiles in the PRC, particularly for ultra-luxury and luxury brands

The Target Group's results of operations are affected by the demand for automobiles, in particular for ultra-luxury and luxury brands. For the three years ended 31 December 2012, 2013 and 2014, the Target Group's turnover generated from the sale of automobiles amounted to RMB2,565,329,000, RMB5,883,697,000 and RMB8,052,296,000, contributing 96.76%, 96.18% and 94.37% to the Target Group's total turnover, respectively. Its sales are expected to be increasingly affected by the demand for luxury and ultra-luxury automobiles in China. China's rapid economic growth has led to accelerated urbanization, higher per capital disposable income, improved living standards and the development of an extensive highway network and other infrastructure, which in turn have driven strong demand for passenger vehicles in China. Furthermore, as the number of high net worth individuals increases in China, the demand for luxury products, including ultra-luxury and luxury automobiles, has also grown significantly. According to ACMR, the sales volume of ultra-luxury passenger vehicles increased at a CAGR of 33.4% from 2008 to 2014. During the same period, the sales volume of luxury passenger vehicles increased at a CAGR of 34.5%. ACMR expects that the sales volume of ultra-luxury passenger vehicles and luxury passenger vehicles will reach approximately 169,000 units and 4,077,000 units, respectively, in 2018, representing CAGRs of 27.3% and 19.8%, respectively, from 2015 to 2018. The Target Group's results of operations could also be negatively affected by a number of factors beyond its control. For further details, please see the section headed "Industry overview – Key trends in China's passenger vehicle market" and "Risk factors – The Target Group works with foreign brands, and adverse changes in political relations between China and the relevant foreign countries may adversely affect the Target Group's business". Such developments and other factors affecting market demand for passenger vehicles, particularly ultra-luxury and luxury brands, in China are expected to have a significant impact on the Target Group's business and prospects.

Store network of the Target Group

The Target Group's sales of automobiles are directly affected by the number, location and performance of its stores. As of the Latest Practicable Date, the Target Group operated 27 stores in 14 cities in China. It is expected that the Target Group's network coverage will be expanded to 21 cities in China upon the opening of stores which are under construction as at the Latest Practicable Date. By increasing the number of stores, it is anticipated that Target Group will be able to achieve economies of scale through the geographic density of its network, optimized resources allocation and effective cost control.

The Target Group's ability to maintain and expand its dealership network is dependent on its ability to secure dealership authorization agreements for desirable automobile brands in attractive locations on acceptable terms. It is anticipated that the Target Group's track record and established relationships with automobile manufacturers well position it to enter into dealership authorization agreements with automobile manufacturers, particularly for premium brands, so as for it to continue to expand its store network.

Product and service mix

The Target Group offers a portfolio of ultra-luxury and luxury automobile brands, including Rolls-Royce, Ferrari, Maserati, Bentley, BMW, Audi, Jaguar, Mini, Land Rover, Cadillac and Imported Volkswagen. The Target Group's gross margins are affected by changes in the mix of automobile brands and automobile models that it sells and the relative contribution of its after-sales business to the total turnover.

The following table sets forth a breakdown of the Target Group's turnover by automobile brands for the periods indicated:

Brand	**For the year ended 31 December,**		
	2012	**2013**	**2014**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
BMW	1,078,325	2,245,525	2,893,528
Jaguar and Land Rover	48,735	1,163,595	2,435,288
Rolls-Royce	763,162	1,115,590	862,663
Bentley	656,304	703,435	810,909
Ferrari and Maserati	18,359	414,002	646,638
Cadillac	–	74,247	204,547
Imported Volkswagen	–	149,163	193,918
Audi	–	–	4,805
Others	444	18,140	–
Total	2,565,329	5,883,697	8,052,296

The overall profitability and gross margins of the Target Group's business are also impacted by its product and service mix as the profit margins of its after-sales business are significantly higher than its profit margins for automobile sales. The following table sets forth a breakdown of the Target Group's turnover, gross profits and gross margins for the periods indicated:

	For the year ended 31 December								
	2012			**2013**			**2014**		
	Turnover	**Gross profit**	**Gross Profit Margin**	**Turnover**	**Gross profit**	**Gross Profit Margin**	**Turnover**	**Gross profit**	**Gross Profit Margin**
	RMB'000	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*
Automobile sales	2,565,329	135,106	5.27%	5,883,697	284,382	4.83%	8,052,296	348,932	4.33%
Auto-related services(1)	85,856	30,006	34.95%	233,622	80,877	34.62%	480,367	180,826	37.64%
Total	2,651,185	165,112		6,117,319	365,259		8,532,663	529,758	

Note:

(1) Includes automobile repairs, maintenance and sale of spare parts, accessories and other automobile-related products.

The Target Group's provision of auto-related services business volume in any given year is affected by the number of automobiles sold by it in prior years and the number and relative maturity of newly-established stores in its network at the time. The Target Group generates turnover from sale of automobiles as well as the provision of auto-related services. For the three years ended 31 December 2012, 2013 and 2014, the Target Group generated a turnover of RMB2,651,185,000, RMB6,117,319,000 and RMB8,532,663,000, respectively, of which 96.76%, 96.18% and 94.37% was attributable to the sale of automobiles, and 3.24%, 3.82% and 5.63% was attributable to the provision of auto-related services. New stores typically require two or three years to fully ramp up their after-sales business performance due to the demand cycle for repair and maintenance services. It is expected the Target Group's stores that commenced operation in the Relevant Period will contribute more to its overall revenue and profitability as their after-sales business continue to ramp up in 2015 and 2016.

Automobile purchase costs and incentive rebates from automobile manufacturers

The Target Group's profitability is affected to a large extent by its costs of purchasing automobiles and spare parts from automobile manufacturers and the incentive rebates that they offer. The wholesale prices that the Target Group pays for new automobiles and spare parts are determined by the automobile manufacturers and it does not exercise any control or influence over their pricing and business strategies. However, the Target Group's purchase costs of new automobiles are affected by the volume discounts that it receives from automobile manufacturers based on the units of new automobiles that it purchases or sells (depending on the policies of different automobile manufacturers).

In addition, automobile manufacturers typically offer incentive rebates that are generally determined with reference to the units of new automobiles which the Target Group purchases or sells, and are further adjusted based on the Target Group's performance relative to certain targets set by its automobile manufacturer partners, including customer satisfaction ratings and dealership operating standards. The Directors believe that it is common practice in its industry for the automobile manufacturers to determine their own rebate policies and practices and these policies and practices are not subject to negotiation by automobile dealerships.

The basis for determining the rebate amounts is made known to the Target Group by the relevant automobile manufacturer in advance. Certain adjustments to the Target Group's incentive rebates are assessed at the end of each quarter or year (depending on the policies of different automobile manufacturers) when the relevant manufacturer is able to assess the Target Group's performance for the period and accordingly these amounts are not finalized until the end of each quarter or year, as the case may be. From time to time, automobile manufacturers also offer special incentive rebates for particular models of automobiles. These rebate amounts are settled from time to time (typically on a quarterly or annual basis) according to the different business practices of different automobile manufacturers. Incentive rebates are accrued at each reporting date based on the Target Group's actual purchasing amounts, the corresponding rebate rates as agreed with the automobile manufacturers and its management's estimate of relevant factors, including without limitation, meeting certain sales and service targets set by the relevant automobile manufacturers. In 2012, 2013 and 2014, the Target Group recorded rebates of approximately RMB119,506,000, RMB392,645,000 and RMB675,759,000, respectively.

Rebates relating to automobiles purchased and sold are deducted from cost of sales, while rebates relating to automobiles purchased but still held by the Target Group as inventory on the reporting date are deducted from the carrying value of these automobiles so that the cost of its inventory is recorded net of applicable rebates. There was no material discrepancy between accrued rebates and actual rebates the Target Group received from the automobile manufacturers during the Relevant Period. Any significant change to the Target Group's purchase costs and the rebates that it receives from automobile manufacturers will affect its results of operations and financial condition.

Terms and conditions of the Target Group's agreements with automobile manufacturers

Automobile manufacturers grant the Target Group the rights to operate its dealership stores and supply new automobiles and spare parts to it. Accordingly, the Target Group's results of operations and financial condition are affected by the terms and conditions of its agreements with automobile manufacturers. For example, under the Target Group's dealership authorization agreements with automobile manufacturers, automobile manufacturers may subject the operations of the Target Group's dealership store to various restrictions including setting geographical limitations on the Target Group's dealership store business, precluding it from obtaining additional dealership rights for failing to meet the relevant automobile manufacturer's performance criteria, including those relating to sales results, customer satisfaction indexes and store presentation, influencing the placement of fixtures in its dealership stores, restricting its ability to provide loan guarantees or other forms of collateral, thus adversely impacting its ability to obtain financing for its business, and influencing the management of its dealership stores. Such restrictions and any future changes to them may affect the Target Group's competitiveness with respect to its pricing policy, ability to meet customers' demands, product and service mix, management of its dealership stores and other aspects of its operation, as well as its financial condition. Please also refer to the section headed "Risk Factors – Risks relating to the Target Group's business – The Target Group's business operations are subject to restrictions imposed by, and significant influence from, automobile manufacturers under its dealership authorization agreements".

Finance costs

To finance the Target Group's working capital and network expansion needs, it relies on (i) bank loans from domestic banks, (ii) borrowings from automobile manufacturers' finance companies and (iii) bank acceptance notes. Accordingly, the Target Group's finance costs consist of interest on such borrowings and are determined by the amount of bank loans, borrowings and bank acceptance notes maintained in the relevant period and the applicable interest rates on such borrowings. The Target Group obtained a combination of short-term and long-term, as well as fixed-rate and variable-rate, bank loans and other borrowings, in order to control its finance costs and limit the Target Group's exposure to changes in interest rate. It also finances its purchase of automobiles by issuing bank acceptance notes to the automobile manufacturers.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The preparation of financial statements of the Target Group (the "**Financial Information**") in conformity with the IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Target Group's accounting policies. In areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the combined financial statements, the Target Group's operating results and financial position are sensitive to the accounting methods, assumptions and estimates that are used in the preparation of the combined financial statements. Actual results may differ from these estimates under different assumptions and conditions. The selection of critical accounting policies, as well as the judgments and other uncertainties affecting the application of those critical accounting policies are factors to be considered when reviewing the Target Group's financial information. The Target Group believes the following accounting policies involve the most significant judgment and estimates used in the preparation of its financial statements.

Basis of measurement

During the Relevant Period the Financial Information is presented in RMB, rounded to the nearest thousand. It is prepared on the historical cost basis.

Going concern

The Financial Information has been prepared assuming the Target Group will continue as a going concern.

