THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, 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 shares in New Focus Auto Tech Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the 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 the transferee.

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) CONNECTED TRANSACTION
AND
(3) NOTICE OF EGM

Capitalized terms used in this cover shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 7 to 36 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 37 to 38 of this circular. A letter from First Shanghai, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 39 to 69 of this circular.

A notice convening the EGM to be held at Room 2501, 25/F, Fortune Financial Centre, 5 Dong San Huan Central Road, Chaoyang District, Beijing, the PRC on Friday, 14 September 2018 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of the proxy for use at the EGM is sent to the Shareholders together with this circular. Such form of proxy is also published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (https://www.nfa360.com/en/). 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. Completion and return of the proxy form will not preclude you from attending, and voting in person at the EGM or any adjournment thereof if you so desire.

* *For identification purposes only*

24 August 2018

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

"4S"	sales, spare parts, service and survey
"Acquisition"	the acquisition of 100% of the equity interests in the Target Company by the Purchaser from the Vendor pursuant to the Equity Transfer Agreement
"Acquisition Announcements"	the announcements of the Company dated 11 September 2017, 21 September 2017, 28 December 2017, 2 March 2018 and 29 June 2018 in relation to, among other things, the Acquisition
"Articles"	the articles of association of the Company
"associate"	has the meaning ascribed to it under the Listing Rules
"Benchmark Date"	31 October 2017
"Board"	the board of directors of the Company
"CDH China Fund"	CDH China Fund III, L.P., a limited liability partnership incorporated in the Cayman Islands and one of the funds which is indirectly controlled by CDH Company and therefore an associate of CDH Company
"CDH Company"	China Diamond Holdings Company Limited, a company incorporated in the British Virgin Islands and the indirect controlling shareholder of the Company
"CDH Matrix"	CDH Matrix Limited, a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Li & Lung and an indirect controlling shareholder of the Vendor as at the Latest Practicable Date
"Company"	New Focus Auto Tech Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 360)

"Completion"	the completion of the Acquisition pursuant to the terms of the Equity Transfer Agreement
"Completion Date"	the date of the Completion
"Conditions Precedent"	the conditions precedent to Completion under the Equity Transfer Agreement
"connected person"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration in the amount of RMB660,000,000 payable by the Purchaser to the Vendor for the Acquisition under the Equity Transfer Agreement
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the Equity Transfer Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group and the Target Group
"Equity Transfer Agreement"	the equity transfer agreement dated 2 March 2018 entered into between the Purchaser and the Vendor in relation to the Acquisition
"Fame Mountain"	Fame Mountain Limited, a company incorporated in the British Virgin Islands with limited liability and a substantial shareholder of the Company
"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

"Independent Board Committee"	the independent board committee of the Company comprising Mr. Hu Yuming, Mr. Lin Lei and Mr. Zhang Xiaoya, being all the independent non-executive Directors, which has been formed to advise the Independent Shareholders on the Equity Transfer Agreement and the transactions contemplated thereunder
"Independent Financial Adviser" or "First Shanghai"	First Shanghai Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, which has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder
"Independent Shareholders"	the Shareholders other than (i) CDH Company and its associates and (ii) any other Shareholders who have a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder
"Inner Mongolia"	the Inner Mongolia Autonomous Region of the PRC
"Latest Practicable Date"	23 August 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Loan"	the loan in the principal amount of HK$290,000,000 provided by the Company to the Vendor pursuant to the Loan Agreement, further details of which are set out in the Loan Announcement
"Loan Agreement"	the loan agreement dated 28 December 2017 entered into between the Company (as the lender), the Vendor (as the borrower) and the Operating Companies (as the guarantors), further details of which are set out in the Loan Announcement
"Loan Announcement"	the announcement of the Company dated 28 December 2017 in relation to, among other things, the Loan
"Li & Lung"	Li & Lung Limited, a company incorporated in the British Virgin Islands with limited liability

"Lifeng Automobile"	Inner Mongolia Lifeng Automobile Co., Ltd.* (內蒙古利豐汽車有限公司), a company established under the laws of the PRC with limited liability
"Lifeng Group"	Lifeng Automobile and its subsidiaries
"Lifeng Management"	the management personnel of the Lifeng Group
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Mr. Du"	Mr. Du Jinglei, who is (i) a Director and the chairman of the Board; and (ii) a managing director of CDH Investments Management (Hong Kong) Limited, which is an indirect non-wholly owned subsidiary of CDH Company and advises a number of funds which are indirectly controlled by CDH Company, including CDH China Fund and CDH Fund IV, L.P., an indirect controlling shareholder of the Company
"Mr. Mo"	Mr. Mo Keung, an individual who is a Hong Kong resident and holds the entire equity interest of Fame Mountain
"Operating Companies"	collectively, the 35 companies established under the laws of the PRC with limited liability, further details of which are set out in the section headed "Information on the Target Group – Information on the Operating Companies" in this circular
"Operating Subsidiary"	Erdos Lifeng Taidi Automobile Sales & Service Co., Ltd.* (鄂爾多斯市利豐泰迪汽車銷售服務有限公司), a company established under the laws of the PRC with limited liability and a wholly owned subsidiary of Inner Mongolia Lifeng Taidi Automobile Service Co., Ltd.* (內蒙古利豐泰迪汽車服務有限公司), which is one of the Operating Companies
"Outstanding Debts"	the aggregate amount of the principal amount of the Loan of HK$290,000,000 together with any accrued interest up to the date of payment of the Consideration

"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC Legal Advisers"	Commerce & Finance Law Offices, the PRC legal advisers to the Company
"Purchaser"	Ningbo Meishan Bonded Port Area Chifeng Investment Management Co., Ltd* (寧波梅山保稅港區馳豐投資管理有限公司), a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company
"Redemption Amount"	the aggregate amount of the original investment by CDH China Fund in the Lifeng Group of US$48,000,000 and an interest of 15% per annum accruing from 1 July 2010
"Restructuring"	the transfer of the Target Assets by the Vendor Group to the Target Company pursuant to the Equity Transfer Agreement, upon completion of which the Target Assets will be directly held by the Target Company
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	a sale and purchase agreement dated 7 December 2016 entered into between CDH China Fund and Li & Lung, pursuant to which CDH China Fund has agreed to sell, and Li & Lung has agreed to purchase, all the shares and certain shareholder loans of CDH Matrix
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of par value HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares from time to time
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Subscription"	the subscription by Fame Mountain of 1,904,761,905 new Shares to be allotted and issued by the Company pursuant to the subscription agreement dated 21 December 2017 entered into between the Company and Fame Mountain, further details of which are set out in the announcements of the Company dated 21 December 2017, 25 April 2018, 14 June 2018 and 19 June 2018 and the circular of the Company dated 28 May 2018
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"Supplemental Agreement"	the supplemental agreement dated 29 June 2018 entered into between the Purchaser and the Vendor in relation to the extension of the long stop date for the Acquisition, further details of which are set out in the announcement of the Company dated 29 June 2018
"Target Assets"	collectively, the equity interests in the Operating Companies held by the Vendor, further details of which are set out in the section headed "Information of the Target Group – Information on the Operating Companies" in this circular
"Target Company"	Inner Mongolia Chuangying Automobile Co., Ltd.* (內蒙古創贏汽車有限公司), a company established under the laws of PRC with limited liability and a wholly-owned subsidiary of the Vendor
"Target Group"	the Target Company, the Operating Companies and the Operating Subsidiary
"US$"	United States dollar(s), the lawful currency of the United States of America
"Vendor"	Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (內蒙古利豐鼎盛汽車有限公司), a company established under the laws of the PRC with limited liability
"Vendor Group"	the Vendor and its subsidiaries
"%"	per cent.

* *For identification purposes only.*

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. Du Jinglei *(Chairman)*

Non-executive Directors:
Mr. Wang Zhenyu
Mr. Zhang Jianxing

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

24 August 2018

To the Shareholders

Dear Sir/Madam,

(1) VERY SUBSTANTIAL ACQUISITION
(2) CONNECTED TRANSACTION
AND
(3) NOTICE OF EGM

INTRODUCTION

Reference is made to the Acquisition Announcements and the Loan Announcement.

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

(i) further details of the Equity Transfer Agreement and the transactions contemplated thereunder;

(ii) a letter from the Independent Board Committee to the Independent Shareholders containing its recommendation in respect of the Equity Transfer Agreement and the transactions contemplated thereunder;

(iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its recommendation in respect of the Equity Transfer Agreement and the transactions contemplated thereunder;

(iv) the financial and other information of the Group;

(v) the financial and other information of the Target Group;

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

(vii) the notice of the EGM.

At the EGM, resolutions will be proposed to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

THE EQUITY TRANSFER AGREEMENT

Reference is made to the Acquisition Announcements and the Loan Announcement, whereby the Board announced that on 2 March 2018, the Purchaser, a wholly-owned subsidiary of the Company, and the Vendor entered into the Equity Transfer Agreement, pursuant to which the Purchaser agreed to acquire, and the Vendor agreed to dispose of, 100% of the equity interests in the Target Company at the Consideration of RMB660,000,000, subject to the terms and conditions of the Equity Transfer Agreement.

The principal terms of the Equity Transfer Agreement are set out below.

Date

2 March 2018

Parties

(i) the Purchaser, a wholly-owned subsidiary of the Company; and

(ii) the Vendor.

Subject matter

Pursuant to the Equity Transfer Agreement, the Purchaser agreed to acquire, and the Vendor agreed to dispose of, 100% of the equity interests in the Target Company, subject to the terms and conditions of the Equity Transfer Agreement.

The Target Company was established by the Vendor under the laws of the PRC with limited liability on 9 February 2018 and is a wholly-owned subsidiary of the Vendor. Upon completion of the Restructuring, the Target Company will directly hold the Target Assets, which will be the primary assets of the Target Company and further details of which are set out in the section headed "Information on the Target Group – Information on the Operating Companies" below.

Restructuring

Pursuant to the Equity Transfer Agreement, the Vendor is required to complete the Restructuring within 30 working days of the date of the Equity Transfer Agreement, such that all the Target Assets will be held directly by the Target Company.

As at the date of the Equity Transfer Agreement, the Target Assets were held directly or indirectly by the Vendor. The Restructuring will involve the transfer of the Target Assets by the Vendor Group to the Target Company, such that the Target Assets will be directly held by the Target Company upon completion of the Restructuring.

Completion of the Restructuring shall take place when (i) the Target Company has been registered as a shareholder in the register of shareholders of each of the Operating Companies; and (ii) the registration of change with the relevant industry and commerce administration authority in the PRC in respect of the transfer of the Target Assets to the Target Company has been completed.

As at the Latest Practicable Date, the Target Company was registered as a shareholder in the register of shareholders of each of the Operating Companies. The Vendor is currently arranging for the registration of change with the relevant industry and commerce administration authority in the PRC in respect of the transfer of the Target Assets to the Target Company and according to the information provided by the Vendor, it is currently expected that the aforementioned registration of change will be completed before the EGM, which is expected to be convened and held in or around September 2018.

As disclosed in the section headed "The Equity Transfer Agreement – Conditions Precedent", completion of the Restructuring is one of the Conditions Precedent. As at the Latest Practicable Date, the Purchaser had no present intention to waive the Condition Precedent for completion of the Restructuring. In order to protect the interest of the Group and the Shareholders, the Purchaser will ensure that the Restructuring has been duly completed before proceeding with completion of the Equity Transfer Agreement.

Please refer to the shareholding structures of the Target Group as set out in the section headed "Information on the Target Group – Shareholding structure of the Target Group" below for further details of the Restructuring.

Consideration

The Consideration for the Acquisition is RMB660,000,000, which was determined after arm's length negotiations between the Purchaser and Vendor on normal commercial terms with reference to a number of factors, including (i) the unaudited net asset value of the Target Group of approximately RMB666,722,000 and the unaudited equity attributable to owner of the Target Company of approximately RMB642,337,000 as at the Benchmark Date; (ii) the historical financial performance of the Target Group; (iii) the business development and prospects of the Target Group; (iv) the prospect of the 4S dealership industry in the PRC as a whole; and (v) the benefits of the Acquisition as set out in the section headed "Reasons for and benefits of the Acquisition" below.