As at 31 December 2012, 2013 and 2014, the Target Group had net current liabilities of RMB203,496,000, RMB645,295,000, and RMB1,046,177,000, respectively. A principal factor contributing to the negative working capital is that the Target Group borrowed short-term bank loans to fund the construction of the Target Group's 4S car dealership stores in recent years. The management of Target Group has been in discussion with the lending banks and is confident to renew and extend certain of the Target Group's bank loans before due date according to history experience. As of 6 April 2015, bank facilities with an amount of RMB670 million have been obtained for a one-year term to extend current loans. In addition, the net proceeds from the proposed share subscription of the Target Company by the Company will increase the Target Group's working capital in the way of share issuance and financial assistance as agreed in Subscription Agreement. The Company also has agreed that it will continue to provide financial supports to the Target Group once the Target Group is unable to meet its obligations as and when they fall due in the foreseeable future. Thus, the Directors are of view that the Target Group will have sufficient liquid funds to finance its working capital and capital expenditure requirements.

Use of estimates and judgments

The preparation of Financial Information in conformity with IFRSs requires the directors to make judgments, 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 judgments 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.

Judgments made by the directors in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 28 of the accountant's report of the Target Group set out in Appendix II of this circular.

Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Target Group, and in respect of which the Target Group has not agreed any additional terms with the holders of those interests which would result in the Target Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Target Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the owners of the Target Group. Non-controlling interests in the results of the Target Group are presented on the face of the consolidated statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Target Group. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statements of financial position in accordance with notes 1(m) or 1(n) of the accountant's report of the Target Group set out in Appendix II of this circular, depending on the nature of the liability.

Changes in the Target Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Target Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Target Group's statements of financial position, an investment in a subsidiary is stated at cost less impairment losses. For details, please see note 1(j) of the accountant's report of the Target Group set out in Appendix II of this circular.

Business combination for entities under common control

Business combinations arising from transfer of interests in entities that are under the control of the shareholder that controls the Target Group are accounted for as if the acquisition had occurred at the beginning of the years or, if later, at the date that common control was established. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Target Group's shareholder's consolidated financial statements.

Upon transfer of interest in an entity to another entity that are under the control of the shareholder that controls the Target Group, any difference between the Target Group's interest in the carrying value of the assets and liabilities and the cost of transfer of interest in the entity is recognized directly in equity.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. For details, please see note 1(j) of the accountant's report of the Target Group set out in Appendix II of this circular.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs. For details, please see note 1(t) of the accountant's report of the Target Group set out in Appendix II of this circular.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land	Over the shorter of the unexpired term of lease and their estimated useful life, being 20 years after the date of completion
– Leasehold improvements	Over the shorter of unexpired term of the lease and 5 years
– Plant and machinery	3–10 years
– Motor vehicles	4 years
– Office equipment, furniture and fixtures	3–5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Intangible assets

Intangible assets that are acquired by the Target Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 1(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

– Software and others	5 years

Both the period and method of amortization are reviewed annually.

Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Target Group

Assets that are held by the Target Group under leases which transfer to the Target Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Target Group are classified as operating leases.

Operating lease charges

Where the Target Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term.

Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, if any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

– If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Target Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– leasehold land and land use rights;

– intangible assets; and

– investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated on specific identification or weighted average basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expenses in the period in which the reversal occurs.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Target Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statements.

Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave; contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Target Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

Income tax

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group or the Target Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Target Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of motor vehicles

Revenue arising from the sale of motor vehicles is recognised upon delivery of motor vehicles which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Sales of motor spare parts

Revenue arising from the sale of motor spare parts is recognised when significant risks and rewards of ownership have been transferred to the buyers.

(iii) Maintenance services income

Revenue arising from maintenance services is recognised when the relevant service is rendered without further performance obligations.

(iv) Commission income

Commission income is recognised at the time when the services concerned are rendered to customers.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(vi) Government grants

Government grants are recognised in the statements of financial position initially when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the

Target Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Related parties

(a) For the purposes of the Financial Information, a person, or a close member of that person's family, is related to the Target Group if that person:

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

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the Financial Information provided regularly to the Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Target Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

The following summarizes components of certain items appearing in the accountant's report of the Target Group set out in Appendix II to this circular.

Turnover

The Target Group generates turnover from sale of automobiles as well as the provision of auto-related services. For the three years ended 31 December 2012, 2013 and 2014, the Target Group generated a turnover of RMB2,651,185,000, RMB6,117,319,000 and RMB8,532,663,000, respectively, of which 96.76%, 96.18% and 94.37% were attributable to the sale of automobiles, and 3.24%, 3.82% and 5.63% were attributable to the provision of auto-related services.

In respect of the sale of automobiles, the Target Group generates turnover from the sale of new automobiles. It excludes the provision of after-sales services and the provision of automobile agency services, which are instead regarded as the provision of auto-related services.

The following table sets forth a breakdown of the Target Group's turnover for the periods indicated:

	For the year ended 31 December		
	2012	**2013**	**2014**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Sale of automobiles	2,565,329	5,883,697	8,052,296
Provision of auto-related services	85,856	233,622	480,367
Total	2,651,185	6,117,319	8,532,663

For the three years ended 31 December 2012, 2013 and 2014, the Target Group's turnover generated from the sale of automobiles amounted to RMB2,565,329,000, RMB5,883,697,000 and RMB8,052,296,000, respectively. Such increase of 129.35% from 2012 to 2013 and increase of 36.86% from 2013 to 2014 were primarily attributable to the growth of the PRC automobile market in general, the expansion of the Target Group's store network and the increased productivity of the Target Group's stores as a result of its training for its sales personnel and special marketing initiatives.

For the three years ended 31 December 2012, 2013 and 2014, the Target Group's turnover generated from the provision of auto-related services amounted to RMB85,856,000, RMB233,622,000 and RMB480,367,000, respectively. Such increase of 172.11% from 2012 to 2013 and increase of 105.62% from 2013 to 2014 were primarily attributable to the provision of after-sales services due to the ramp up of sales from the existing stores and the expansion of the Target Group's customer base through the new stores.

The following table sets forth a breakdown of the Target Group's turnover by automobile brands for the periods indicated:

Brand	**For the year ended 31 December,**		
	2012	**2013**	**2014**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
BMW	1,078,325	2,245,525	2,893,528
Jaguar and Land Rover	48,735	1,163,595	2,435,288
Rolls-Royce	763,162	1,115,590	862,663
Bentley	656,304	703,435	810,909
Ferrari and Maserati	18,359	414,002	646,638
Cadillac	–	74,247	204,547
Imported Volkswagen	–	149,163	193,918
Audi	–	–	4,805
Others	444	18,140	–
Total	2,565,329	5,883,697	8,052,296

Cost of sales and services

The Target Group's cost of sales and services consists of cost of sales for its automobile dealership business and its provision of auto-related services. For the three years ended 31 December 2012, 2013 and 2014, the Target Group's cost of sales and services amounted to RMB2,486,073,000, RMB5,752,060,000 and RMB8,002,905,000, of which 97.75%, 97.34% and 96.26% were attributable to the sale of automobile, and 2.25%, 2.66% and 3.74% were attributable to the provision of auto-related services.

For the three years ended 31 December 2012, 2013 and 2014, cost of sales and services for the Target Group's sale of automobiles amounted to RMB2,430,223,000, RMB5,599,315,000 and RMB7,703,364,000, which is comprised of the purchase cost of new automobiles from automobile manufacturers.

For the three years ended 31 December 2012, 2013 and 2014, cost of sales and services for the Target Group's provision of auto-related services amounted to RMB55,850,000, RMB152,745,000 and RMB299,541,000, which is comprised of cost of sales for after-sales services, including the purchase cost of spare parts and accessories and staff cost for personnel providing automobile repairs and maintenance services.

Any significant change in the Target Group's cost of sales and services, in particular the cost of new automobiles or incentive rebates, will affect its results of operations and financial condition. Purchase rebates are accrued at each reporting date based on the actual purchasing amounts, corresponding rebate rates as agreed with automobile manufacturers and its management's estimate on relevant factors, including without limitation, meeting certain sales and service targets set by the relevant automobile manufacturers. Rebates relating to automobiles purchased and sold are deducted from cost of sales, while rebates relating to automobiles purchased but still held on the reporting date are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates. There is no material discrepancy between accrued rebates and actual rebates the Target Group received from automobile manufacturers during the Relevant Period. For the years ended 31 December 2012, 2013 and 2014, the Target Group recorded rebates of approximately RMB119,506,000, RMB392,645,000 and RMB675,759,000.

The following table sets forth a breakdown of the Target Group's cost of sales and services for the periods indicated:

	For the year ended 31 December,		
	2012	**2013**	**2014**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Sale of automobiles	2,430,223	5,599,315	7,703,364
Provision of auto-related services	55,850	152,745	299,541
Total	2,486,073	5,752,060	8,002,905

Gross profit

The Target Group's gross profit consists of turnover less cost of sales and services. For the three years ended 31 December 2012, 2013 and 2014, the Target Group generated gross profits of RMB165,112,000, RMB365,259,000 and RMB529,758,000, representing a gross margin of 6.23%, 5.97% and 6.21%, respectively.

The decrease in gross margin from 2012 to 2013 was largely attributable to the decreased gross margin for the sale of automobiles due to the increased costs for purchases of new automobiles in connection with the opening of ten new stores in 2013 as well as the general market downturn of the luxury automobile market in China. The increase in gross margin from 2013 to 2014 was largely attributable to the increased share of turnover generated from the provision of auto-related services, which generally has a higher gross margin than the sale of automobiles.

In respect of the sale of automobiles, for the three years ended 31 December 2012, 2013 and 2014, it contributed gross profits of RMB135,106,000, RMB284,382,000 and RMB348,932,000 to the total gross profit of the Target Group, representing a gross margin of 5.27%, 4.83% and 4.33%, respectively. In respect of the provision of auto-related services, for the three years ended 31 December 2012, 2013 and 2014, it contributed gross profits of RMB30,006,000, RMB80,877,000 and RMB180,826,000 to the total gross profit of the Target Group, representing a gross margin of 34.95%, 34.62% and 37.64%, respectively. The decrease of gross margin for the sale of automobiles over the Relevant Period was primarily attributable to the increased costs for purchases of new automobiles in connection with the opening of new stores, whereby six, ten and six new stores were opened in 2012, 2013 and 2014, respectively. The increase of gross margin for the provision of auto-related services over the Relevant Period was primarily attributable to the increase in demand for such after-sales services, including repair and maintenance services, in connection with the steady ramp up of automobile sales at the Target Group's new stores.

The following table sets forth a breakdown of the Target Group's gross profit and profit margins for the periods indicated:

	For the year ended 31 December								
	2012			2013			2014		
	Amount	Contribution	Gross Profit Margin	Amount	Contribution	Gross Profit Margin	Amount	Contribution	Gross Profit Margin
	RMB'000	*%*	*%*	*RMB'000*	*%*	*%*	*RMB'000*	*%*	*%*
Automobile sales	135,106	81.83%	5.27%	284,382	77.86%	4.83%	348,932	65.87%	4.33%
Auto-related services(1)	30,006	18.17%	34.95%	80,877	22.14%	34.62%	180,826	34.13%	37.64%
Total	165,112	100.00%		365,259	100.00%		529,758	100.00%	

Note:

(1) Includes automobile repairs, maintenance and sale of spare parts, accessories and other automobile-related products.

Other revenue and gains and losses

The Target Group's other revenue and gains and losses include commission income, which is primarily comprised of commission and fees received for (i) brokering loans, which are generally determined based on a percentage of the principal loan amount the Target Group successfully brokers, (ii) brokering insurance policies, which are generally determined based on a percentage of the insurance premiums and the type of insurance the Target Group successfully brokers; and (iii) registration services in the Target Group's dealership business in connection with sales of new automobiles. Other revenue also includes advertisement support received from automobile suppliers, interest income from bank deposits and government grants. Other gains and losses includes net gain on disposal of property, plant and equipment, which includes sales of automobiles used as display and test-drive models and net gain on disposal of investment properties that we owned during the Relevant Period. For the three years ended 31 December 2012, 2013 and 2014, the Target Group's other revenue and gains and losses in aggregate amounted to RMB24,351,000, RMB65,854,000 and RMB135,958,000.

The following table sets forth a breakdown of the Target Group's other revenue and gains and losses for the periods indicated:

	For the year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Other revenue			
Commission income	12,883	46,757	109,012
Advertisement support received from automobile suppliers	1,096	2,481	2,163
Interest income from bank deposits	4,080	3,612	9,425
Government grant	506	3,734	–
Others	224	5,634	8,105
	18,789	62,218	128,705
Gains and losses			
Gain/(loss) on disposal of property, plant and equipment, net	1,365	3,247	(1,684)
Others	4,197	389	8,937
	5,562	3,636	7,253

Distribution expenses

For the three years ended 31 December 2012, 2013 and 2014, the Target Group's distribution expenses in aggregate amounted to RMB101,326,000, RMB288,066,000 and RMB405,766,000. Such distribution expenses include salaries and welfare for sales personnel, depreciation and amortization expenses, rental expenses, advertising and promotion expenses.

The following table sets forth a breakdown of the Target Group's distribution expenses for the periods indicated:

	For the year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Selling and Distribution Expenses			
Salaries and welfare	25,564	65,220	105,145
Depreciation and amortisation	17,047	48,106	83,421
Rental expense	18,020	53,454	81,079
Advertising and promotion expenses	25,695	76,195	72,914
Others	15,000	45,091	63,207
Total	101,326	288,066	405,766

Administrative expenses

For the three years ended 31 December 2012, 2013 and 2014, the Target Group's administrative expenses in aggregate amounted to RMB84,550,000, RMB145,615,000 and RMB205,210,000. Such administrative expenses include salary and welfare for administrative personnel, depreciation and amortization expenses, travel and entertainment expenses and office supplies expenses.

The following table sets forth a breakdown of the Target Group's administrative expenses for the periods indicated:

	For the year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Administrative Expenses			
Salary and welfare	17,953	51,592	69,639
Depreciation and amortisation	4,580	16,248	32,006
Travel and entertainment	12,544	23,292	21,012
Office supplies	7,385	9,662	13,537
Others	42,088	44,821	69,016
Total	84,550	145,615	205,210

Finance costs

To finance the Target Group's working capital and network expansion needs, it relies on (i) bank loans from domestic banks, (ii) borrowings from automobile manufacturers' finance companies and (iii) bank acceptance notes. The Target Group's finance costs mainly comprise of interests on loans and borrowings wholly repayable within five years. The Target Group obtained a combination of short-term and long-term, as well as fixed-rate and variable-rate, bank loans and other borrowings, in order to control its finance costs and limit the Target Group's exposure to changes in interest rate. It also finances its purchase of automobiles by issuing bank acceptance notes to the automobile manufacturers.

For the three years ended 31 December 2012, 2013 and 2014, the Target Group's finance costs was RMB48,760,000, RMB139,093,000 and RMB249,195,000, and its borrowing costs have been capitalized at a rate of 5.60%-8.25%, 5.60%-8.25%, and 5.88%-9.60% per annum, respectively.

Income tax expenses

The Target Company and the subsidiaries of the Target Group established in the PRC are subject to PRC corporate income tax at 25% consistently for the three years ended 31 December 2012, 2013 and 2014, except for Shantou Hongfa Trading Co., Ltd., which is levied based on 1.75% of its total revenue.

RESULTS OF OPERATIONS

The following table sets forth a summary of the Target Group's results of operations for the periods indicated. Such historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	For the year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Turnover	2,651,185	6,117,319	8,532,663
Cost of sales and services	(2,486,073)	(5,752,060)	(8,002,905)
Gross profit	165,112	365,259	529,758
Other revenue and gains and losses	24,351	65,854	135,958
Distribution costs	(101,326)	(288,066)	(405,766)
Administrative expenses	(84,550)	(145,615)	(205,210)
Profit/(loss) from operation	3,587	(2,568)	54,740
Finance costs	(48,760)	(139,093)	(249,195)
Loss before taxation	(45,173)	(141,661)	(194,455)
Income tax expenses	1,155	(2,559)	915
Loss and total comprehensive income for the year	(44,018)	(144,220)	(193,540)
Loss and total comprehensive income for the year attributable to			
– Owners of Jiahong	(38,694)	(124,676)	(188,636)
– Non-controlling interests	(5,324)	(19,544)	(4,904)
	(44,018)	(144,220)	(193,540)

(i) For the year ended 31 December 2012

Turnover

During the year ended 31 December 2012, the Target Group recorded a turnover of RMB2,651,185,000, of which RMB2,565,329,000 and RMB85,856,000 were derived from the sale of automobiles and the provision of auto-related services, respectively.

Cost of sales and services

During the year ended 31 December 2012, the cost of sales and services was approximately RMB2,486,073,000, mainly comprising of inventory costs.

Gross profit

During the year ended 31 December 2012, the gross profit was RMB165,112,000, representing a gross profit margin of approximately 6.23%.

Other revenue and gains and losses

During the year ended 31 December 2012, other revenue and gains and losses was RMB24,351,000.

Distribution costs

During the year ended 31 December 2012, distribution costs was RMB101,326,000, mainly comprising of staff costs, depreciation, amortization and operating lease expenses.

Administrative expenses

During the year ended 31 December 2012, administrative expenses was RMB84,550,000.

Profit from operations

During the year ended 31 December 2012, profit from operations was RMB3,587,000.

Finance costs

During the year ended 31 December 2012, finance costs was RMB48,760,000, mainly comprising of interest on bank borrowings and interest expenses arising from discount of bills.

Income tax expenses

During the year ended 31 December 2012, income tax relief was RMB1,155,000, mainly due to the tax effect of recognizing unused tax losses.

Loss for the year

During the year ended 31 December 2012, the net loss was RMB44,018,000, which was primarily attributable to the high depreciation and financing costs relating to the opening of new car dealership stores.

(ii) For the year ended 31 December 2013

Turnover

During the year ended 31 December 2013, the Target Group recorded a turnover of RMB6,117,319,000, representing an increase of 130.74% compared with the year ended 31 December 2012. Such increase was primarily due to an increase in revenue from the sale of automobiles.

Of the Target Group's total turnover, RMB5,883,697,000 and RMB233,622,000 were derived from the sale of automobiles and the provision of auto-related services, representing an increase of 129.35% and 172.11% compared with the year ended 31 December 2012, respectively. Such increase generated from the sale of automobiles was primarily attributable to (1) the contribution to automobile sales from the ten new stores of the Target Group opened during the year ended 31 December 2013, and (2) the continued sales growth at the more mature stores of the Target Group. The increase generated from the provision of auto-related services is driven primarily by the increase in demand for maintenance and repair services and related sales of spare parts, which is in turn primarily driven by the cumulative number of automobiles sold by the Target Group in the past and the relative maturity of the stores in its network.

Cost of sales and services

During the year ended 31 December 2013, the cost of sales and services was approximately RMB5,752,060,000, representing an increase of 131.37% compared with the costs of sales and services incurred in the year ended 31 December 2012.

Such increase mainly comprises of inventory costs in the amount of RMB5,729,652,000. This represents an increase of 131.32% compared with the inventory costs incurred in the year ended 31 December 2012, mainly due to an increase in sales volume of automobiles in light of the Target Group's expansion of its store network. Such increase in costs is in line with the increase in revenue for the same year.

Gross profit

During the year ended 31 December 2013, the gross profit was RMB365,259,000, representing an increase of 121.22% compared with that for the year ended 31 December 2012, in line with the foregoing reasons. The gross profit margin was approximately 5.97%.

Other revenue and gains and losses

During the year ended 31 December 2013, other revenue and gains and losses was RMB65,854,000, representing an increase of 170.44% compared with that for the year ended 31 December 2012. Such increase was primarily attributable to increases in commission income. Commission income increased due to an increase in the amounts of insurance policies sold, loans arranged and other automobile registration services provided for customers, which is in line with the number of automobiles sold through the Target Group's stores.

Distribution costs

During the year ended 31 December 2013, distribution costs was RMB288,066,000, representing an increase of 184.30% compared with that for the year ended 31 December 2012. Distribution costs mainly comprise of staff costs for sales personnel, depreciation, amortization and operating lease expenses, and such increase was mainly attributable to the increase in staff costs due to increases in number of sales personnel and increase in depreciation expenses, which were consistent with the growth of the Target Group's business operations.

Administrative expenses

During the year ended 31 December 2013, administrative expenses was RMB145,615,000, representing an increase of 72.22% compared with that for the year ended 31 December 2012. This increase was consistent with the growth of the Target Group's business operations.

Loss from operations

As a result of the foregoing, loss from operations was RMB2,568,000 for the year ended 31 December 2013, representing a decrease of 171.59% compared with that for the year ended 31 December 2012.

Finance costs

During the year ended 31 December 2013, finance costs was RMB139,093,000, mainly comprising of interest on bank borrowings and interest expenses arising from discount of bills. This represents an increase of 185.26% compared with the financing costs incurred for the year ended 31 December 2012, mainly due to a higher amount of bank borrowings made to support the Target Group's expansion of its store network.

Income tax expenses

During the year ended 31 December 2013, income tax expenses was RMB2,559,000, representing an increase of 321.56% compared with that for the year ended 31 December 2012, mainly due to an increase in the tax effect of unused tax losses not recognized.

Loss for the year

During the year ended 31 December 2013, the net loss was RMB144,220,000, which was primarily attributable to the high depreciation and financing costs relating to the opening of new car dealership stores.

(iii) For the year ended 31 December 2014

Turnover

During the year ended 31 December 2014, the Target Group recorded a turnover of RMB8,532,663,000, representing an increase of 39.48% compared with the year ended 31 December 2013. Such increase was primarily due to an increase in revenue from the sale of automobiles.

Of the Target Group's total turnover, RMB8,052,296,000 and RMB480,367,000 were derived from the sale of automobiles and the provision of auto-related services, representing an increase of 36.86% and 105.62% compared with the year ended 31 December 2013, respectively. Such increase generated from the sale of automobiles was primarily attributable to (1) the contribution to automobile sales from the six new stores of the Target Group opened during the year ended 31 December 2014, and (2) the continued sales growth at the more mature stores of the Target Group. The increase generated from the provision of auto-related services is driven primarily by the increase in demand for maintenance and repair services and related sales of spare parts, which is in turn primarily affected by the cumulative number of automobiles sold by the Target Group in the past as well as after-sales revenue contributed by its newly-established stores in 2012 and 2013.