In determining the Consideration, the Board considered that (i) the Consideration is close to the unaudited equity attributable to owner of the Target Company of approximately RMB642,337,000 as at the Benchmark Date; (ii) the Target Group has strong historical financial performance for the three years ended 31 December 2016 and the ten months ended 31 October 2017 and there has been a steady growth in the revenue of the Target Group over the aforementioned period, as further detailed in the section headed "Information on the Target Group" below; (iii) the Target Group has a leading position in the 4S dealership stores and related businesses in Inner Mongolia; (iv) the prospect of the 4S dealership industry in the PRC is positive benefitting from the steady growth in the sales of new automobiles and the demand for professional automobile after-sales services in the PRC market; and (v) the Acquisition is expected to bring in new business opportunities for the Group and expand the scope of the automobile-related services portfolio of the Group.

In considering the Acquisition and assessing the Consideration, the Board has, among other things, (i) engaged the PRC Legal Advisers to conduct legal due diligence on the Target Group, (ii) reviewed the draft legal due diligence report on the Target Group prepared by the PRC Legal Advisers and discussed the preliminary due diligence results with the PRC Legal Advisers, (iii) reviewed the audited combined financial statements of the Target Group prepared in accordance with the International Financial Reporting Standards for the three years ended 31 December 2017, (iv) conducted financial due diligence on the Target Group by having management discussion and analysis with the management of the Target Group, (v) conducted onsite due diligence on certain 4S dealership stores of the Operating Companies in the Inner Mongolia with the management of the Operating Companies and (vi) reviewed the statistics from the China Association of Automobile Manufacturers regarding the prospects of the 4S dealership industry in the PRC, as further detailed in the section headed "Reasons for and benefits of the Acquisition – Prospects of the 4S dealership industry and the Target Group" below. In addition, the Group has also engaged HLB Hodgson Impey Cheng Limited, a certified public accountant, to conduct an audit on the combined financial statements of the Target Group for the three years ended 31 December 2017 and three months ended 31 March 2018.

The legal due diligence conducted by the PRC Legal Advisers on the Target Group covers the review of, among other things, (i) the constitutional documents and capital verification reports of the Target Group; (ii) the Target Group's filings with the industry and commerce administration and public information of the Target Group on the National Enterprise Credit Information Publicity System; (iii) business licenses, leases, license agreements and other agreements which are material to the business operation of the Target Group; (iv) labour practice of the Target Group; (v) material litigations and investigation against the Target Group; and (vi) the Target Group's compliance with applicable laws and regulations. Based on the preliminary results of the legal due diligence on the Target Group, the PRC Legal Advisers have not identified any material legal risks or issues of the Target Group for the purpose of the Acquisition.

The financial due diligence conducted by the Group on the Target Group covers, among other things, (i) review of the management accounts of the Target Group and the audited combined financial statements of the Target Group for the three years ended 31 December 2017 and three months ended 31 March 2018; (ii) review of accounting policies and standard adopted by the Target Group; (iii) analysis of key financial performance indicators of the Target Group; and (iv) examination of business contracts and invoices. During the course of the financial due diligence, the Board identified that the Target Group forms a substantial part of the business and materially contributed to the financial performance of the Vendor, as further detailed in the section headed "Reasons for and benefits of the Acquisition - Prospects of the 4S dealership industry and the Target Group".

Based on the preliminary results of the financial due diligence on the Target Group, the Board is of the view that the Target Group had solid financial performance for the three years ended 31 December 2017, during which, there was stable growth in the revenue of the Target Group and the gross profit margin of the Target Group ranged from 6.8% to 8.8%. During the aforesaid three years, there was also a general decrease in the gearing ratio of the Target Group (calculated as a percentage of the total borrowings to total equity of the Target Group) from approximately 98.6% as at 31 December 2015 to 76.5% as at 31 March 2018, representing a continuous improvement of the financial stability of the Target Group.

Taking into account (i) the Consideration being close to the audited equity attributable to owner of the Target Company as at the Benchmark Date, (ii) the historical financial performance of the Target Group as further detailed in the section headed "Information on the Target Group" below and (iii) the preliminary results of the legal due diligence on the Target Group, and based on the knowledge and experience of the relevant Directors and management of the Company in the 4S dealership stores and related businesses in the PRC, the Board is of the view that no independent valuation on the assets and business of the Target Group was necessary.

The Consideration will be financed by the proceeds from the Subscription. As disclosed in the poll results announcement of the Company dated 14 June 2018, an extraordinary general meeting of the Company was convened and held on 14 June 2018 and the Shareholders have approved the Subscription. As disclosed in the announcement of the Company dated 19 June 2018, completion of the Subscription has taken place on 19

June 2018. The net proceeds from the Subscription, after deducting all related fees and expenses, are expected to be approximately HK$765,000,000. Please refer to the announcements of the Company dated 21 December 2017, 25 April 2018, 14 June 2018 and 19 June 2018 and the circular of the Company dated 28 May 2018 for further details of the Subscription.

Payment of the Consideration

Pursuant to the Equity Transfer Agreement, the parties agreed that the Purchaser is entitled to set off the Outstanding Debts, being the aggregate amount of the principal amount of the Loan of HK$290,000,000 together with any accrued interest up to the date of payment of the Consideration, against the Consideration payable under the Equity Transfer Agreement, based on the reference rate of RMB to HK$ published by the People's Bank of China on the date of the payment of the Consideration by the Purchaser to the Vendor.

According to the PRC Legal Advisers, the Purchaser is entitled to, at its absolute discretion, set off the Outstanding Debts against the Consideration under the relevant PRC laws and regulations.

The Purchaser shall pay to the Vendor the Consideration, subject to the abovementioned set off of the Outstanding Debts, if such entitlement is exercised by the Purchaser, to the designated bank account of the Vendor within five working days of the completion of the registration of change with the relevant industry and commerce administration authority in the PRC in respect of the Acquisition. As at the Latest Practicable Date, the Board intends to exercise its entitlement to set off the Outstanding Debts against the Consideration payable under the Equity Transfer Agreement.

According to the PRC Legal Advisers, the consideration for the transfer of equity interests in limited liability companies established under the laws of the PRC is subject to the parties' commercial agreement and may be paid before or after the registration of change with the relevant industry and commerce administration authority in the PRC.

As the assistance of the Vendor will be required in completing the registration of change with the relevant industry and commerce administration authority in the PRC in respect of the Acquisition, in order to protect the interest of the Group, the Consideration will only be payable within five working days of the completion of the aforementioned registration of change.

Conditions Precedent

Completion of the Acquisition is subject to the satisfaction or, if applicable, the waiver of the following Conditions Precedent:

(i) the representations, warranties and undertakings made by the Vendor under the Equity Transfer Agreement remaining true and accurate at Completion;

(ii) from the date of the Equity Transfer Agreement until the Completion Date, in the reasonable opinion of the Purchaser, 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 assets and financial position of the Target Group as a whole;

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

(iv) the Purchaser 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 Company is subject to) in respect of the Equity Transfer Agreement and the transactions contemplated thereunder;

(v) the Purchaser having completed the due diligence review of the business, financial and legal aspects of the Target Group, the results of such review being satisfactory to the Purchaser;

(vi) the Purchaser having received a copy of the combined financial statements of the Target Group for the period ended the Benchmark Date audited by an accounting firm appointed by the Purchaser and the combined management accounts for the period from the first day of the month immediately after the Benchmark Date to the last day of the month immediately preceding the Completion Date, in the form and substance satisfactory to the Purchaser; and

(vii) the Restructuring having been completed.

Pursuant to the Equity Transfer Agreement, the Purchaser may, in its discretion, waive any of the Conditions Precedent other than the Condition Precedent set out in paragraph (iv) above. As advised by the PRC Legal Advisers, pursuant to the Equity Transfer Agreement, the Purchaser has an absolute discretion as to whether or not it will waive any of the Conditions Precedent (other than the Condition Precedent set out in paragraph (iv) above) and no specific circumstance is required before the Purchaser may exercise such discretion.

The Condition Precedent set out in paragraph (iv) above relates to the necessary internal approval of the Purchaser and is not capable of being waived. The other Conditions Precedent which are capable of being waived are intended to provide flexibility for the Company to implement the Acquisition in the event that any of those Conditions Precedent are not satisfied, such as a minor deviation in the implementation of the Restructuring.

As at the Latest Practicable Date, none of the Conditions Precedent has been satisfied.

As at the Latest Practicable Date, the Purchaser had no present intention to waive any of the Conditions Precedent and will only exercise its right to waive such Conditions Precedent if it is fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Completion

Subject to Completion, the Purchaser shall be entitled to the operating profit or loss of the Target Group for the period between the date immediately after the Benchmark Date and the Completion Date.

Completion shall take place on the date on which the Purchaser is registered as a shareholder in the register of shareholders of the Target Company.

The parties shall jointly procure that the Target Company completes:

(i) the registration of the Purchaser as a shareholder in the register of shareholders of the Target Company within five working days of the date after all the Conditions Precedent set out above have been satisfied (or, if applicable, waived), and in any event, by no later than 31 October 2018, as extended pursuant to the Supplemental Agreement; and

(ii) the registration of change with the relevant industry and commerce administration authority in the PRC in respect of the Acquisition within 30 working days of the Completion Date.

Termination

In the event that one or more of the Conditions Precedent is not satisfied (or, if applicable, waived) by 31 October 2018, as extended pursuant to the Supplemental Agreement, each party shall have the right to terminate the Equity Transfer Agreement by way of written notice without liability to the other party for breach of the Equity Transfer Agreement, save and except for any antecedent breach prior to the termination of the Equity Transfer Agreement.

INFORMATION ON THE TARGET GROUP

Information on the Target Company

The Target Company was established by the Vendor under the laws of the PRC with limited liability on 9 February 2018 and is a wholly-owned subsidiary of the Vendor. The Target Company is principally engaged in investment holding and its primary assets will be the Target Assets upon completion of the Restructuring.

Information on the Operating Companies

The Operating Companies are 35 companies established under the laws of the PRC with limited liability which are principally engaged in the operation of 4S dealership stores and related businesses in Inner Mongolia. Based on the information provided by the Vendor, each of the Operating Companies has been principally engaged in its respective principal businesses since the date of its respective establishment, as further detailed in the table below.

The principal business of the Target Group comprises two segments, being (i) sale of automobile and provision of after-sales services; and (ii) distribution of automobile insurance products and automobile financial products. The Target Group, through its extensive network of the 4S dealership stores, offers a comprehensive range of automobile-related products and services, including but not limited to the sale of first-hand and second-hand automobiles, provision of after-sales services for first-hand and second-hand automobiles, sale of automobile parts, accessories and other automobile-related products, provision of automobile financing and sale of motor insurance products. In particular, after-sales services include maintenance and repair services, automobile customization and furnishing services, automobile recall services and automobile consultancy services. The automobile insurance products and automobile financial products distributed by the Target Group are primarily motor insurance for financial protection against damage to vehicles and liabilities to third parties for property damage, injury or death and financing for purchase of first-hand automobiles at the 4S dealership stores of the Target Group.

The Target Group has adopted an asset-light business model and currently carries out its operation of the 4S dealership stores in leased premises. In light of the asset-light business model, the current assets of the Target Group, which comprise, among other things, inventories (including motor vehicles, spare parts and accessories), trade receivables, prepayments, deposits and other receivables, bank deposits and cash, accounted for a substantial portion of the total assets of the Target Group. According to the audited combined financial statements of the Target Group as at 31 March 2018, the current assets accounted for approximately 97.31% of the total assets of the Target Group.

Further details of each of the Operating Companies are set out as follows:

No.	Name	Date of establishment	Principal businesses	Equity interests held by the Vendor (Note) (%)
1.	Inner Mongolia Lifeng Insurance Agent Co., Ltd.* (內蒙古利豐保險代理有限責任公司)	10 December 2004	Motor insurance agency services	100.00
2.	Inner Mongolia Lifeng Taiyu Automobile Service Co., Ltd.* (內蒙古利豐泰裕汽車服務有限公司)	14 May 2007	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy and before and after-sales services	100.00
3.	Inner Mongolia Lifeng Qingye Automobile Sales & Service Co., Ltd.* (內蒙古利豐慶業汽車銷售服務有限公司)	8 September 2011	Sales of automobiles, automobile parts and accessories and electrical appliances, and provision of automobile maintenance, consultancy, leasing, financing and before and after-sales services	100.00
4.	Inner Mongolia Lifeng Taixiang Automobile Service Co., Ltd.* (內蒙古利豐泰祥汽車服務有限公司)	27 September 2006	Sales of automobiles, automobile parts and accessories and electrical appliances, and provision of automobile maintenance, consultancy, leasing, financing and before and after-sales services	100.00
5.	Inner Mongolia Lifeng Taidi Automobile Service Co., Ltd.* (內蒙古利豐泰迪汽車服務有限公司)	15 December 2003	Sales of automobiles, automobile parts and accessories and electrical appliances, and provision of automobile maintenance, consultancy, leasing, financing and before and after-sales services	100.00
6.	Hohhot Lifeng Taiyong Automobile Service Co., Ltd (呼和浩特市利豐泰永汽車服務有限公司)	27 May 2010	Sales of automobiles, automobile parts and accessories and electrical appliances, and provision of automobile maintenance, consultancy, leasing, financing and before and after-sales services	100.00

No.	Name	Date of establishment	Principal businesses	Equity interests held by the Vendor (Note) (%)
7.	Inner Mongolia Lifeng Taijin Automobile Service Co., Ltd.* (內蒙古利豐泰津汽車服務有限公司)	27 May 2010	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy, leasing and before and after-sales services	100.00
8.	Inner Mongolia Lifeng Taiwei Automobile Service Co., Ltd.* (內蒙古利豐泰威汽車服務有限公司)	17 May 2007	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy and before and after-sales services	100.00
9.	Inner Mongolia Lifeng Tailong Automobile Service Co., Ltd.* (內蒙古利豐泰隆汽車服務有限公司)	23 February 2004	Sales of automobiles, automobile parts and accessories and electrical appliances, and provision of automobile maintenance, consultancy, leasing, financing and before and after-sales services	100.00
10.	Inner Mongolia Lifeng Taixin Automobile Service Co., Ltd.* (內蒙古利豐泰鑫汽車服務有限公司)	17 October 2012	Sales of second-hand automobiles, and provision of automobile financing consultancy and before and after-sales services	100.00
11.	Tongliao Lifengtong Vehicle Store Co., Ltd.* (通遼市利豐通汽車行有限公司)	27 November 2007	Sales of automobiles, automobile parts and accessories and electrical appliances, provision of automobile maintenance, consultancy, leasing, financing and before and after-sales services, and manufacturing of electromechanical appliances	94.225
12.	Tongliao Lifeng Taida Automobile Sales & Service Co., Ltd.* (通遼市利豐泰達汽車銷售服務有限公司)	30 June 2009	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy, leasing, financing and after-sales services	94.225

No.	Name	Date of establishment	Principal businesses	Equity interests held by the Vendor (Note) (%)
13.	Tongliao Lifeng Taichang Automobile Sales & Service Co., Ltd.* (通遼市利豐泰昌汽車銷售服務有限公司)	6 May 2009	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy, leasing, financing and after-sales services	94.225
14.	Tongliao Lifeng Taiyu Automobile Sales & Service Co., Ltd.* (通遼市利豐泰宇汽車銷售服務有限公司)	3 June 2009	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy, leasing, financing and after-sales services	94.225
15.	Tongliao Lifeng Taidi Automobile Sales & Service Co., Ltd.* (通遼市利豐泰迪汽車銷售服務有限公司)	17 May 2010	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy, leasing, financing and after-sales services	94.225
16.	Hinggan Lifeng Taiyu Motor Sales Co., Ltd.* (興安盟利豐泰宇汽車銷售有限公司)	15 October 2010	Sales of automobiles and automobile parts and accessories, and provision of automobile consultancy, insurance and before and after-sales services	54.50
17.	Hinggan Taihong Wuling Motor Sales Co., Ltd.* (興安盟泰宏五菱汽車銷售有限公司)	27 January 2010	Sales of automobiles and automobile parts and accessories, and provision of automobile before and after-sales services	54.50
18.	Hinggan Lifeng Taiyu Automobile Service Co., Ltd.* (興安盟利豐泰裕汽車服務有限公司)	16 January 2013	Sales of automobiles, automobile parts and accessories, and provision of automobile consultancy and after-sales services	100.00
19.	Ulanhot Lifeng Taidi Automobile Sales & Service Co., Ltd.* (烏蘭浩特市利豐泰迪汽車銷售服務有限公司)	4 August 2011	Sales of automobiles and automobile parts and accessories, and provision of automobile consultancy and before and after-sales services	54.50

No.	Name	Date of establishment	Principal businesses	Equity interests held by the Vendor (Note) (%)
20.	Chifeng Lifeng Wuling Automobile Sales & Service Co., Ltd.* (赤峰市利豐五菱汽車銷售服務有限公司)	21 May 2009	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy and before and after-sales services	94.917
21.	Chifeng Lifeng Automobile Service Co., Ltd.* (赤峰市利豐汽車服務有限責任公司)	12 May 2010	Automobile consultancy and agency services	94.917
22.	Chifeng Lifengtong Vehicle Store Co., Ltd.* (赤峰市利豐通汽車行有限公司)	29 November 2007	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy and before and after-sales services	94.917
23.	Chifeng Lifeng Toyota Automobile Sales & Service Co., Ltd.* (赤峰利豐豐田汽車銷售服務有限公司)	25 April 2011	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy and before and after-sales services	94.917
24.	Chifeng Lifeng Taijin Automobile Sales & Service Co., Ltd.* (赤峰市利豐泰津汽車銷售服務有限公司)	12 May 2010	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy and before and after-sales services	94.917
25.	Hulun Buir Lifeng Taidi Automobile Sales Co., Ltd. * (呼倫貝爾市利豐泰迪汽車銷售有限公司)	13 September 2010	Sales of automobiles and automobile parts and accessories, and provision of automobile consultancy and before and after-sales services	96.00
26.	Hulun Buir Lifeng Wuling Automobile Sales & Service Co., Ltd.* (呼倫貝爾市利豐五菱汽車銷售服務有限公司)	23 February 2010	Sales of automobiles and automobile parts and accessories, and provision of automobile consultancy services	96.00

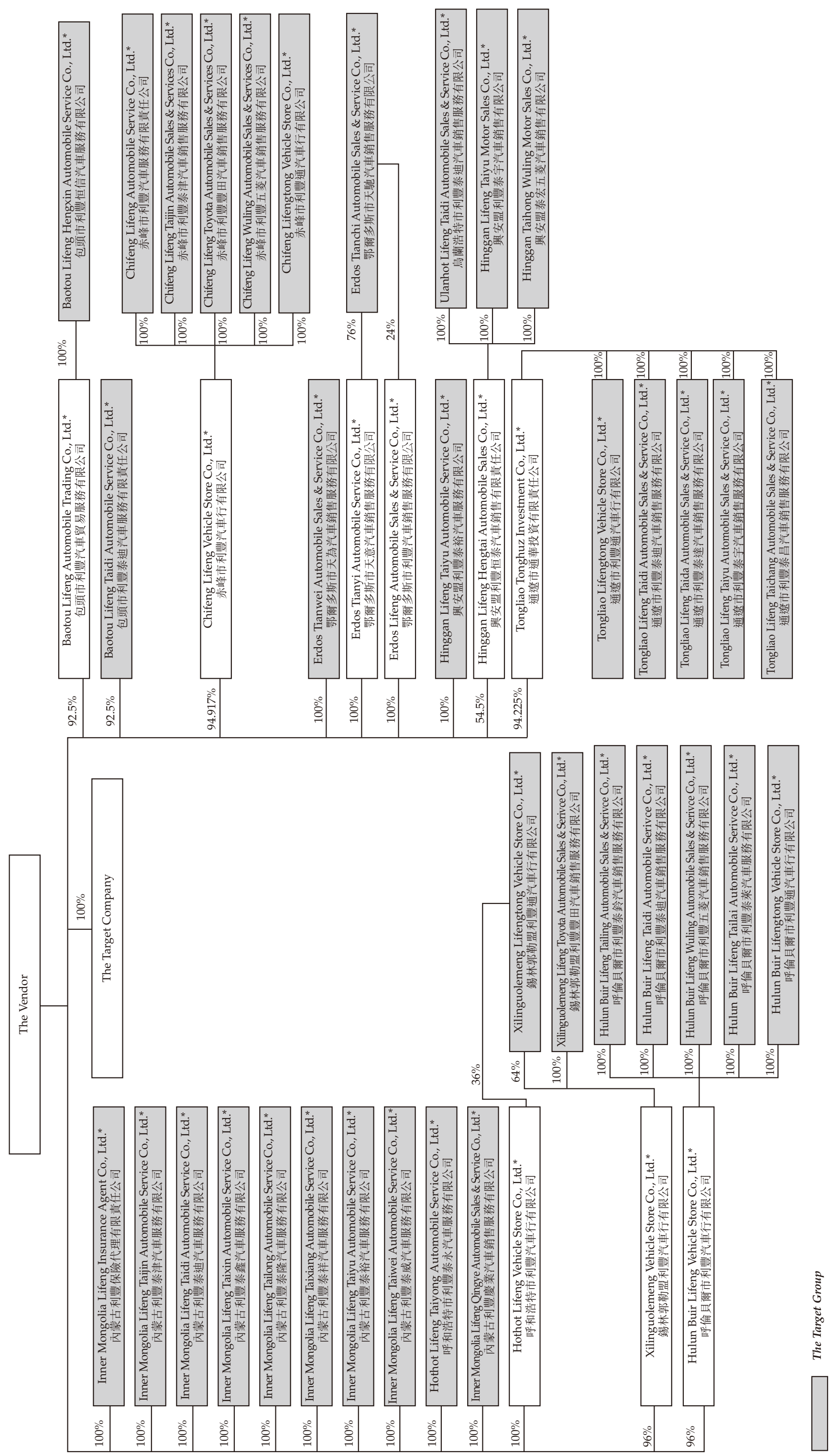
No.	Name	Date of establishment	Principal businesses	Equity interests held by the Vendor (Note) (%)
27.	Hulun Buir Lifeng Tailing Automobile Sales & Service Co., Ltd.* (呼倫貝爾市利豐泰鈴汽車銷售服務有限公司)	19 June 2012	Sales of automobiles and automobile parts and accessories, and provision of automobile consultancy services	96.00
28.	Hulun Buir Lifengtong Vehicle Store Co., Ltd.* (呼倫貝爾市利豐通汽車行有限公司)	25 August 2009	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy and before and after-sales services	96.00
29.	Hulun Buir Lifeng Tailai Automobile Service Co., Ltd.* (呼倫貝爾市利豐泰萊汽車服務有限公司)	25 August 2009	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy and before and after-sales services	96.00
30.	Xilinguolemeng Lifeng Toyota Automobile Sales & Service Co., Ltd.* (錫林郭勒盟利豐豐田汽車銷售服務有限公司)	15 August 2011	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy, financing and after-sales services	96.00
31.	Xilinguolemeng Lifengtong Vehicle Store Co., Ltd.* (錫林郭勒盟利豐通汽車行有限公司)	6 August 2008	Sales of second-hand automobiles, and provision of automobile maintenance, consultancy, financing, leasing and after-sales services	97.44
32.	Erdos Tianchi Automobile Sales & Service Co., Ltd.* (鄂爾多斯市天馳汽車銷售服務有限公司)	21 April 2005	Sales of automobiles and automobile parts and accessories, and provision of automobile consultancy, leasing and before and after-sales services	100.00