Cost of sales and services

During the year ended 31 December 2014, the cost of sales and services was approximately RMB8,002,905,000, representing an increase of 39.13% compared with the inventory costs incurred in the year ended 31 December 2013.

Such increase mainly comprises of inventory costs in the amount of RMB7,959,203,000. This represents an increase of 38.91% compared with the inventory costs incurred in the year ended 31 December 2013, mainly due to an increase in sales volume of automobiles in light of the Target Group's expansion of its store network. Such increase in costs is in line with the increase in revenue for the same year.

Gross profit

During the year ended 31 December 2014, the gross profit was RMB529,758,000, representing an increase of 45.04% compared with that for the year ended 31 December 2013, in line with the foregoing reasons. The gross profit margin was approximately 6.21%.

Distribution costs

During the year ended 31 December 2014, distribution costs was RMB405,766,000, representing an increase of 40.86% compared with that for the year ended 31 December 2013. Distribution costs mainly comprise of staff costs for sales personnel, depreciation, amortization and operating lease expenses, and such increase was mainly attributable to the increase in staff costs due to increases in number of sales personnel and increase in depreciation expenses, which were consistent with the growth of the Target Group's business operations.

Administrative expenses

During the year ended 31 December 2014, administrative expenses was RMB205,210,000, representing an increase of 40.93% compared with that for the year ended 31 December 2013. This increase was consistent with the growth of the Target Group's business operations.

Profit from operations

As a result of the foregoing, profit from operations was RMB54,740,000 for the year ended 31 December 2014.

Finance costs

During the year ended 31 December 2014, finance costs was RMB249,195,000, mainly comprising of interest on bank borrowings and interest expenses arising from discount of bills. This represents an increase of 79.16% compared with the financing costs incurred for the year ended 31 December 2013, mainly due to a higher amount of bank borrowings made to support the Target Group's expansion of its store network.

Income tax expenses

During the year ended 31 December 2014, income tax relief was RMB915,000, mainly due to the tax effect of recognizing unused tax losses.

Loss for the year

During the year ended 31 December 2014, the net loss was RMB193,540,000, which was primarily attributable to the high depreciation and financing costs relating to the opening of new car dealership stores.

LIQUIDITY AND FINANCIAL RESOURCES

Cash flow

The following table presents selected cash flow data from the consolidated cash flow statements of the Target Group for the periods indicated:

	For the year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Net cash (used in)/generated from operating activities	(408,405)	(569,232)	97,054
Net cash used in investing activities	(292,023)	(770,583)	(271,095)
Net cash generated from financing activities	583,521	1,511,336	258,831
Net (decrease)/increase in cash and cash equivalents	(116,907)	171,521	84,790
Cash and cash equivalents at the end of each year	57,736	229,257	314,047

Cash flow generated from/(used in) operating activities

For the year ended 31 December 2012, net cash used in operating activities was RMB408,405,000, which was primarily attributable to the Target Group's increased purchases of new automobiles and auto spare parts in connection with the expansion of its store network by opening six new stores. As such, the Target Group recorded an increase in inventories of RMB556,219,000 and an increase in pledged bank deposits of RMB43,387,000, which also corresponds with an increase in trade and bills payables of RMB125,655,000.

For the year ended 31 December 2013, net cash used in operating activities was RMB569,232,000, which was primarily attributable to the Target Group's higher sales of automobiles as well as purchases of new automobile and auto spare parts in connection with the expansion of its store network by opening ten new stores. As such, the Target Group recorded an increase in deposits, prepayments and other receivables of RMB360,033,000 and an increase in inventories of RMB453,071,000, which also corresponds with an increase in trade and bills payables of RMB503,785,000.

For the year ended 31 December 2014, net cash generated from operating activities was RMB97,954,000, which was primarily attributable to the Target Group's steady ramp up of sales of new automobiles as well as the increased use of bank notes. As such, the Target Group recorded an increase in trade and bills payables of RMB677,119,000 and an increase in inventories of RMB465,496,000 and an increase in accruals and other payables of RMB177,656,000.

Cash flow used in investing activities

For the year ended 31 December 2012, net cash used in investing activities was RMB292,023,000, which was primarily attributable to the Target Group's increase in capital expenditure for the opening of six new stores, whereby the Target Group used RMB304,046,000 for purchases of property, plant and equipment and other intangible assets. This was partially offset by proceeds from disposal of property, plant and equipment of RMB16,493,000.

For the year ended 31 December 2013, net cash used in investing activities was RMB770,583,000, which was primarily attributable to the Target Group's increase in capital expenditure for the opening of ten new stores, whereby the Target Group used RMB699,852,000 for purchases of property, plant and equipment and other intangible assets. This was partially offset by proceeds from disposal of property, plant and equipment of RMB31,380,000.

For the year ended 31 December 2014, net cash used in investing activities was RMB271,095,000, which was primarily attributable to the Target Group's increase in capital expenditure for the opening of six new stores, whereby the Target Group used RMB453,929,000 for purchases of property, plant and equipment and other intangible assets. This was partially offset by proceeds from disposal of property, plant and equipment of RMB96,003,000.

Cash flow generated from financing activities

For the year ended 31 December 2012, net cash generated from financing activities was RMB583,521,000, consisting primarily of proceeds from new bank loans of RMB948,611,000, partially offset by repayment of bank loans of RMB330,064,000 and repayment to related parties of RMB235,391,000.

For the year ended 31 December 2013, net cash generated from financing activities was RMB1,511,336,000, consisting primarily of contribution by equity shareholders of the Target Group of RMB210,000,000 and proceeds from new bank loans of RMB3,705,798,000, partially offset by repayment of bank loans of RMB2,316,164,000 and repayment of advance from third party companies of RMB668,537,000.

For the year ended 31 December 2014, net cash generated from financing activities was RMB258,831,000, consisting primarily of proceeds from new bank loans of RMB4,578,702,000, partially offset by repayment of bank loans of RMB4,293,221,000 and repayment to related parties of RMB803,929,000.

Sources and uses of cash

During the Relevant Period, save for a capital injection of RMB249,550,000 by the Existing Shareholders, bank loans and cash generated from operations form the Target Group's major source of cash. The Target Group's primary uses of cash are to pay for purchases of new automobiles, spare parts and automobile accessories, to pay for its indebtedness, to fund its working capital and normal recurring expenses, and to establish new stores. There was no material change as to such sources and uses of cash during the Relevant Period.

Net current assets and liabilities

The following table sets forth the breakdown of the Target Group's current assets and current liabilities as at the dates indicated below:

	As of 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Current assets			
Inventories	740,528	1,193,599	1,659,095
Trade receivables	6,129	17,472	23,270
Prepayments, deposits and other receivables	488,954	949,386	1,035,451
Amounts due from a related party	114,752	177,354	241,449
Pledged bank deposits	172,538	454,604	461,999
Cash and cash equivalents	57,736	229,257	314,047
Total current assets	1,580,637	3,021,672	3,735,311
Current liabilities			
Bank loans and other borrowings	888,308	2,124,442	2,197,074
Trade and bills payables	562,561	1,066,662	1,761,154
Other payables and accruals	253,897	439,519	700,573
Amounts due to related parties	78,746	29,154	105,097
Income tax payable	621	7,190	17,590
Total current liabilities	1,784,133	3,666,967	4,781,488
Net Current Liabilities	203,496	645,295	1,046,177

The Target Group's net current liabilities increased by 217.10% from RMB203,496,000 as of 31 December 2012 to RMB645,295,000 as of 31 December 2013, and further by 62.12% to RMB1,046,177,000 as of 31 December 2014. Such increase was primarily due to increases in bank loans and other borrowings and trade and bill payables, being partially offset by increases in inventories and prepayments, deposits, and other receivables, as a result of the Target Group's store expansion and increase in its new automobile purchases.

Inventories

The Target Group's inventories primarily consist of new automobiles, and to a lesser extent, spare parts and accessories.

The following table sets forth a summary of the Target Group's total inventories as at the dates indicated below:

	As of 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Motor vehicles	715,256	1,122,754	1,556,547
Spare parts	25,272	70,845	102,548
	740,528	1,193,599	1,659,095

The Target Group's inventories increased by 61.18% from RMB740,528,000 as of 31 December 2012 to RMB1,193,599,000 as of 31 December 2013, and further by 39.00% to RMB1,659,095,000 as of 31 December 2014. Such increases were primarily due to (i) the ten and six new stores that the Target Group opened in 2013 and 2014, respectively; and (ii) the Target Group's focus on expanding its brand portfolio of ultra-luxury and luxury automobiles.

	For the year ended 31 December		
	2012	**2013**	**2014**
Inventory turnover days(1)	68	61	65

Note:

(1) Inventory turnover days for each one-year period equals the average of the beginning and ending inventory for such year divided by cost of sales for the year and multiplied by 365 days.

The Target Group's inventory turnover days decreased from 68 days in 2012 to 61 days in 2013, and increased to 65 days in 2014. Such inventory turnover days remain relatively stable throughout the Relevant Period, and the relatively high average inventory turnover days was primarily due to the Target Group's purchases of new automobiles in response to the opening of new stores, the recovery of demand for ultra-luxury and luxury automobiles in China and also in connection with the strong market demand for popular car models.

Trade receivables

The Target Group's automobile sales are typically settled on a cash basis upon delivery of the automobiles. Its trade receivables balances primarily comprise (i) proceeds due to it from its customers whose purchase prices were paid from banks and automobile manufacturers' finance companies from automobile financing loans obtained by its customers for their purchases, and (ii) receivables from automobile manufacturers and insurance companies for after-sales and other services that it provided to its customers.

The Target Group's trade receivables increased by 185.07% from RMB6,129,000 as of 31 December 2012 to RMB17,472,000 as of 31 December 2013, and further by 33.18% to RMB23,270,000 as of 31 December 2014. The increase in trade receivables during the Relevant Period is generally in line with the growth in the Target Group's automobile sales, after-sales and other services and automobile-related value-added services in the same period. All trade receivables of the Target Group are outstanding for less than one month (based on the dates of invoices).

	For the year ended 31 December		
	2012	**2013**	**2014**
Average trade receivables turnover days[(1)]	1.74	0.70	0.87

Note:

(1) The average trade receivables turnover days for a certain period is the average of opening and closing gross trade receivables balances divided by revenue for that period and multiplied by 365 days for a year Therefore, the average trade receivables turnover days indicates the time required for the Target Group to obtain cash proceeds from its sales.

The Target Group's trade receivables turnover days is used to indicate the time required for it to obtain cash proceeds from its sales. Its trade receivable turnover days were 1.74, 0.70 and 0.87 days in 2012, 2013 and 2014, respectively. The Target Group maintained short turnover days during the Relevant Period mainly because most of its sales were conducted on a cash basis.

Prepayments, deposits and other receivables

The following table sets out the Target Group's prepayment, deposits and other receivables as of each date indicated:

	For the year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Rebate due from automobile suppliers	81,106	221,378	335,920
Deposits and prepayments for the purchase of motor vehicles and spare parts	240,764	359,708	368,139
Loans to third party companies	1,677	102,076	35,692
Value-added tax recoverable	105,982	160,379	173,088
Others	59,425	105,845	122,612
	488,954	949,386	1,035,451

The Target Group's prepayments, deposits and other receivables increased by 94.17% from RMB488,954,000 as of 31 December 2012 to RMB949,386,000 as of 31 December 2013, and further by 9.07% to RMB1,035,451,000 as of 31 December 2014. Such increases in the Target Group's prepayments, deposits and other receivables were primarily attributable to increases in its prepayments to suppliers and rebate receivables. It is required to pay in advance for the automobiles that it purchases prior to shipment. The increases in its prepayments to suppliers as of 31 December 2012, 2013 and 2014 were attributable to the increases in its automobile inventory purchases during those years to support its increased sales and new store openings. The increases in its rebate receivables were also consistent with the growth in its sales and its business during these years.

Pledged bank deposits

The Target Group's pledged bank deposits consist of bank deposits that have been pledged as security for bank loans and bills payable and will be released upon the settlement of the relevant bank loans and bills payable. The Target Group's pledged bank deposits increased by 163.48% from RMB172,538,000 as of 31 December 2012 to RMB454,604,000 as of 31 December 2013, and further by 1.63% to RMB461,999,000 as of 31 December 2014. Such increases were primarily due to the pledge of bank deposits to secure the Target Group's increased bills payable.

	For the year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Pledged for bank acceptance	163,988	340,331	425,132
Pledged for bank borrowings	8,550	114,273	36,867
	172,538	454,604	461,999

Cash and cash equivalents

The Target Group's cash and cash equivalents increased by 297.08% from RMB57,736,000 as of 31 December 2012 to RMB229,257,000 as of 31 December 2013, and further by 36.98% to RMB314,047,000 as of 31 December 2014. For further details on such movements in the Target Group's cash and cash equivalents, please refer to the section headed "Management Discussion and Analysis on the Target Group – Liquidity and Financial Resources – Cash Flow" in this appendix.

Bank loans and other borrowings

As at 31 December 2012, 2013 and 2014, the Target Group had loans and borrowings totaling RMB888,308,000, RMB2,277,942,000 and RMB2,563,424,000, respectively. The increase in loans and borrowings during 2013 and 2014 were primary attributable to increased financing needs for the Target Group's business expansion and opening of new car dealership stores. All loans and bank borrowings were denominated in RMB as they are directly tied in with the Target Group's business in the PRC. No financial instruments were used for hedging purposes.

The following table sets forth the Target Group's carrying amounts of borrowings as at the dates indicated:

	For the year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Current			
Unsecured bank loans (i)	308,710	585,894	473,023
Unsecured borrowings from other financial institutions (i)	143,938	471,304	368,705
	452,648	1,057,198	841,728
Secured borrowings from the Company (ii) and (iii)	–	–	100,000
Secured bank loans (iii)	335,190	1,025,634	975,663
Secured borrowings from other financial institutions (iii)	100,470	25,610	189,683
	435,660	1,051,244	1,265,346
Add: current portion of non-current loans and borrowings	–	16,000	90,000
	888,308	2,124,442	2,197,074
Non-current			
Unsecured bank loans (i)	–	109,500	154,800
Unsecured borrowings from other financial institutions (i)	–	60,000	60,000
	–	169,500	214,800
Secured bank loans (iii)	–	–	241,550
	–	169,500	456,350
Less: current portion of non-current loans and borrowings	–	16,000	90,000
	–	153,500	366,350
Total	888,308	2,277,942	2,563,424

Notes:

(i) As at 31 December 2012, 2013 and 2014, all unsecured interest-bearing borrowings were guaranteed solely or jointly by Mr. Zhou, Ms. Qiu and Yunnan Ximai Mining Co., Ltd. (雲南西邁礦業有限公司), a related party of the Target Group.

(ii) On 29 December 2014, NFLP instructed the Lending Bank to release the Entrusted Loan in the principal amount of RMB100,000,000 to the Target Company for a term of 12 months, at an annual interest rate of 12%. The Entrusted Loan is:

(a) guaranteed by each of the two shareholders of the Target Company as sureties who collectively own 100% equity interest in the Target Company;

(b) guaranteed by Shenzhen Haoyu Automobile Sales Services Co., Ltd. (深圳市浩羽汽車銷售服務有限公司), a subsidiary of the Target Company; and

(c) pledged by 30% of shares in a mineral company which was indirectly owned as to 100% by Mr. Zhou.

(iii) As at 31 December 2012, 2013 and 2014, the Target Group's bank borrowings amounted to RMB435,660,000, RMB1,051,244,000 and RMB1,506,896,000 respectively, was secured by the Target Group's certain property and plant, lease prepayment, inventory, pledged bank deposit and the equity interest in certain subsidiaries held by the Target Company or its subsidiary.

Trade payables

The Target Group's trade payables relate mainly to its purchases of auto spare parts and accessories, for which it has been granted a credit period of no more than 90 days by certain suppliers, and its bills payable relate mainly to its purchases of passenger vehicles by using bank acceptance notes, for which it has been granted a credit period of one to three months. The Target Group uses bank acceptance notes in addition to cash to purchase passenger vehicles and is required to bear applicable bank charges in connection with their issuance.

The following table sets forth the Target Group's trade and bills payables as at the dates indicated:

	As of 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	13,943	58,126	99,888
Bills payables	548,618	1,008,536	1,661,266
	562,561	1,066,662	1,761,154

The Target Group's trade and bills payable increased by 89.61% from RMB562,561,000 as of 31 December 2012 to RMB1,066,662,000 as of 31 December 2013, and further by 65.11% to RMB1,761,154,000 as of 31 December 2014. Such increases were primarily due to (i) the Target Group's increased use of bank acceptance notes as part of its efforts to improve liquidity management; and (ii) an increase in purchases of passenger vehicles as a result of its business expansion.

The following table sets forth an ageing analysis of the trade and bills payable as of the dates indicated:

	As of 31 December		
	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	87,235	748,096	527,196
31 to 60 days	218,761	219,168	265,244
61 to 90 days	192,216	93,212	374,639
Over 90 days	64,349	6,186	594,075
	562,561	1,066,662	1,761,154

The following table sets forth the Target Group's average trade and bills payable turnover days for the periods indicated:

	For the year ended 31 December		
	2012	2013	2014
Average trade and bills payable turnover days(1)	74	52	64

Note:

(1) The average trade and bills payable turnover days for a certain period is the average of opening and closing gross trade and bills payable balances divided by cost of sales and services for that period and multiplied by 365 days for a year.

The Target Group's average trade and bills payable turnover days decreased from 74 days in 2012 to 52 days in 2013, which was primarily due to the increased use of bank acceptance notes as part of its efforts to improve liquidity management. The Target Group's average trade and bills payable turnover days increased from 52 days in 2013 to 64 days in 2014, which primarily reflected the significant growth of passenger vehicle demand.

Accruals and other payables

The following table sets forth the Target Group's accruals and other payables as at the dates indicated:

	As of 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Advance from customers	178,668	230,079	335,592
Payables to contractors and equipment suppliers	8,593	71,668	252,110
Salary and welfare payables	8,281	11,379	12,202
Advance from third party companies	47,031	98,413	31,918
Others	11,324	27,980	68,751
	253,897	439,519	700,573

The Target Group's accruals and other payables increased by 73.11% from RMB253,897,000 as of 31 December 2012 to RMB439,519,000 as of 31 December 2013, and further by 59.40% to RMB700,573,000 as of 31 December 2014. Such increases were primarily due to increases in advances and deposits from customers in connection with the expansion of its business of sales of passenger vehicles, and also due to the increase in payables to contractors and equipment suppliers in line with construction of new stores.

Capital expenditure

The Target Group's capital expenditure comprised primarily expenditures on purchases of property, plant and equipment, land use rights and intangible assets. Its capital expenditure increased by 143.96% from RMB312,637,000 as of 31 December 2012 to RMB762,704,000 as of 31 December 2013, but decreased by 16.85% to RMB634,161,000 as of 31 December 2014. Such increase was primarily due to the Target Group's rapid expansion of its store network.

The following table sets forth the Target Group's capital expenditures for its continued business for the periods indicated:

	For the year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Capital expenditure			
Property, plant and equipment	310,321	760,586	633,800
Land use rights	1,214	1,441	–
Intangible assets	1,102	677	361
Total	312,637	762,704	634,161

Capital commitments

	As of 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for	274,424	140,247	111,679
Authorized but not contracted for	370,941	427,452	219,662
	645,365	567,699	331,341

As at 31 December 2012, 2013 and 2014, the Target Group recorded capital commitments (including contracted and authorized but not contracted) of RMB645,365,000, RMB567,699,000 and RMB331,341,000, respectively.

Operating lease commitments

The Target Group leases a number of warehouses, leasehold land and office premises under operating leases. Such leases typically run for an initial period of 1 to 20 years, with an option to renew the leases thereafter. Leasehold land and land use rights are usually increased annually to reflect market rentals. None of such leases include contingent rentals.

The following table sets forth the Target Group's total future minimum lease payments under non-cancellable operating leases payable as at the dates indicated:

	As of 31 December		
	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*
Within one year	49,188	91,015	95,742
After 1 year but within 5 years	190,088	319,706	296,620
After 5 years	162,485	585,830	596,461
	401,761	996,551	988,823

KEY FINANCIAL RATIOS

The following table sets forth the Target Group's key financial ratios as of the dates or the periods indicated:

	For the year ended 31 December		
	2012	2013	2014
Current ratio (1)	0.89x	0.82x	0.78x
Quick ratio (2)	0.47x	0.50x	0.43x
Gearing ratio(3)	0.88x	0.92x	0.98x
Net debt-to-equity ratio(4)	3.39x	5.71x	22.16x

Notes:

1. Equals current assets divided by current liabilities as at the respective financial period-end date.

2. Equals current assets less inventories and divided by current liabilities as at the respective financial period-end date.

3. Equals total liabilities divided by total assets of the Target Group as at the respective period-end date.

4. Equals total debts less cash and cash equivalents and pledged deposits divided by equity attributable to equity shareholders of the Target Group as at the respective period-end date.

Current ratio

The Target Group's current ratio is calculated based on current assets over current liabilities. As at 31 December 2012, 2013 and 2014, the Target Group's current ratio was approximately 0.89x, 0.82x and 0.78x, respectively. This decreasing trend was partially due to high amounts of loans and borrowings for financing the Target Group's business expansion and addition of new car dealership stores, and high amounts of trade and bills payable.

Quick Ratio

The Target Group's quick ratio is calculated based on current assets less inventories and divided by current liabilities. As at 31 December 2012, 2013 and 2014, the Target Group's current ratio was approximately 0.47x, 0.50x and 0.43x, respectively. Such ratio remains relatively stable throughout the Relevant Period due to the Target Group's effective liquidity management.

Gearing ratio

The Target Group's gearing ratio is calculated based on total liabilities to total assets of the Target Company. As at 31 December 2012, 2013 and 2014, the Target Group's gearing ratio was approximately 0.88x, 0.92x and 0.98x, respectively. Such slight increasing trend is due to the Target Group's increase in bank borrowings for the purpose of expanding its store network.