No.	Name	Date of establishment	Principal businesses	Equity interests held by the Vendor (Note) (%)
33.	Erdos Tianwei Automobile Sales & Service Co., Ltd.* (鄂爾多斯市天為汽車銷售服務有限公司)	25 September 2006	Sales of automobiles and automobile parts and accessories, and provision of automobile consultancy, leasing and after-sales services	100.00
34.	Baotou Lifeng Taidi Automobile Service Co., Ltd.* (包頭市利豐泰迪汽車服務有限責任公司)	27 November 2007	Sales of automobiles and automobile accessories, and provision of automobile maintenance, consultancy and leasing services	92.50
35.	Baotou Lifeng Hengxin Automobile Service Co., Ltd.* (包頭利豐恒信汽車服務有限公司)	16 November 2006	Sales of automobiles and automobile parts and accessories, and provision of automobile maintenance, consultancy and leasing services	92.50

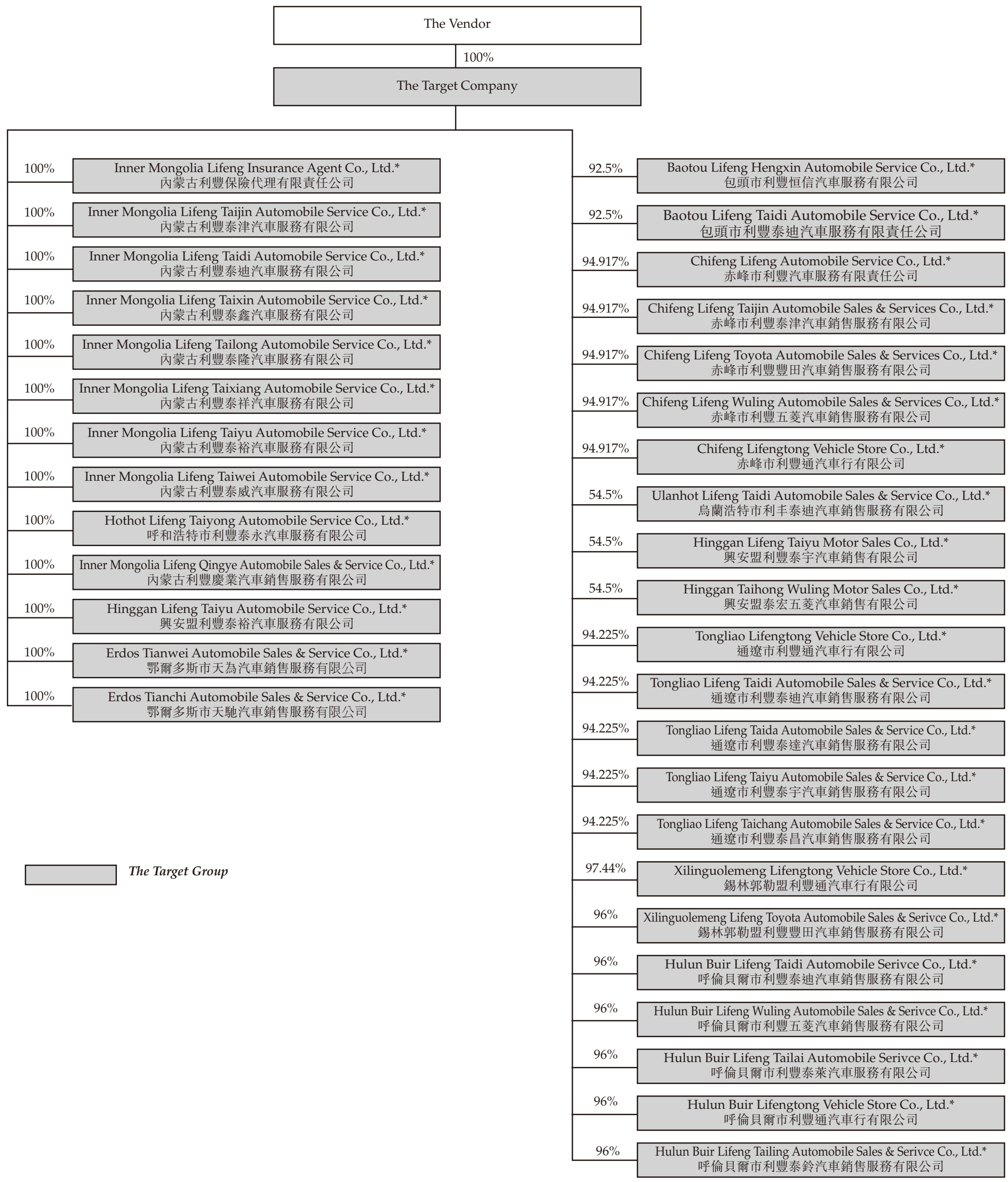
Note: As at the Latest Practicable Date, the equity interests were indirectly held by the Vendor through the Target Company.

Shareholding structure of the Target Group

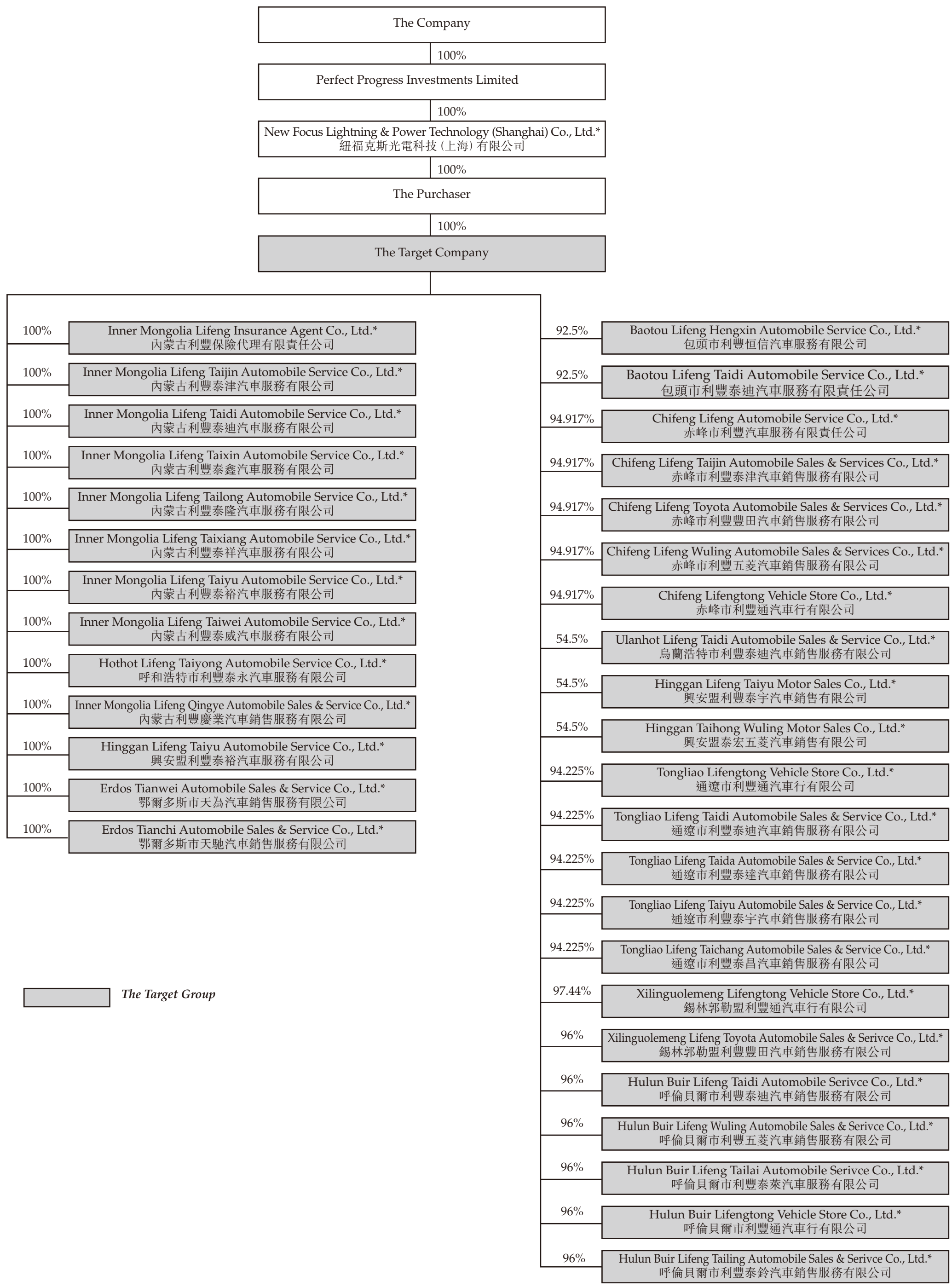
As at the date of the Equity Transfer Agreement, the shareholding structure of the Target Group was as follows:



As at the Latest Practicable Date and immediately before Completion, the shareholding structure of the Target Group is as follows:



Upon Completion, the structure of the Target Group will be as follows:



Financial information of the Target Group

Upon completion of the Restructuring, the Target Company will become the holding company of the Operating Companies. As the financial statements of the Target Company and each of the Operating Companies adopted a single uniform set of accounting policies, being the International Financial Reporting Standards, and the Target Company and the Operating Companies have been under the common control of the Vendor throughout the relevant reporting period, accordingly, the financial statements of the Target Group were prepared on a combined basis as if the Target Company had been the holding company of the Operating Companies throughout the relevant reporting period in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

Based on the audited combined financial statements of the Target Group prepared in accordance with the International Financial Reporting Standards, the financial information of the Target Group for the three years ended 31 December 2017 and the three months ended 31 March 2018 was approximately as follows:

	For the year ended 31 December			For the three months ended 31 March
	2015	**2016**	**2017**	**2018**
	(audited)	**(audited)**	**(audited)**	**(audited)**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Revenue	3,376,409	3,805,539	4,102,236	714,016
Profit before taxation	51,846	94,623	138,371	9,662
Profit after taxation	34,217	71,512	103,849	3,553

The audited combined net asset value of the Target Group as at 31 March 2018 was approximately RMB664,052,000.

INFORMATION ON THE VENDOR

The Vendor is a company established under the laws of the PRC with limited liability, which is principally engaged in the retail sales of new and used automobiles.

INFORMATION ON THE GROUP

Information on the Group

The Group is principally engaged in automobile-related businesses including the operation of an individual automotive service chain network which provides after-sales services including automotive insurance, the operation of an automotive product e-commerce platform and the manufacturing of automotive parts and accessories. The retail service chain stores of the Group, which are primarily city gas stations, provide car owners with automotive cleaning, beauty, maintenance, body repair and repair services and sell automotive products. The automotive product e-commerce platform of the Group provides customers with purchase, delivery and warehouse storage services of automotive repair parts and automotive products. The manufacturing business of the Group is principally engaged in the research and development, manufacturing and sales of electronic and power-related automotive parts and accessories, which are mainly sold to the PRC, North America and Europe.

As at the Latest Practicable Date, the Company did not have any intention and had not entered into any understanding, arrangement or undertaking to (i) acquire any new business; and/or (ii) dispose of or downsize its existing business and major operating assets.

Information on the Purchaser

The Purchaser is a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company. The principal business of the Purchaser is investment holding.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Strategic objectives of the Group

The Group is principally engaged in automobile-related businesses, including the operation of an individual automotive service chain network which provides after-sales services including automotive insurance, the operation of an automotive product e-commerce platform and the manufacturing of automotive parts and accessories, with an objective to providing automobile consumers with products and services with premium price-performance ratio.

In this connection, the Group has been actively searching for potential acquisition targets, which would facilitate the achievement of the strategic objectives of the Group and enhance the Shareholders' value. The Acquisition is expected to bring in new business opportunities for the Group and expand the scope of the automobile-related services portfolio of the Group.

Expansion of the existing business of the Group

The 4S dealership stores and related businesses of the Target Group primarily comprise two segments: (i) sales of automobile and provision of after-sales services, including primarily repair and maintenance services; and (ii) distribution of automobile insurance products and automobile financial products. Based on the information provided by the Vendor, the revenue and profit generated from the segments of sales of automobile and automobile financial products, which are lacking in the existing automobile-related services portfolio of the Group, accounted for a significant portion of the total revenue and profit of the Target Group.

The 4S dealership stores and related businesses of the Target Group are considered as desirable natural expansion of the current business of the Group. The business of the sales of automobile and the provision of automobile after-sale services and sale of automobile spare parts and accessories often complement each other in providing a one-stop solution for automobile consumers. In addition, the Board expects that the Group will also benefit from the potential synergy between the distribution of automobile insurance products and automobile financial products segment of the Target Group and the existing sale of automotive insurance products business of the Group.

The enlarged customer base as a result of the Acquisition is expected to be conducive to the development and growth in the sales of the automotive product e-commerce platform of the Group. The Group also intends that the 4S dealership stores of the Target Group would become additional distribution channels of the automotive parts and accessories manufactured by the manufacturing arm of the Group. As such, the addition of the 4S dealership stores and related businesses is expected to strengthen the existing businesses of the Group by creating a vertically integrated business model of automobile sales and automobile after-services, thereby locking in customer loyalty and creating synergies between intertwined components of the automobile-related businesses.

The Directors and senior management of the Group possess extensive experience in the automobile industry. In particular, certain Directors and senior management of the Group have relevant experience in various automobile-related businesses, including but not limited to, sales of automobile, operation and management of automobile repair and maintenance services, sales and marketing of automobile spare parts and accessories. The Board is of the view that the operational experience and industrial expertise in the automobile industry of the Directors and senior management of the Group will contribute to the success of the Target Group in the 4S dealership stores and related businesses in the PRC. In addition, it is expected that the existing management of the Operating Companies will remain with the Target Group after Completion.

Prospects of the 4S dealership industry and the Target Group

According to the statistics from the China Association of Automobile Manufacturers, the production and sales volume of automobiles recorded 29,015,000 units and 28,879,000 units in 2017, representing a year-on-year growth of 3.2% and 3%, respectively. The production and sales volume of passenger vehicles amounted to 24,807,000 units and 24,718,000 units in 2017, representing a year-on-year growth of 1.6% and 1.4%, respectively. The 4S dealership industry in the PRC generally benefits from the steady growth of the number of sales of new automobiles. In addition, along with the increasing average age of passenger vehicles in China, the proportion of vehicles whose warranties have been expired and which are in the peak of need for replacement of naturally ageing parts and accessories (which normally need to be replaced five to ten years after sales) has been increasing. The demand for professional automobile after-sales services, including professional maintenance and supplies of parts and accessories, in the PRC market is also steadily growing.

The Target Group is principally engaged in the operation of 4S dealership stores and related businesses in Inner Mongolia and has a leading position in the local market. Based on the information provided by the Vendor, the major brands distributed by the Target Group include Buick, Cadillac, Changan Mazda, Changan Suzuki, Chevrolet, Dongfeng Honda, Dongfeng Peugeot, Nissan, FAW-Toyota, FAW-Volkswagen, Changan Ford, SAIC-Volkswagen, Tianjin FAW, SGMW, Trumpchi and Venucia.

The Target Group forms a substantial part of the business and materially contributed to the financial performance of the Vendor, which was ranked 56th in "2017 Top 100 Automobile Dealers in the Automobile Dealers Industry of China" issued by the China Automobile Dealers Association. As disclosed in the section headed "Information on the Target Group" above, the audited combined profit before and after taxation of the Target Group for the year ended 31 December 2017 were approximately RMB138,371,000 and RMB103,849,000 respectively. By comparison, according to the audited consolidated financial statements of the Vendor for the year ended 31 December 2017 prepared in accordance with the Accounting Standards for Business Enterprises, the consolidated profit before taxation and the consolidated net profit of the Vendor for the year ended 31 December 2017 were approximately RMB139,585,000 and RMB102,079,000 respectively.

The Acquisition presents a unique opportunity for the Group to establish its business presence in Inner Mongolia. Through the Acquisition, the Group will be able to expand the scope of its automobile related businesses and provide customers with comprehensive one-stop automobile-related services, such as automobile sales and after-sales services.

New revenue stream for the Company

As disclosed in the section headed "Information on the Target Group" above, the Target Group had a strong financial performance for the three financial years ended 31 December 2017. The Directors believe that the Acquisition will enlarge the Group's revenue streams and have a positive effect on the financial performance of the Group, which will in turn enhance the Shareholders' value.

In light of the potential synergies between the 4S dealership stores and related businesses of the Target Group and the existing business of the Group and the strong financial performance of the Target Group, the Directors are of the view that the Acquisition would facilitate the achievement of the strategic objectives of the Group and enhance the Shareholders' value.

As disclosed in the section headed "The Equity Transfer Agreement – Consideration" above, the Board has taken into account a number of factors in determining the Consideration. In particular, the Consideration of RMB660,000,000 is close to the audited equity attributable to owner of the Target Company of approximately RMB642,337,000 as at the Benchmark Date, and taking into account the prospect of the Target Group and the benefits of the Acquisition as outlined above, the Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In addition, as disclosed in the section headed "The Equity Transfer Agreement – Payment of the Consideration" above, the Purchaser is entitled to, at its absolute discretion, set off the Outstanding Debts against the Consideration payable under the Equity Transfer Agreement, therefore enjoying certain degree of flexibility in terms of the settlement of the Consideration. As the flexibility of the payment method of the Consideration would allow the Group to optimize its financial resources, the Directors consider that the payment method is favourable and beneficial to the Group.

The terms of the Equity Transfer Agreement were agreed at after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors, after considering the advice from the Independent Financial Advisor) consider that the terms of the Equity Transfer Agreement (including the Consideration and the payment method) and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Earnings

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, for illustration purpose only, the effect of the Acquisition is that the loss attributable to the equity shareholders of the Company for the year ended 31 December 2017 would have decreased by approximately RMB93.93 million from approximately RMB315.47 million to approximately RMB221.54 million.

Assets

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, for illustration purpose only, the effect of the Acquisition is that the total assets as at 31 December 2017 would have increased by approximately RMB1,240.91 million from approximately RMB1,380.18 million to RMB2,621.09 million.

Liabilities

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, for illustration purpose only, the effect of the Acquisition is that the total liabilities as at 31 December 2017 would have increased by approximately RMB597.80 million from approximately RMB1,162.26 million to RMB1,760.06 million.

For details of the financial effects of the Acquisition, please refer to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Upon completion of the Acquisition, the Enlarged Group will be principally engaged in (i) sales of automobile; (ii) manufacture, trading and sales of automobile accessories; (iii) provision of automobile after-sales services including repair, maintenance and restyling services; and (iv) distribution of automobile insurance products and automobile financial products.

Sale of automobile

In 2017, the sales volume of passenger vehicles in the PRC was approximately 24.49 million, representing an increase of approximately 2% over 2016. It is expected that the sales volume of passenger vehicles in the PRC will grow at a compound annual growth rate of approximately 3% from 2018 to 2020.

According to the statistics available from the Inner Mongolia Autonomous Region Bureau of Statistics, during the period from 2013 to 2017, the growth rates of the gross domestic product in Inner Mongolia range from approximately 4% to 8% per annum and the growth rates of per capita disposable income in Inner Mongolia exceeds 8% per annum.

Taking into account the rising consumption level of customers in Inner Mongolia and the positive outlook of the passenger vehicles sales market on a national level, the sale of automobile business of the Enlarged Group is expected to maintain a steady growth in the near future.

Manufacture, trading and sales of automobile accessories

The manufacturing business of the Group has uplifted its product innovation and competitiveness by integrating internal supply chains, improving production efficiency and investing in research and development resources. While streamlining the existing market and customers, the Group also focused precisely on the target market and customer groups. The foreign trade business achieved a significant growth in 2017 as compared with 2016 and the professional channel in respect of the domestic trade business began to take shape.

The Group established a subsidiary in Shenzhen, which is dedicated to the research and development of new energy vehicle accessories, and successfully developed a series of new energy vehicle accessories and started the supply of relevant accessories for certain new energy vehicle models of Chery and Fukuda. Through continuous research and development, it is expected that the Group will supply relevant accessories for other manufacturers' new energy vehicles in the coming years. With the explosive growth in the production and sales of domestic new energy vehicles, the Enlarged Group will seize the significant opportunities brought about by the market changes and strive to become a key supplier of battery charging and inverter modules for new energy vehicles. The Directors expect that this business segment of the Enlarged Group will experience explosive growth in the future.

In addition, the Enlarged Group will continue to focus on the construction and expansion of the automotive products e-commerce platform "Auto Make", which provides one-stop parts and accessories wholesale and delivery services to small-scale individual automobile after-sales stores in the PRC. At present, the e-commerce platform provides services in three provinces in Northeast China, eastern Inner Mongolia, Zhejiang Province and Jiangsu Province. It is expected that the e-commerce platform will be further expanded to Beijing, Shanghai and Guangdong.

Provision of automobile after-sales services

The sale value of the PRC automobile after-sales market in 2017 amounted to approximately RMB1,000 billion and it is expected to grow at a compound annual growth rate of 14.2% from 2018 to 2020 and reach RMB1,500 billion in 2020, which is both a historic opportunity and a severe challenge in light of a fragmented automobile service industry.

The steady growth in the sales volume of passenger vehicles in the PRC also promotes a constant increase of retention of passenger vehicles, which lead to a general increase in demand for automobile after-sales services including repair, maintenance and restyling services.

The Enlarged Group will continue to focus on the expansion of its individual automobiles service chain network primarily located at gas stations and the automobile after-sales service offering at the 4S dealership stores of the Target Group.

Distribution of automobile insurance products and automobile financial products

According to the China Auto Internet Finance Development Report 2017 (《中國汽車互聯網金融發展報告2017》) published by 01 Think Tank (零壹智庫), during the period from 2014 to 2016, the overall scale of the automobile finance market in the PRC grew from RMB700 billion to over RMB1 trillion at a growth rate of over 20% per annum, with the penetration rate increasing from 20% in 2014 to 38% in 2016. It is expected that there is still a notable room for development of the PRC automobile finance market in light of the relatively low penetration rate of the PRC as compared with that of over 50% in other developed countries.

In light of the steady growth in the sales volume of passenger vehicles and the rapid growth of automobile finance market in the PRC, the Directors consider that there will be a notable room for development for the distribution of automobile insurance products and automobile financial products businesses of the Enlarged Group in the near future.

Looking forward, the Directors are of the view that the passenger vehicles sales market will expand, leading to the consequential growth in the after-sales market and the automobile insurance and financial products market. The Enlarged Group will continue to strengthen the competitiveness of its products and services through an upgraded product portfolio, enhanced brand building and expanded sales channels.

With the addition of the Target Group's businesses of the sales of automobile and provision of after-sales services and distribution of automobile insurance products and automobile financial products, the Acquisition allows the Enlarged Group to seize the rapid development in the PRC automotive sales market by further expanding its market presence and boost the Enlarged Group's market shares. The Acquisition is also expected to create synergies to the existing automobile business of the Group and enhance the competitiveness of the Enlarged Group.

RELATIONSHIP BETWEEN THE VENDOR AND CDH COMPANY

CDH China Fund is one of the funds indirectly controlled by CDH Company, the indirect controlling shareholder of the Company. As at the Latest Practicable Date, CDH Company was the general partner of, and holds approximately 3.55% of the partnership interest in, China Diamond Holdings III, L.P., which in turn indirectly held 80% of the shares in CDH III Holdings Company Limited. CDH III Holdings Company Limited was the general partner of, and held approximately 0.06% of the partnership interest in, CDH China Fund. The management, control and operation of and the determination of policy with respect to CDH China Fund and China Diamond Holdings III, L.P., and their respective investment and other activities were vested exclusively in the respective general partner pursuant to the respective limited partnership agreement. Accordingly, CDH China Fund was indirectly controlled by and is an associate of CDH Company.

Based on the information provided by CDH China Fund, in 2010, CDH China Fund, through its underlying investment holding vehicles including CDH Matrix, made an investment in the amount of US$48,000,000 in the Lifeng Group, representing 36% of the equity interests of Lifeng Automobile on a fully-diluted basis. The Lifeng Group was principally engaged in the operation of 4S dealership stores and related businesses in Inner Mongolia and comprised 98 companies (including Lifeng Automobile and certain members of the Operating Companies) at the relevant time.