Net debt-to-equity ratio

The Target Group's net debt-to-equity ratio is calculated based on total debts less cash and cash equivalents and pledged deposits divided by equity attributable to equity shareholders of the Target Group. As at 31 December 2012, 2013 and 2014, the Target Group's net debt-to-equity ratio was approximately 3.39x, 5.71x and 22.16x, respectively. Such increase of the ratio from 2012 to 2013 was primarily due to the increase in bank borrowings for the purpose of expansion of the Target Group's store network, whereby it opened ten new stores in 2013. Such increase of the ratio from 2013 to 2014 was primarily due to the increase in bank borrowings for the purpose of expansion of the Target Group's store network, whereby it opened six new stores in 2014 and the decrease in reserves, which is mainly due to the loss incurred in 2014.

MARKET RISK DISCLOSURE

The Target Group is exposed to various types of market risks, including interest rate risks, credit risks, foreign exchange risks and liquidity risks.

Interest rate risks

The Target Group is exposed to interest rate risk resulting from fluctuations in interest rate on its debts. Increases in interest rate could result in an increase in its cost of borrowing. If such occurs, it could adversely affect the Target Group's finance costs, profit and its financial condition. The interest rate on bank loans in the PRC depends on the benchmark leading interest rates published by the People's Bank of China. The Target Group does not currently use any derivative instruments to manage its interest rate risks as such risks are considered minimal.

Credit risks

The Target Group's credit risk relates mainly to its amounts due from related parties, trade receivables, deposits, prepayments and other receivables and pledged bank deposits. As of 31 December 2012, 2013 and 2014, all of the Target Group's deposits and pledged bank deposits were deposited in state-owned PRC banks or banks with high credit ratings and quality without significant credit risk.

Foreign exchange risks

Substantially all of the Target Group's revenue, cost of revenue and expenses are denominated in RMB. The Target Group also uses RMB as its reporting currency. The Directors do not believe that the Target Group's operations are currently subject to any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge its exposure to such risk. Although in general, its exposure to foreign exchange risks should be limited, a depreciation of RMB may cause automobile manufacturers to raise their prices, which would increase its purchase costs for automobiles and spare parts, which could in turn increase its automobile retail prices and adversely affect its sales and profits. For further details, please refer to the section headed "Risk Factors – Risks relating to conducting business in the PRC – Government control of currency conversion and fluctuation in the exchange rates of RMB may have a material adverse effect on the financial position and results of operations of the Target Group".

Liquidity risks

The Target Group is exposed to liquidity risk. The Target Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient cash inflows from operations, reserves of cash and external financing to meet its liquidity requirements in both the short and long term.

DIVIDEND POLICY

During the Relevant Period, the Target Group did not declare or pay any dividend.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, the Target Group had not entered into any off-balance sheet transactions.

CONTINGENT LIABILITIES

The Target Group did not have any significant contingent liabilities during the Relevant Period.

TREASURY POLICIES

For the three years ended 31 December 2012, 2013 and 2014, the Target Group conducted its business primarily in RMB and the majority of its assets and liabilities were denominated in RMB. The Target Group did not have any outstanding forward contracts in foreign currency committed that might involve it in significant foreign exchange risks and exposures during the Relevant Period.

SUBSTANTIAL ACQUISITION AND DISPOSAL AND MATERIAL INVESTMENT

The Target Group had no material acquisition and disposal of subsidiaries and associated companies or significant investments during the Relevant Period. The Target Group has no specific future plans for material investments.

CHARGE OF ASSETS ON THE TARGET GROUP

As at 31 December 2012, 2013 and 2014, the Target Group pledged:

(a) bank deposits of RMB172,538,000, RMB454,604,000 and RMB461,999,000, respectively, for commercial bills, bank acceptance and bank borrowings;

(b) buildings with a carrying amount of nil, RMB56,411,000 and RMB54,824,000, respectively, against bank loans; and

(c) lease prepayment with a carrying amount of nil, RMB70,071,000 and RMB64,312,000, respectively, against bank loans.

As at 31 December 2013 and 2014, the Target Group's certain bank borrowings were pledged by 100% equity interest in Shenzhen Lubao Automobile Sales Services Co., Ltd. (深圳市路豹汽車銷售有限公司) and 100% equity interest in Shenzhen Chibao Automobile Sales Services Co., Ltd. (深圳市馳寶汽車銷售服務有限公司) which were held by the Target Company or its subsidiary.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, 2013 and 2014, the Target Group had a total of 1,241, 1,998 and 2,381 employees, respectively.

Employees of the Target Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal governments where the subsidiaries are registered. The Target Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the respective local municipal governments to the scheme to fund the retirement benefits of the employees. The Target Group has no other material obligation for the payment of retirement benefits other than the annual contributions described above.

For the three years ended 31 December 2012, 2013 and 2014, the staff cost of the Target Group was RMB51,171,000, RMB135,123,000 and RMB211,278,000, respectively.

OUTLOOK AND FUTURE PROSPECTS

Despite a generally perplexing automobile industry in 2014, there were nonetheless significant opportunities for the development of the service network of luxury and ultra-luxury branded automobiles, as the sub-sector is a relatively young segment with high growth opportunities within the automobile industry in China. It is anticipated that the Target Group will further develop its automobile services business to expand its sales networks, both online and offline, to seize the opportunities for growth in this segment so as to strengthen its leading position in the automobile industry.

By actively seeking opportunities for strategic cooperation with leading manufacturers of luxury and ultra-luxury branded automobiles in China, the Target Group will continue to focus on increasing its market share in the luxury and ultra-luxury car segment, engage new dealerships and networks, expand its high-end service offerings to further improve the quality of and optimize the operating efficiency of its extensive network of dealership stores and enhance its profitability as a whole.

1. EXISTING DIRECTORS OF THE TARGET GROUP

Mr. Zhou Jianming (周建明)

Mr. Zhou Jianming (周建明), aged 41, is the chairman and one of the founders of the Target Group. Mr. Zhou is primarily responsible for the operations and management of the Target Group. Prior to establishing the Target Group in 2001, from 1994 to 1998, Mr. Zhou served as a civil servant in the Guangdong Provincial Public Security Department 13th Division and from 1998 to 2001, Mr. Zhou served as the chairman of Shenzhen Haohe Automobile Trading Co., Ltd. (深圳市浩河汽車貿易有限公司).

As at the Latest Practicable Date, Mr. Zhou holds the positions of vice president of the China Automobile Association (全國工商聯汽車協會) and the Shenzhen Enterprise Confederation & Shenzhen Entrepreneur Association (深圳市企業聯合會及深圳市企業家協會), respectively. Mr. Zhou is also the executive director of China Newsweek and the president of the Shenzhen-HK Enping United Chamber of Commerce* (深港恩平聯合商會). In 2012, Mr. Zhou was named one of the Shenzhen Top Ten Excellent Young Entrepreneurs (深圳市十大傑出青年企業家) by the Communist Youth League Shenzhen Committee* (共青團深圳市委員會) and the Shenzhen Federation of Young Entrepreneurs* (深圳市青年企業家聯合會).

Ms. Qiu Ping (邱萍)

Ms. Qiu Ping (邱萍), aged 41, is the president and one of the founders of the Target Group. Ms. Qiu is primarily responsible for the operations and management of the Target Group. As at the Latest Practicable Date, Ms. Qiu is the vice president of the Shenzhen Automobile Dealers Association (深圳市汽車經銷商商會) member of the people's political consultative conference in Luohu district since 2011, president of the Cantonese Chamber of Commerce of Hunan Province, and vice president of the Association of the New Social Class Professionals in Luohu district since 2014. In 2013, she was named one of the Shenzhen Top Ten Outstanding Entrepreneurs by the Shenzhen Enterprise Confederation* (深圳市企業聯合會) and one of the ShuiJing Fang-Hunan Top Ten Outstanding Economic Figures by the Outstanding Economic Figures Committee of Hunan Province.

2. EXISTING SENIOR MANAGEMENT OF THE TARGET GROUP

Mr. Marc Singleton

Mr. Marc Singleton, aged 54, is the vice president of the Target Group and the director of the Target Group's BMW Business Division. Mr. Singleton is primarily responsible for the operation and management of the Target Group. Mr. Singleton joined the Target Group in 2014 and has more than 20 years' experience in the automobile industry. Prior to joining the Target Group in 2013, from 2002 to 2005, Mr. Singleton served as the managing director at Sime Darby Motor Holdings Ltd, and from 2006 to 2013, Mr. Singleton served as the chief executive officer at Premium Automobiles Ltd, Singapore. Mr. Singleton graduated with a degree in marketing from the University of Lancaster in 1982.

Mr. Peng Shaohua (彭少華)

Mr. Peng Shaohua (彭少華), aged 46, is the deputy financial supervisor of the Target Group. Mr. Peng is primarily responsible for corporate finance. Mr. Peng joined the Target Group in 2010and has over 20 years of financial experience. Prior to joining the Target Group, from 1999 to 2003, Mr. Peng served as a financial manager at Shenzhen Zhongjia Trading Co., Ltd.* (深圳市眾嘉貿易有限公司) and from 2003 to 2010, Mr. Peng served as a financial supervisor at Shenzhen Ranbao Industrial Development Co., Ltd.* (深圳市冉寶實業發展有限公司). Mr. Peng graduated with a master's degree in business administration from Zhongnan University of Economics and Law in 2008.

Mr. Colin Chiu (趙飆)

Mr. Colin Chiu (趙飆), aged 48, is the general manger of the Target Group's Jaguar and Land Rover and Maserati Departments. Mr. Chiu is primarily responsible for the operations of the departments. Mr. Chiu joined the Target Group in January 2015 and has over 20 years' experience in the automobile industry. Prior to joining the Target Group, from 2009 to 2013, Mr. Chiu served as the general manager at the Dongguan Porsche Centre and from 2014 to 2015, Mr. Chiu served as the general manager of operations at Baitai Investment Group* (百泰投資集團). Mr. Chiu graduated with a degree in management sciences from the University of Hull in 1990 and received his master's degree in business administration from Northeast Louisiana University in 1997.

Mr. Nam Man Tat (藍文達)

Mr. Nam Man Tat aged 42, is the general manager of the Target Group's General Brands Division and the general manager of Shenzhen Aoyu Vehicle Sale and Service Co Ltd, which is a subsidiary of the Target Group. Mr. Nam is primarily responsible for operation and management of General Brands Division and Shenzhen Aoyu Vehicle Sale and Service Co Ltd. Mr. Nam joined the Target Group in 2012, and prior to joining the Target Group, from 2004 to 2011, Mr. Nam served as a general manager at Shenzhen Queen Mate Motor Trading Co., Ltd* (深圳奧德汽車貿易有限公司) and from 2011 to 2012, Mr. Nam served as a general manager of Shenzhen Denker Motor Service Co. Ltd.* (駿佳行汽車服務(深圳)有限公司). Mr. Nam graduated with a degree in business and management from the University of Central Lancashire in 2003.