Pursuant to the terms of the aforementioned investment, it was agreed by the parties thereto that the Lifeng Group shall achieve certain development targets within certain specific time, failing which Lifeng Automobile (being the then holding company of the Lifeng Group) or its then existing shareholders shall redeem the investment of CDH China Fund at the aggregate amount of the original investment of US$48,000,000 and certain investment return accruing at the rate of 15% or 25%, depending on the cause of failure to achieve the development targets, accruing from 1 July 2010.

As the Lifeng Group failed to achieve the aforementioned development targets within the specific time, Lifeng Automobile or its then existing shareholders was required to redeem the investment of CDH China Fund at the Redemption Amount, being the aggregate amount of the original investment of US$48,000,000 and an interest of 15% per annum accruing from 1 July 2010. Neither Lifeng Automobile nor its then existing shareholders was able to so redeem the investment of CDH China Fund at the Redemption Amount and as such, the parties thereto agreed, among other things, the following arrangements for the management buy-out of the Lifeng Group by the Lifeng Management in 2016:

(i) in consideration for a waiver by CDH China Fund of the obligations of Lifeng Automobile and its then existing shareholders to redeem the investment of

CDH China Fund at the Redemption Amount, Lifeng Automobile (i) transferred certain assets in relation to its 4S dealership stores and related businesses and other assets to the Vendor (being certain 133 subsidiaries of Lifeng Automobile including the Operating Companies), and then (ii) transferred the entire equity interests in the Vendor to an indirect wholly-owned subsidiary of CDH Matrix;

(ii) the Lifeng Management incorporated Li & Lung for the purpose of the aforementioned management buy-out and ongoing operation of the 4S dealership stores and related businesses of the Lifeng Group;

(iii) CDH China Fund entered into the Sale and Purchase Agreement with Li & Lung for the transfer of (i) the entire issued share capital of CDH Matrix and (ii) a shareholder loan due to CDH China Fund by CDH Matrix in the principal amount of US$48,000,000 together with compound interest accrued at the interest rate of 15% per annum from 1 July 2010, with the view to recouping the Redemption Amount through allowing the ongoing operation of the 4S dealership stores and related businesses of the Lifeng Group by the Lifeng Management; and

(iv) CDH China Fund and Li & Lung agreed that the consideration for the Sale and Purchase Agreement should be determined with reference to the Redemption Amount. As Li & Lung did not have sufficient amount of cash for settlement of the Redemption Amount at the relevant time, CDH China Fund and Li & Lung agreed that:

(1) the consideration under the Sale and Purchase Agreement would be payable on a later day, being on or before 31 December 2017; and

(2) the applicable interest should be compounded annually, such that the consideration under the Sale and Purchase Agreement shall be the sum of the original investment of US$48,000,000 and compound interest accrued at the interest rate of 15% per annum from 1 July 2010, which amounted to approximately US$118,132,159.44 (equivalent to approximately RMB813,458,049.90 based on the then applicable exchange rate between US$ and RMB) as at the date of the Sale and Purchase Agreement.

Pursuant to the Sale and Purchase Agreement, as long as the consideration is not settled in full, Li & Lung will procure, among other things, that the legal representative of the Vendor nominated by CDH China Fund is duly appointed. In addition, Li & Lung executed an equitable mortgage over the shares in CDH Matrix in favour of CDH China Fund to secure its obligations under the Sale and Purchase Agreement. Pursuant to the aforementioned arrangement, CDH China Fund has nominated Mr. Du, a Director and the chairman of the Board, as the legal representative of the Vendor, and Mr. Du is also a director and the chairman of the board of directors of the Vendor.

As at the Latest Practicable Date, the consideration under the Sale and Purchase Agreement remained outstanding and the parties thereto entered into an agreement to extend the timing for payment of the consideration under the Sale and Purchase Agreement by Li & Lung to on or before 31 December 2020.

As disclosed in the Loan Announcement, the Loan in the amount of HK$290,000,000 was provided by the Company to the Vendor pursuant to the Loan Agreement. According to the Vendor, the proceeds of the Loan were applied to repay outstanding bank loans and replenish the working capital of the Vendor Group. The Vendor expects that the proceeds of the Consideration (subject to set off of the Outstanding Debts) will also be used for the same purposes and neither the Loan nor the Consideration will be used by the Vendor or Li & Lung for the payment of the consideration under the Sale and Purchase Agreement.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Equity Transfer Agreement and the transactions contemplated thereunder exceed 100%, the Equity Transfer Agreement and the transactions contemplated thereunder constitute a very substantial acquisition of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As disclosed in the section headed "Relationship between the Vendor and CDH Company" above, there is a close association between CDH Company and its associates on the one hand and the Vendor on the other hand, the Vendor is therefore a connected person of the Company. As such, the Equity Transfer Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As disclosed in the section headed "Relationship between the Vendor and CDH Company" above, Mr. Du has been nominated by CDH China Fund as the legal representative of the Vendor and is also a director and the chairman of the board of directors of the Vendor. Mr. Wang Zhenyu and Mr. Zhang Jianxing, all being non-executive Directors, were nominated by CDH Company or its associates to the Board. Accordingly, Mr. Du, Mr. Wang Zhenyu and Mr. Zhang Jianxing have therefore abstained from voting on the relevant Board resolutions approving the Equity Transfer Agreement and the transactions contemplated thereunder. Save as aforementioned, none of the other Directors has a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder and hence no other Director has abstained from voting on such Board resolutions.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Equity Transfer Agreement and the transactions contemplated thereunder.

In this connection, the Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder.

EGM

The EGM will be convened and held at Room 2501, 25/F, Fortune Financial Centre, 5 Dong San Huan Central Road, Chaoyang District, Beijing, the PRC on Friday, 14 September 2018 at 10:00 a.m. for the Independent Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement and the transactions contemplated thereunder. The notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular.

As disclosed in the section headed "Relationship between the Vendor and CDH Company" above, there is a close association between CDH Company and its associates on the one hand and the Vendor on the other hand, and the Vendor is therefore a connected person of the Company. As such, CDH Company and its associates are considered to have a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder.

As disclosed in the announcement of the Company dated 19 June 2018, upon completion of the Subscription on 19 June 2018, an aggregate of 1,904,761,905 Shares have been allotted and issued to Fame Mountain at the subscription price of HK$0.42 per Share, representing approximately 28.24% of the total issued share capital of the Company as enlarged by the allotment and issuance of the Shares under the Subscription. Accordingly, Fame Mountain has become a substantial shareholder of the Company. While, as confirmed by Fame Mountain and Mr. Mo, neither Fame Mountain nor Mr. Mo has any past and present relationships, whether financial, business or otherwise, with the Vendor and/or CDH Company and its associates, in view of the fact that certain portion of the net proceeds of the Subscription will be used for the payment of the Consideration, Fame Mountain is considered to have a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder.

Accordingly, CDH Company and its associates, Fame Mountain and those who are interested in the Equity Transfer Agreement and the transactions contemplated thereunder will be required to abstain from voting on the resolutions in relation to the Equity Transfer Agreement and the transactions contemplated thereunder.

Save as abovementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder and therefore, no other Shareholder is required to abstain from voting at the EGM for the relevant resolutions.

A form of proxy for use at the EGM is sent to the Shareholders together with this circular. 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. Completion and return of the form of proxy shall not preclude you from attending, and voting in person at the EGM or any adjournment thereof if you so desire.

RECOMMENDATION

The Independent Board Committee, after considering the advice from the Independent Financial Adviser, is of the view that while the Equity Transfer Agreement and the transactions contemplated thereunder are not conducted in the ordinary and usual course of business of the Group, the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

FURTHER INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 37 to 38 of this circular, containing its recommendation in respect of the Equity Transfer Agreement and the transactions contemplated thereunder, (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 39 to 69 of this circular, containing its recommendation in respect of the Equity Transfer Agreement and the transactions contemplated thereunder and (iii) the additional information set out in the appendices to this circular.

The Independent Shareholders are advised to read the aforesaid letters and appendices before deciding as to how to vote on the resolutions approving, among other things, the Equity Transfer Agreement and the transactions contemplated thereunder.

As Completion is subject to the satisfaction of the Conditions Precedent, the Acquisition 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
DU Jinglei
Chairman

* *For identification purpose only*

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)

24 August 2018

To the Independent Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION
(2) CONNECTED TRANSACTION
AND
(3) NOTICE OF EGM

We refer to the circular of the Company dated 24 August 2018 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Acquisition and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" in the Circular. First Shanghai has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to (i) the "Letter from the Board" set out on pages 7 to 36 of the Circular, (ii) the "Letter from the Independent Financial Adviser" set out on pages 39 to 69 of the Circular and (iii) the additional information set out in the appendices to the Circular.

Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in the "Letter from the Independent Financial Adviser" in the Circular, we concur with the view of the Independent Financial Adviser and consider that while the Equity Transfer Agreement and the transactions contemplated thereunder are not conducted in the ordinary and usual course of business of the Group, the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee
Mr. Hu Yuming Mr. Lin Lei Mr. Zhang Xiaoya
Independent non-executive Directors

* *For identification purpose only*

The following is the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition pursuant to the Equity Transfer Agreement, which has been prepared for the purpose of inclusion in this circular.

第一上海
FIRST SHANGHAI GROUP
FIRST SHANGHAI CAPITAL LIMITED
第一上海融資有限公司
19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

24 August 2018

To the Independent Board Committee and the Independent Shareholders

New Focus Auto Tech Holdings Limited
5th Floor, 180 Hennessy Road
Wanchai
Hong Kong

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition pursuant to the Equity Transfer Agreement, details of which are set out in the "Letter from the Board" contained in the circular to the Shareholders dated 24 August 2018 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 2 March 2018, the Purchaser, a wholly-owned subsidiary of the Company, and the Vendor entered into the Equity Transfer Agreement, pursuant to which the Purchaser agreed to acquire, and the Vendor agreed to dispose of, 100% of the equity interests in the Target Company at the Consideration of RMB660,000,000, subject to the terms and conditions of the Equity Transfer Agreement.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Equity Transfer Agreement and the transactions contemplated thereunder exceed 100%, the Equity Transfer Agreement and the transactions contemplated thereunder constitute a very substantial acquisition of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As there is a close association between CDH Company and its associates on the one hand and the Vendor on the other hand, the Vendor is therefore a connected person of the Company. As such, the Equity Transfer Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Du has been nominated by CDH China Fund as the legal representative of the Vendor and is also a director and the chairman of the board of directors of the Vendor. Mr. Wang Zhenyu and Mr. Zhang Jianxing, all being non-executive Directors, were nominated by CDH Company or its associates to the Board. Accordingly, Mr. Du, Mr. Wang Zhenyu and Mr. Zhang Jianxing have therefore abstained from voting on the relevant Board resolutions approving the Equity Transfer Agreement and the transactions contemplated thereunder. Save as aforementioned, none of the other Directors has a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder and hence no other Director has abstained from voting on such Board resolutions.

Upon completion of the Subscription on 19 June 2018, an aggregate of 1,904,761,905 Shares have been allotted and issued to Fame Mountain at the subscription price of HK$0.42 per Share, representing approximately 28.24% of the total issued share capital of the Company as enlarged by the allotment and issuance of the Shares under the Subscription. Accordingly, Fame Mountain has become a substantial shareholder of the Company. While, as confirmed by Fame Mountain and Mr. Mo, neither Fame Mountain nor Mr. Mo has any past and present relationships, whether financial, business or otherwise, with the Vendor and/or CDH Company and its associates, in view of the fact that certain portion of the net proceeds of the Subscription will be used for the payment of the Consideration, Fame Mountain is considered to have a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder.

Accordingly, CDH Company and its associates, Fame Mountain and those who are interested in the Equity Transfer Agreement and the transactions contemplated thereunder will be required to abstain from voting on the resolutions in relation to the Equity Transfer Agreement and the transactions contemplated thereunder.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising the three independent non-executive Directors, namely Mr. Hu Yuming, Mr. Lin Lei and Mr. Zhang Xiaoya, has been formed in accordance with Chapter 14A of the Listing Rules to consider the Equity Transfer Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders on the fairness and reasonableness in relation to the terms of the Acquisition pursuant to the Equity Transfer Agreement and the transactions contemplated thereunder.

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Acquisition pursuant to the Equity Transfer Agreement is conducted in the ordinary and usual course of business of the Group; (ii) whether or not the entering into of the Equity Transfer Agreement is on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in relation to the ordinary resolution to be proposed for approving the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM.

We are not connected with the Directors, chief executive and substantial shareholders of the Company and/or the Vendor or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. As at the Latest Practicable Date, we were not aware of any relationships or interests between the Group or the Vendor and us during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to our independence to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders. Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Group, the Vendor or the Target Group.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, the Company and the management of the Group (the "**Management**"). We have assumed that all statements, information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular.

We consider that we have (i) obtained all information and documents of the Group and the Target Company relevant to an assessment of the fairness and reasonableness of the terms of the Acquisition; (ii) researched the relevant market and other conditions and trends relevant to the pricing of the Acquisition; (iii) reviewed the fairness, reasonableness and completeness of any assumptions or projections relevant to the Acquisition; and (iv) reviewed the legal opinion relevant to the Acquisition provided by the PRC Legal Advisers, namely Commerce & Finance Law Offices, including reviewing the terms of engagement (having particular regard to the scope of work, whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance given by the legal opinion provided by the PRC Legal Advisers, opinion or statement). Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Acquisition, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

We consider that we have reviewed sufficient information, including financial information of the Target Group that is to be ultimately acquired by the Group, to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reason to doubt the truth, accuracy and completeness of the statements, information, facts, opinions and representations provided to us by the Directors, the Company and the Management. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed and we have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular, or the reasonableness of the opinions and representations provided to us by the Group. All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We have relied on such information and opinions and have not however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group, the Target Group and the Target Assets.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Acquisition, we have taken into account the following principal factors and reasons:

1. Background on the Group

The Group is principally engaged in automobile-related businesses, including the operation of an individual automotive service chain network which provides after-sales services including automotive insurance, the operation of an automotive product e-commerce platform and the manufacturing of automotive parts and accessories.

The retail service chain stores of the Group, which are primarily city gas stations, provide car owners with automotive cleaning, beauty, maintenance, body repair and repair services and sell automotive products.

The automotive product e-commerce platform of the Group provides customers with purchase, delivery and warehouse storage services of automotive repair parts and automotive products.

The manufacturing business of the Group is principally engaged in the research and development, manufacturing and sales of electronic and power-related automotive parts and accessories, which are mainly sold to the PRC, North America and Europe.

As at the Latest Practicable Date, the Company does not have any intention and has not entered into any understanding, arrangement or undertaking to (i) acquire any new business; and/or (ii) dispose of or downsize its existing business and major operating assets.

2. Historical financial performance of the Group

Set out below is the summary of the audited financial information of the Group for each of the three financial years ended 31 December ("**FY(s)**") 2017 as extracted from the Company's annual reports for the FYs 2016 and 2017 (the "**Annual Report(s)**"), details of which are set out in the Appendix I to the Circular:

	For the FY ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Statements of profit or loss			
Revenue	1,254,191	1,292,665	1,267,928
Cost of sales	(999,070)	(1,017,862)	(1,045,573)
Gross profit	255,121	274,803	222,355
Gross profit margin	*20.3%*	*21.3%*	*17.5%*
Other revenue and gains and losses	55,124	59,934	(203,571)
Distribution costs	(198,621)	(213,738)	(184,082)
Administrative expenses	(143,331)	(149,492)	(152,619)
Impairment loss on goodwill and other intangible assets	(28,003)	(74,334)	(5,302)
Finance costs	(37,713)	(40,885)	(47,885)
Share of loss of an associate	(5,879)	(2,099)	(234)
Loss before taxation	(103,302)	(145,811)	(371,338)
Income tax expenses	(645)	(2,507)	1,368
Loss for the year	(103,947)	(148,318)	(369,970)
Non-controlling interests	12,980	24,859	54,505
Loss for the year attributable to owners of the Company	(90,967)	(123,459)	(315,465)
Statements of cash flows			
Operating cash outflows before working capital changes	(16,593)	(15,227)	(65,686)
Net cash from/(used in) operating activities	4,534	(33,078)	26,731
Net cash (used in)/from investing activities	(228,046)	68,436	(253,341)
Net cash generated from/(used in) financing activities	199,332	(13,999)	199,045
Net cash (outflow)/inflow	(24,180)	21,359	(27,565)
Cash and cash equivalents at end of year	140,327	164,269	132,944

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Statements of financial positions			
Non-current assets	451,928	388,051	445,846
Current assets	867,104	824,783	934,338
Current liabilities	(706,451)	(761,035)	(1,139,989)
Net current assets	160,653	63,748	(205,651)
Current ratio	*1.23 times*	*1.08 times*	*0.82 times*
Non-current liabilities	(27,868)	(22,632)	(22,268)
Non-controlling interests	(107,796)	(74,880)	(21,506)
Net assets (excluding non-controlling interests)	476,917	354,287	196,421

Review on operating performance of the Group

For the FY 2017 versus FY 2016

As extracted from the Annual Report, the Group recorded a consolidated revenue of approximately RMB1,267.9 million for the FY 2017, representing a decrease of approximately 1.9% when compared to that of approximately RMB1,292.7 million for the FY 2016. By excluding the effect of the decrease in revenue of approximately RMB204.5 million arising from the Company's disposal of equity interest in certain subsidiaries in the FY 2016 (the "**Disposal of Subsidiaries**"), the Group's consolidated revenue would have recorded an increase of approximately RMB179.8 million, representing an increase of approximately 16.5% when compared to that of FY 2016.

The Group's consolidated gross profit for the FY 2017 amounted to approximately RMB222.4 million, representing a decrease of approximately 19.1% from that of approximately RMB274.8 million for the FY 2016. By excluding the effect of the decrease in gross profit of approximately RMB52.1 million resulted from the Disposal of Subsidiaries in the FY 2016, the Group's consolidated gross profit would have recorded a slighter decrease of merely 0.2% when compared to that of the FY 2016. The Group's gross margin decreased by 3.8 percentage points from approximately 21.3% in the FY 2016 to 17.5% in the FY 2017, mainly because of (i) growth-stage loss suffered from certain new stores of the Group's retail business; and (ii) increase in costs of raw materials and labour and RMB appreciation.

The Group's consolidated operating loss amounted to approximately RMB323.5 million for the FY 2017 when compared to that of approximately RMB104.9 million for the FY 2016, of which, there were (i) a loss on fair value change in derivative financial instruments of approximately RMB208.0 million for the FY 2017; and (ii) an impairment provision for intangible assets of approximately RMB5.3 million attributable to a subsidiary's failure to meet the anticipated operating results for the FY 2017, while the remaining operating losses of approximately RMB110.1 million were mainly attributable to (iii) the growth-stage loss from newly-established stores of the Group's retail service business; and (iv) the impact on the Group's retail and wholesale service businesses arising from irrational expansion of e-commerce competitors.

Based on the foregoing, loss attributable to owners of the Company amounted to approximately RMB315.5 million for the FY 2017, representing an increase of approximately 1.56 times over that of approximately RMB123.5 million for the FY 2016. By excluding (i) the decrease in the gain on fair value change in derivative financial instruments of approximately RMB212.3 million for the FY 2017; (ii) the decrease in impairment provision for goodwill and intangible assets of approximately RMB71.1 million due to its subsidiary's failure to meet anticipated operating results for the FY 2017; and (iii) the Group's one-off investment income of approximately RMB18.8 million recorded in the FY 2016, the loss attributable to owners of the Company would have increased by approximately RMB32.0 million, mainly attributable to the growth stage loss from newly-established stores of the Group's retail service business, and the impact on its retail and wholesale service businesses arising from irrational expansion of e-commerce competitors.

For the FY 2016 versus FY 2015

As extracted from the Annual Report for the FY 2016, the Group recorded a consolidated revenue of approximately RMB1,292.7 million for the FY 2016, representing an increase of approximately 3.1% when compared to that of approximately RMB1,254.2 million for the FY 2015. Such increase was mainly attributable to the Group's wholesale service business.

The Group's consolidated gross profit for the FY 2016 amounted to approximately RMB274.8 million, representing an increase of approximately 7.7% when compared to that of approximately RMB255.1 million for the FY 2015. Gross margin slightly increased from approximately 20.3% in the FY 2015 to approximately 21.3% in the FY 2016.

The Group's consolidated operating loss amounted to approximately RMB104.9 million for the FY 2016 when compared to that of approximately RMB65.6 million for the FY 2015, of which, approximately RMB74.3 million arose from the impairment loss on goodwill allocated to a subsidiary of the Company due to its failure to meet anticipated business performance for the FY 2016, while the remaining balance of approximately RMB30.6 million was attributable to (i) the initial loss from newly established stores of the retail service business of the Group; and (ii) the impact on the Group's retail service business and wholesale service business arising from irrational expansion of e-commerce competitors.

Based on the foregoing, loss attributable to owners of the Company amounted to approximately RMB123.5 million for the FY 2016 when compared to that of approximately RMB91.0 million for the FY2015, mainly due to the increase in the provision for goodwill impairment for a subsidiary of the Company of approximately RMB46.3 million.

Review on liquidity and financial positions of the Group

As at 31 December 2017 versus 31 December 2016

The Group continued to maintain a stable financial position during the FY 2017 and the liquidity of assets of the Group remained healthy. The Group had a net cash inflow from operating activities of approximately RMB26.7 million for the FY 2017 when compared to a net cash outflow of approximately RMB33.1 million for the FY 2016.

The Group's non-current assets amounted to approximately RMB445.8 million as at 31 December 2017 (2016: approximately RMB388.1 million), mainly comprising amount due from related parties, property, plant and equipment, goodwill, other intangible assets, leasehold land and land use rights and investment properties.

The Group had net current liabilities of approximately RMB205.7 million as at 31 December 2017 (2016: approximately RMB63.7 million), representing a current ratio of about 0.82 times (2016: approximately 1.08 times). This shows that the liquidity position of the Group had apparently deteriorated as at 31 December 2017. However, if the Group's fair value change in conversion option of approximately RMB132.2 million included in the convertible bonds and the receipt in advance from customers of approximately RMB125.4 million were not included, which should not be settled by cash, the Group would have current assets in amount of approximately RMB51.9 million as at 31 December 2017.

As at 31 December 2017, the Group's gearing ratio had increased to approximately 212.1% (2016: approximately 84.4%) of its total equity (which is calculated by the interest-bearing borrowings divided by its total equity), mainly because the Group's total equity had further decreased by approximately RMB211.2 million due to the net loss attributable to owners of the Company of approximately RMB315.5 million incurred during the FY 2017 whilst there were proceeds from issue of convertible notes of approximately RMB230.1 million obtained during the FY 2017, even though net repayment of bank loans of approximately RMB21.4 million and convertible notes of approximately RMB191.3 million were made during the FY 2017.

As at 31 December 2016 versus 31 December 2015

The Group continued to maintain a stable financial position during the FY 2016 and the liquidity of assets of the Group remained healthy. The Group had a net cash outflow from operating activities of approximately RMB33.1 million for the FY 2016 when compared to a net cash inflow of approximately RMB4.5 million for the FY 2015.

The Group's non-current assets amounted to approximately RMB388.1 million as at 31 December 2016 (2015: approximately RMB451.9 million), mainly comprising property, plant and equipment, goodwill, other intangible assets, leasehold land and land use rights and investment properties.

The Group had net current assets of approximately RMB63.7 million as at 31 December 2016 (2015: approximately RMB160.7 million), representing a current ratio of about 1.08 times (2015: approximately 1.23 times). This shows that the liquidity position of the Group had been slightly deteriorating, but still at a marginally safe level.