Mr. Chen Shengchao (陳勝潮)

Mr. Chen Shengchao (陳勝潮), aged 56, is the aftersales supervisor of the Target Group. Mr. Chen is primarily responsible for overseeing the after-sales operations of the Target Group. Mr. Chen joined the Target Group in 2012, and has over 20 years' experience in the automobile industry. Prior to joining the Target Group, from 2008 to 2009, Mr. Chen served as the aftersales supervisor at Guangzi Guangyuan Automobile Co., Ltd.* (廣西廣緣汽車有限公司) and from 2011 to 2012, Mr. Chen served as the general manager at Guangzhou Guangwu Junhao Auto-sales and Service Co., Ltd.* (廣州市廣物君豪汽車銷售服務有限公司). Mr. Chen graduated from Yeang-Der Senior High School (formerly known as Shangqi Senior High School) in 1980.

Ms. Huang Yingchun (黃迎春)

Ms. Huang Yingchun (黃迎春), aged 33, is the marketing supervisor of the Target Group. Ms. Huang is primarily responsible for overseeing brand promotion and public relationship of the Target Group. Ms. Huang joined the Target Group in 2011and prior to joining the Target Group, from 2005 to 2006, Ms. Huang served as the assistant manager at Hong Kong Taihang Foreign Trading Company* (香港太行外貿有限公司), from 2006 to 2008, Ms. Huang served as the assistant general manager at Hong Kong Institute of Science and Technology Development Co., Ltd.* (香港研達科技發展有限公司), from 2008 to 2009, Ms. Huang served as the marketing manager at the Shenzhen Porsche Centre and from 2009 to 2011, Ms. Huang was the owner of H&S clothing brand. Ms. Huang graduated with a degree in business English from Guangdong University of Foreign Studies in 2005.

Mr. Wang Xuefeng (王雪峰)

Mr. Wang Xuefeng (王雪峰), aged 34, is the information technology supervisor of the Target Group. Mr. Wang is primarily responsible for information system coordination. Mr. Wang joined the Target Group in 2010 and prior to joining the Target Group, from 2007 to 2008, Mr. Wang served as a senior software engineer at Softtek Co., Ltd. and from 2009 to 2010, Mr. Wang served as an execution manager at Digi-forest Co., Ltd. Mr. Wang graduated with a double degree in computer science and international finance from Monash University in 2004.

3. DIRECTORS TO BE APPOINTED TO THE TARGET BOARD UPON COMPLETION

Mr. Du Jinglei (杜敬磊)

Mr. Du Jinglei (杜敬磊), aged 37, is a non-executive Director. He graduated with a bachelor's degree in mechanical engineering and a master's degree in measurement technology and instrumentation from Tsinghua University in July 2000 and July 2002, respectively. He has been employed by Ding Hui Investment Management (Tianjin) Company Limited (鼎暉股權投資管理(天津)有限公司) since August 2006, and his current position is executive director who is in charge of deal sourcing and executions. Prior to joining CDH Investments Management (Hong Kong) Limited, from August 2002 to August 2006, Mr. Du worked as an assistant manager in KPMG China and was responsible for certain IPO audit and other audit assurance engagements. Mr. Du joined the Group in August 2013.

Mr. Lin Ming (林明)

Mr. Lin Ming (林明), aged 35, is the chief financial officer of the Group. He is currently responsible for financial budget and capital management of the Group.

Mr. Lin graduated from Nankai University in 2002. He holds a bachelor's degree in accountancy and is a non-practicing member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). From 2002 to 2007, he served as audit manager in KPMG Huazhen (畢馬威華振會計師事務所) and was responsible for certain IPO audit and other audit assurance engagements. From 2007 to 2013, he served as chief financial officer and senior vice president of Towona Mobile TV Media Group (China) Limited (世通華納移動電視傳媒集團(中國)有限公司). Mr. Lin joined the Group in August 2013.

Ms. Liu Wenxuan (劉玟璇)

Ms. Liu Wenxuan (劉玟璇), aged 38, is the general manager of the Target Group's Ultra-luxury Brand Division. Ms. Liu is primarily responsible for overseeing matters relating to ultra-luxury automobile brands such as Rolls-Royce. Ms. Liu joined the Target Company in 2002 and has served in various positions within the Target Company including assistant to the general manager's office, brand sales supervisor and division general manager. Ms. Liu graduated with a degree in English language studies from Xi'An Fanyi University in 2000.

* *For identification purposes only*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INFORMATION ON SHARE CAPITAL AND SHARE OPTIONS OF THE COMPANY

Share Option Scheme

The Company terminated the old share option scheme (the "**Old Scheme**") and adopted a new share option scheme (the "**Existing Scheme**") pursuant to a shareholders' resolution passed on 25 June 2014 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Eligible participants of the Existing Scheme include the Directors, employees, suppliers, customers and business or strategic alliance partners of the Group. The Existing Scheme became effective on 25 June 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. A summary of the principal terms of the Existing Scheme was included in the circular dated 30 April 2014 dispatched to the Shareholders.

The maximum number of shares which may be issued upon exercise of all share options granted and to be granted under the Existing Scheme is 376,116,501 shares, representing 10% of the shares of the Company in issue as at the date of adoption of the Existing Scheme and as at the date of this circular respectively, unless approval for refreshing the 10% limit from the Company's shareholders has been obtained. The maximum number of shares issued and may be issued under share options granted to each eligible participant in the Existing Scheme (including both exercised and outstanding share options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The grant of share options to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to prior approval by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in the 12-month period up to and including the date of the grant of share options in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, are subject to shareholders' prior approval in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK$10 in total by the grantee. The exercise period of the share options granted is determined by the Board, save that such a period shall not be more than 10 years from the date of grant of the share options subject to the provisions for early termination as set out in the Existing Scheme. Unless otherwise determined by the Directors at their sole discretion, there is no requirement of a minimum holding period or a performance target which must be achieved before a share option can be exercised.

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

Share options do not confer rights on the holders to dividends or to vote at general meetings.

As at the Latest Practicable Date, options had been granted by the Company under the Existing Scheme which, if exercised in full, would entitle the grantees to subscribe for 139,416,664 shares. The total number of shares available for issue under the Existing Scheme (excluding share options already granted) is 236,699,837 shares, representing approximately 6.29% of the total issued share capital of the Company as at that date.

As at the Latest Practicable Date, details of share options granted under the Old Scheme are as follows:

Name of option holder	Date of grant	Exercise period	Exercise price (per share)	Closing price of share on date of grant (per share)	Number of underlying shares subject to options outstanding as at 1 January 2014	Number of underlying shares subject to options granted since 1 January 2014	Number of options exercised/ lapsed/ cancelled since 1 January 2014	Number of underlying shares subject to options outstanding as at 31 December 2014	Number of underlying shares subject to options outstanding as at the Latest Practicable Date
Ms. Hung Ying-Lien, Former Executive Director *(Note 1)*	28 February 2005	1 January 2006 to 12 February 2015 *(Note 2)*	HK$0.94	HK$0.94	3,400,000	–	3,400,000	3,400,000	–
Total					3,400,000	–	3,400,000	3,400,000	–

Notes:

1. Ms. Hung Ying-Lien resigned as an executive Director and the chief financial officer of the company with effect from 28 August 2013 and was appointed as chief operating officer of the Group.

2. None of the share option was exercised during the period from 1 January 2014 to 31 December 2014 and the remaining share options have not been vested during the period from 1 January 2015 to 12 February 2015 as the relevant performance targets or conditions as determined by the Board have not been fulfilled.

As at the Latest Practicable Date, details of share options granted under the Existing Scheme are as follows:

Name of option holder	Date of grant	Exercise period	Exercise price (per share)	Closing price of share on date of grant (per share)	Number of underlying shares subject to options outstanding as at 1 January 2014	Number of underlying shares subject to options granted since 1 January 2014	Number of options exercised/ lapsed/ cancelled since 1 January 2014	Number of underlying shares subject to options outstanding as at 31 December 2014	Number of underlying shares subject to options outstanding as at the Latest Practicable Date
Ms. Hung Ying-Lien	14 October 2014	15 October 2014 to 14 October 2019 *(Note)*	HK$0.50	HK$0.50	–	13,000,000	907,232	13,000,000	12,092,768
Continuous contractual employees (in aggregate)	14 October 2014	15 October 2014 to 14 October 2019 *(Note)*	HK$0.50	HK$0.50	–	136,500,000	9,176,104	136,500,000	127,323,896
Total					–	149,500,000	10,083,336	149,500,000	139,416,664

Note: None of the share option was exercised during the period from 15 October 2014 to 31 December 2014 and the remaining share options shall be vested and are exercisable during the period from 1 January 2015 to 14 October 2019 subject to the fulfilment of certain performance targets and other vesting conditions as described in the grant letter issued by the Company to each Grantee.

3. DIRECTORS' AND CHIEF EXECUTIVES INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

So far as is known to the Directors and chief executives of the Company, as at the Latest Practicable Date, the following persons (other than Directors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company, which are required to be notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity/ Nature of interest	Number of shares interested (other than under equity derivatives) *(Note 1)*	Number of shares interested under equity derivatives	Total number of shares/ underlying shares under equity derivatives	Percentage of issued shares
CDH Fast Two Limited	Beneficial owner *(Note 2)*	2,076,072,279(L)	813,507,947(L) *(Note 3)*	2,889,580,226(L)	76.83%
CDH Fast One Limited	Interest in a controlled corporation *(Note 2)*	2,076,072,279(L)	813,507,947(L) *(Note 3)*	2,889,580,226(L)	76.83%
CDH Fund IV, L.P.	Interest in a controlled corporation *(Note 2)*	2,076,072,279(L)	813,507,947(L) *(Note 3)*	2,889,580,226(L)	76.83%
CDH IV Holdings Company Limited	Interest in a controlled corporation *(Note 2)*	2,076,072,279(L)	813,507,947(L) *(Note 3)*	2,889,580,226(L)	76.83%
China Diamond Holdings IV, L.P.	Interest in a controlled corporation *(Note 2)*	2,076,072,279(L)	813,507,947(L) *(Note 3)*	2,889,580,226(L)	76.83%
China Diamond Holdings Company Limited	Interest in a controlled corporation *(Note 2)*	2,076,072,279(L)	813,507,947(L) *(Note 3)*	2,889,580,226(L)	76.83%

Notes:

1. The letter "L" denotes a long position in the shares.

2. CDH Fast Two Limited entered into an investment agreement (the "**Investment Agreement**") with the Company on 25 June 2013 pursuant to which CDH Fast Two Limited agreed to subscribe for 1,262,564,333 new shares and convertible bonds in principal amount of US$48,685,000 (the "**Convertible Bonds**") issued by the Company. Each of CDH Fast One Limited (as the sole shareholder of CDH Fast Two Limited); CDH Fund IV, L.P. (as the sole shareholder of CDH Fast One Limited); CDH IV Holdings Company Limited (as the general partner of CDH Fund IV, L.P.); China Diamond Holdings IV, L.P. (as the controlling shareholder of CDH IV Holdings Company Limited); and China Diamond Holdings Company Limited (as the general partner of China Diamond Holdings IV, L.P.) is deemed to be interested in the shares of the Company. Transactions contemplated under the Investment Agreement were completed on 28 August 2013. Upon the receipt of a conversion notice on 11 June 2014 from CDH Fast Two Limited for partial conversion of the Convertible Bonds in the principal amount of US$24,342,500, the Company allotted and issued a total of 813,507,946 Conversion Shares to CDH Fast Two Limited at the Conversion Price of HK$0.2328 per Conversion Share on 12 June 2014. After the partial conversion of the Convertible Bonds as described above, the Company has Convertible Bonds outstanding with a principal amount of US$24,342,500.

3. These represent the shares that may be issued to CDH Fast Two Limited upon the full conversion of the Convertible Bonds into the shares of the Company.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor its subsidiaries was engaged in any litigation or claim of material importance and, so far as the Directors were aware, no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

As at the Latest Practicable Date, the Target Group was involved in 11 unsettled litigation or arbitration proceedings pending against it or any of its subsidiaries. An aggregate amount of RMB33,617,800 was set aside as provisions for these unsettled litigation or arbitration proceedings for the year ended 31 December 2014. To the best knowledge and belief of the Directors, considering the nature of dispute and dollar amount of damages involved, none of these unsettled litigation or arbitration proceedings could have a material adverse effect on the Target Group's business or operations. For further details, please refer to the section headed "Business of the Target Group – Legal Proceedings" in this circular.

As at the Latest Practicable Date, save as aforementioned and so far as the Directors were aware of, there is no other pending or threatened litigation or claim of material importance on an Enlarged Group basis.

6. SERVICE CONTRACTS

Each of Mr. Zhang Jianxing, Mr. Ying Wei, Mr. Wang Zhenyu, and Mr. Du Jinglei, has entered into a service agreement with the Company for a term of three years commencing from 28 August 2013, subject to retirement by rotation in accordance with the Articles.

Pursuant to the respective letters of appointment of the independent non-executive directors, namely, Mr. Hu Yuming and Mr. Lin Lei, each of them was appointed for a term of three years commencing from 28 August 2013, subject to retirement by rotation in accordance with the Articles.

Mr. Zhang Xiaoya, an independent non-executive director, has entered into a letter of appointment with the Company for a term of three years commencing from 20 March 2015, subject to retirement by rotation in accordance with the Articles.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with business of the Group.

8. OTHER INTERESTS OF DIRECTORS

As at the Latest Practicable Date:

(a) none of the Directors had any interest, either direct or indirect, in any assets which have, since 31 December 2014 (being the date to which the latest published audited accounts of the Group were made up), been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and

(b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which is subsisting as at the Latest Practicable Date and is significant in relation to the business of the Enlarged Group.

9. MATERIAL CONTRACTS

Set out below are the material contracts (not being contracts entered into in the ordinary course of business) entered or to be entered into by any member of the Enlarged Group (including any company which will become a subsidiary of the Company by reason of an acquisition or has been agreed or proposed since 31 December 2014, being the date to which the audited consolidated financial statements of the Company have been made up) within the two years immediately preceding the Latest Practicable Date:

(a) the Entrusted Loan Agreement;

(b) the Subscription Agreement;

(c) the Joint Venture Agreement;

(d) supplemental agreement to the equity transfer agreement regarding acquisition of 51% equity interest in Changchun Guangda , which became effective on 29 January 2014. Please refer to the announcement of the Company dated 29 January 2014 for further details;

(e) the equity transfer agreement in relation to the disposal of 51% equity interest in Hubei Autoboom, which became effective on 17 December 2014. Please refer to the announcement of the Company dated 17 December 2014 for further details; and

(f) the Investment Agreement, the STIC Amendment Deed, the 2013 Placing Agreement, and the Management Subscription Agreement entered into on 26 June 2013. Please refer to the announcement of the Company dated 26 June 2013 for further details.

Save as disclosed above, there is no material contract (not being entered into in the ordinary course of business) entered into by any member of the Enlarged Group within the two years immediately preceding the issue of this circular.

10. QUALIFICATIONS OF EXPERTS AND CONSENTS

The following are the qualification of the experts who have given opinions or advice which are contained in this circular:

Name	Qualifications
KPMG	Certified Public Accountants
Jingtian & Gongcheng	PRC legal adviser of the Company
All China Market Research Co. Ltd.	Industry analyst

As at the Latest Practicable Date, each of KPMG, Jingtian & Gongcheng and All China Market Research Co. Ltd. did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, each of KPMG, Jingtian & Gongcheng and All China Market Research Co. Ltd. has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of KPMG, Jingtian & Gongcheng and All China Market Research Co. Ltd. did not have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2014, the date to which the latest published audited financial statements of the Group were made up.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturday, Sunday and public holidays) at the offices of Paul Hastings, 21-22/F, Bank of China Tower, 1 Garden Road, Hong Kong, from the Latest Practicable Date up to and including 21 July 2015, being the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(c) the audited consolidated financial statements of the Company and its subsidiaries for each of the three years ended 31 December 2012, 2013 and 2014;

(d) the accountant's report on the Target Group, the text of which is set out in Appendix II to this circular;

(e) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(f) the PRC legal opinions issued by Jingtian & Gongcheng, the PRC legal adviser of the Company;

(g) the industry report prepared by ACMR;

(h) the service contracts set out in the section headed "General Information – Service Contracts" in this appendix;

(i) the material contracts set out in the section headed "General Information – Material Contracts" in this appendix;

(j) a copy of this circular; and

(k) the written letters of consent referred to in the section headed "General Information – Qualifications of Experts and Consents" in this appendix.

12. GENERAL

(a) The company secretary of the Company is Mr. Liu Xiao Hua. Mr. Liu obtained a master's degree in law from East China University of Political Science and Law and is qualified as a lawyer in the PRC. Mr. Liu is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

(b) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands and the principal place of business of the Company in Hong Kong is 5/F, 180 Hennessy Road, Wan Chai, Hong Kong.

(c) The share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of inconsistency.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this notice, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this notice.

NEW FOCUS AUTO TECH HOLDINGS LIMITED
新焦點汽車技術控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 360)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("**EGM**") of New Focus Auto Tech Holdings Limited (the "**Company**") will be held at No. 4589 Wai Qing Song Road, Qingpu District, Shanghai, the PRC on 21 July 2015 at 2:00 p.m., for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions. Unless otherwise defined, capitalised terms defined in the circular dated 30 June 2015 issued by the Company (the "**Circular**") shall have the same meanings when used in this notice.

ORDINARY RESOLUTIONS

1. "THAT

(a) the authorized share capital of the Company be and is hereby increased from HK$600,000,000 divided into 6,000,000,000 ordinary share(s) of HK$0.10 each in the share capital of the Company (the "**Shares**") to HK$1,000,000,000 divided into 10,000,000,000 Shares by the creation of an additional 4,000,000,000 unissued Shares; and

(b) any one director of the Company be and are hereby authorized to do all such acts and things and execute all such documents for and on behalf of the Company as he/she may consider necessary or desirable in connection with paragraph (a) of this resolution no.1."

* *For identification purposes only*

2. "THAT

(a) the subscription agreement (the "**Subscription Agreement**") dated 27 March 2015 entered into among (i) the Subscriber; (ii) the Target Company; (iii) Mr. Zhou; and (iv) Ms. Qiu (a copy of which is tabled at this meeting and marked "A" and initialed by the chairman of this meeting for the purpose of identification) pursuant to which the Target Company and the Existing Shareholders have agreed to conduct the Capital Increase, such that the registered capital of the Target Company will be increased from RMB300,000,000 to RMB600,000,000, and the Subscriber has conditionally agreed to subscribe for the additional registered capital of RMB300,000,000 at a Consideration of RMB300,000,000, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

for the purpose of this resolution:

"**Capital Increase**" means the proposed increase in the registered capital of the Target Company from RMB300,000,000 to RMB600,000,000 pursuant to the terms and conditions of the Subscription Agreement;

"**Existing Shareholders**" means Mr. Zhou and Ms. Qiu;

"**Mr. Zhou**" means Mr. Zhou Jian Ming (周建明), chairman of the board of directors of the Target Company and an existing shareholder of the Target Company as at the Latest Practicable Date;

"**Ms. Qiu**" means Ms. Qiu Ping (邱萍), president and an executive director of the Target Company and an existing shareholder of the Target Company as at the Latest Practicable Date;

"**Subscriber**" means Perfect Progress Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company;

"**Target Company**" means 深圳市佳鴻貿易發展有限公司 (Shenzhen Jiahong Trading Development Co., Ltd*), a limited liability company established in the PRC; and

(b) any one director of the Company be and are hereby authorized to do all such acts and things and execute all such documents for and on behalf of the Company as he/she may consider necessary or desirable in connection with paragraph (a) of this resolution no.2."

3. “THAT

(a) conditional upon the passing of the resolutions 1 and 2 above, the grant of a specific mandate for the board of directors of the Company to issue up to 1,500,000,000 new Shares (the “**Placing Shares**”) to the Placee(s) (the “**Proposed Placing**”) at a price of no less than HK$0.414 per Placing Share and which shall be no less than 80% of the higher of:

(i) the closing price of the Shares as quoted on the Stock Exchange on the date of execution of the placing agreement to be entered into among the Company and the placing agent in relation to the Proposed Placing, which is expected to be entered into after the EGM (the “**Placing Agreement**”); and

(ii) the average closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days immediately before the date of execution of the Placing Agreement; and

for the period from the date of the passing of this resolution at the EGM and until the earlier of (a) three months after the date of the passing of this resolution at the EGM; and (b) the revocation or variation of the authority given under this resolution at the EGM by ordinary resolution(s) of the Shareholders in a general meeting of the Company; and

(b) any one director of the Company be and are hereby authorized to do all such acts and things and execute all such documents for and on behalf of the Company as he/she may consider necessary or desirable in connection with paragraph (a) of this resolution no.3.”

By order of the Board
New Focus Auto Tech Holdings Limited
YING Wei
Chairman

Hong Kong, 30 June 2015

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111, Cayman Islands

Principal place of business in Hong Kong:
5/F, 180 Hennessy Road
Wan Chai
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who

is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. To be effective, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

3. The register of members of the Company will be closed from Friday, 17 July 2015 to Tuesday, 21 July 2015 (both dates inclusive) during which period no transfer of shares of the Company will be registered. In order to be entitled to attend the meeting to be held on Tuesday, 21 July 2015, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office 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 not later than 4:30 p.m. on Thursday, 16 July 2015.

4. All the resolutions at the meeting will be taken by poll pursuant to the Listing Rules and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.

5. The Chinese translation of this notice (including the contents of the proposed resolutions set out herein) is for reference only. In case of inconsistency, the English version shall prevail.

As at the date of this notice, the Directors of the Company are: executive Director – ZHANG Jianxing; non-executive Directors – YING Wei, WANG Zhenyu and DU Jinglei; and independent non-executive Directors – HU Yuming, LIN Lei and ZHANG Xiaoya.