As at 31 December 2016, the Group's gearing ratio had increased to approximately 84.4% (2015: approximately 65.1%) of its total equity (which is calculated by the interest-bearing borrowings divided by its total equity), mainly because the Group's total equity had further decreased by approximately RMB155.5 million due to the net loss attributable to owners of the Company of approximately RMB123.5 million incurred during the FY 2016 whilst its interest-bearing borrowings had conversely decreased by approximately RMB18.3 million.

Conclusion

Based on the above review and analysis, we noted that the Group had been experiencing a difficult and challenging operating environment, leading to its scale of business operations in terms of revenue had been sluggish and incurring operating and net losses over at least the past five FYs from FY 2013 to FY 2017; while the Group had its marginally safe working capital position in terms of current ratio and net current assets as at 31 December 2015 and 2016, but net current liabilities as at 31 December 2017. Further, we noted that the Group could not be capable of generating positive operating cash inflow (before working capital changes) from its ordinary and usual course of business operations over the past three FYs from FY 2015 to FY 2017. If this adverse situation in terms of the deteriorating operating and financial performance continues and could not be turned around with wider business scope of new products/services and coverage of new geographical areas in the near future, the Group may not have enough room for its long-term business development. As disclosed in the Annual Reports for the past few FYs, being part of the Group's long-term business development plan, the Group had been actively searching for and negotiating with potential acquisition targets, which would help it achieve the strategic objectives of the Group by exploring 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 and to improve its competitive advantages. In addition, the Group's business plan and/or initiative are also aiming to expand its existing manufacturing business on a continuing basis to (i) put efforts into its marketing strategies based on product orientation and driven by innovation; (ii) enhance research and development investment, such as the investment in power management of new energy vehicle; (iii) raise the core competitiveness and advancement of the products; and (iv) effectively expand its domestic market share. Meanwhile, the Group will conduct market expansion on its self-owned brands in the Asia-Pacific market, especially the PRC market, and boost the continuing innovation of its business model and products. On such basis, we concur with the Directors' view that the Acquisition may bring into the Group a new business development direction by expanding its business scope of the automobile-related service portfolio (including sales of automobile, provision of after sales services and distribution of automobile insurance and financial products) and coverage to the new geographical area in Inner Mongolia; and therefore in line with its original business strategy and development plan and in the interests of the Enlarged Group and the Shareholders as a whole.

3. Information on the Purchaser

The Purchaser is a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company. The principal business of the Purchaser is investment holding.

4. Information on the Vendor

The Vendor is a company established under the laws of the PRC with limited liability, which is principally engaged in the retail sales of new and used automobiles.

5. Reasons for and benefit of the Acquisition

As mentioned in the "Letter from the Board" of the Circular, the Board considers that the Acquisition would bring in the following benefits to the Group:

Strategic objectives of the Group

The Group is principally engaged in automobile-related businesses, including the operation of an individual automotive service chain network which provides after-sales services including automotive insurance, the operation of an automotive product e-commerce platform and the manufacturing of automotive parts and accessories, with an objective to providing automobile consumers with products and services with premium price-performance ratio.

In this connection, the Group has been actively searching for potential acquisition targets, which would facilitate the achievement of the strategic objectives of the Group and enhance the Shareholders' value. The Acquisition is expected to bring in new business opportunities for the Group and expand the scope of the automobile-related services portfolio of the Group.

Expansion of the existing business of the Group

The 4S dealership stores and related businesses of the Target Group primarily comprise two segments: (i) sales of automobile and provision of after-sales services, including primarily repair and maintenance services; and (ii) distribution of automobile insurance products and automobile financial products. Based on the information provided by the Vendor, the revenue and profit generated from the segments of sales of automobile and automobile financial products, which are lacking in the existing automobile-related services portfolio of the Group, accounted for a significant portion of the total revenue and profit of the Target Group.

The 4S dealership stores and related businesses of the Target Group are considered as desirable natural expansion of the current business of the Group. The business of the sales of automobile and the provision of automobile after-sale services and sale of automobile spare parts and accessories often complement each other in providing a one-stop solution for automobile consumers. In addition, the Board expects that the Group will also benefit from the potential synergy between the distribution of automobile insurance products and automobile financial products segment of the Target Group and the existing sale of automotive insurance products business of the Group.

The enlarged customer base as a result of the Acquisition is expected to be conducive to the development and growth in the sales of the automotive product e-commerce platform of the Group. The Group also intends that the 4S dealership stores of the Target Group would become additional distribution channels of the automotive parts and accessories manufactured by the manufacturing arm of the Group. As such, the addition of the 4S dealership stores and related businesses is expected to strengthen the existing businesses of the Group by creating a vertically integrated business model of automobile sales and automobile after-services, thereby locking in customer loyalty and creating synergies between intertwined components of the automobile-related businesses.

The Directors and senior management of the Group possess extensive experience in the automobile industry. In particular, certain Directors and senior management of the Group have relevant experience in various automobile-related businesses, including but not limited to sales of automobile, operation and management of automobile repair and maintenance services, sales and marketing of automobile spare parts and accessories. The Board is of the view that the operational experience and industrial expertise in the automobile industry of the Directors and senior management of the Group will contribute to the success of the Target Group in the 4S dealership stores and related businesses in the PRC. In addition, it is expected that the existing management of the Operating Companies will remain with the Target Group after Completion.

Based on our independent review of the Annual Reports and confirmation from the Management, we noted that the Group's existing business operations are focusing on the manufacturing business with geographical coverage throughout the PRC, wholesaling and retailing of electronic and power-related automotive parts and accessories and the provision of automobile repairs, maintenance and restyling services etc. with operations in a few of municipalities and provinces of the PRC, including Beijing, Tianjin, Eastern Inner Mongolia, Liaoning, Heilongjiang, Jilin, Zhejiang, Jiangsu, Hubei, Guangdong, Shandong, Gansu, Jiangxi, Anhui and Sichuan; whilst the Target Group's 4S dealership business in Inner Mongolia has strengths in sale of automobile and automobile financial products, which are complementary with each other among themselves so as the Target Group would have potential synergies with the Group's existing business, and the Enlarged Group would be capable of providing a one-stop solution for better serving automobile customers of the enlarged customer base after the Completion. To the best knowledge and belief of the Management, it is believable and common that a car owner purchasing an automobile in a province may sometimes drive his/her automobiles to other provinces within the PRC for business, travelling and/or leisure purposes (i.e. a car licence is valid and free for its holder driving his/her automobile(s) throughout the country), so these would drive possible business opportunities for related automobile after-sales services within the business coverage of the Enlarged Group. In respect of industry expertise and experience, the existing management of the Group and the Operating Companies have relevant and extensive experience in various automobile-related businesses, including but not limited to sales of automobile, operation and management of automobile repair and maintenance services, sales and marketing of automobile spare parts and accessories; they may then share their extensive experience and expertise with each other in different aspects of the automobile industry, which would in turn contribute to the long-term business development and success of the Enlarged Group. On such basis, we consider that it is commercially justifiable, mutually beneficial, fair and reasonable for the Group to enter into the Acquisition for long-term business development, and in the interests of the Group, the Enlarged Group and the Shareholders as a whole.

Prospects of the 4S dealership industry and the Target Group

According to the statistics from the China Association of Automobile Manufacturers, the production and sales volume of automobiles recorded 29,015,000 units and 28,879,000 units in 2017, representing a year-on-year growth of 3.19% and 3.04%, respectively. The production and sales volume of passenger vehicles amounted to 24,807,000 units and 24,718,000 units in 2017, representing a year-on-year growth of 1.58% and 1.40%, respectively. Based on our independent research from the website of the China Association of Automobile Manufacturers at http://www.caam.org.cn, we noted that such statistical figures were consistent with our research findings. The 4S dealership industry in the PRC generally benefits from the steady growth of the number of sales of new automobiles. In addition, along with the increasing average age of passenger vehicles in China, the proportion of vehicles whose warranties have been expired and which are in the peak of need for replacement of naturally ageing parts and accessories (which normally need to be replaced five to ten years after sales) has been increasing. The demand for professional automobile after-sales services, including professional maintenance and supplies of parts and accessories, in the PRC market is also steadily growing.

The Target Group is principally engaged in the operation of 4S dealership stores and related businesses in Inner Mongolia and has a leading position in the local market. Based on the information provided by the Vendor, the major brands distributed by the Target Group include Buick, Cadillac, Changan Mazda, Changan Suzuki, Chevrolet, Dongfeng Honda, Dongfeng Peugeot, Nissan, FAW-Toyota, FAW-Volkswagen, Changan Ford, SAIC-Volkswagen, Tianjin FAW, SGMW, Trumpchi and Venucia.

The Target Group forms a substantial part of the business and materially contributed to the financial performance of the Vendor, which was ranked 56th in "2017 Top 100 Automobile Dealers in the Automobile Dealers Industry of China" issued by the China Automobile Dealers Association. The audited combined profit before and after taxation of the Target Group for the FY 2017 were approximately RMB138,371,000 and RMB103,849,000, respectively. By comparison, according to the audited consolidated financial statements of the Vendor for the FY 2017 prepared in accordance with the Accounting Standards for Business Enterprises, the consolidated profit before and after taxation of the Vendor for the FY 2017 were approximately RMB139,585,000 and RMB102,079,000, respectively.

According to the publication by the Finance Ministry of the PRC, the PRC will cut the import duty on (i) passenger cars from 25% to 15%; and (ii) car spare parts from original range between 8% and 25% to 6%, with effect from 1 July 2018, it is widely anticipated by the market that the 4S dealership industry will be benefited by the increasing demand for imported passenger vehicles and their spare parts in the PRC. We concur with the Directors' optimistic anticipation about the future prospects of the 4S dealership business attributable to the Target Group, as a favourable consequence of the said reduction of import duty.

The Acquisition presents a unique opportunity for the Group to establish its business presence in Inner Mongolia. Through the Acquisition, the Group will be able to expand the scope of its automobile related businesses and provide customers with comprehensive one-stop automobile-related services, such as automobile sales and after-sales services.

New revenue stream for the Company

The Target Group had a strong financial performance for the past four FYs 2014 to 2017. The Directors believe that the Acquisition will enlarge the Group's revenue streams and have a positive effect on the financial performance of the Group, which will in turn enhance the Shareholders' value.

In light of the potential synergies between the 4S dealership stores and related businesses of the Target Group and the existing business of the Group and the strong financial performance of the Target Group, the Directors are of the view that the Acquisition would facilitate the achievement of the strategic objectives of the Group and enhance the Shareholders' value.

The Board has taken into account a number of factors in determining the Consideration. In particular, the Consideration of RMB660,000,000 is close to the unaudited equity attributable to owners of the Target Company (i.e. net asset value) of approximately RMB642,337,000 as at the Benchmark Date, and taking into account the prospect of the Target Group and the benefits of the Acquisition as outlined above, the Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In addition, the Purchaser is entitled to, at its absolute discretion, set off the Outstanding Debts against the Consideration payable under the Equity Transfer Agreement, therefore enjoying certain degree of flexibility in terms of the settlement of the Consideration. As the flexibility of the payment method of the Consideration would allow the Group to optimize its financial resources, the Directors consider that the payment method is favourable and beneficial to the Group.

The terms of the Equity Transfer Agreement were agreed at after arm's length negotiations between the parties thereto. The Directors consider that the terms of the Equity Transfer Agreement (including the Consideration and the payment method) and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

6. Information on the Target Group

The Target Company

The Target Company was established by the Vendor under the laws of the PRC with limited liability on 9 February 2018, and is a wholly-owned subsidiary of the Vendor. The Target Company is principally engaged in investment holding and its primary assets will be the Target Assets upon completion of the Restructuring.

The Operating Companies

The Operating Companies are 35 companies established under the laws of the PRC with limited liability which are principally engaged in the operation of 4S dealership stores and related businesses in Inner Mongolia. Based on the information provided by the Vendor, each of the Operating Companies has been principally engaged in its respective principal businesses since the date of its respective establishment, fuller details of such 35 Operating Companies are listed out in the "Letter from the Board" of the Circular.

The Target Group, through its extensive network of the 4S dealership stores, offers a comprehensive range of automobile-related products and services, including but not limited to the sale of first-hand and second-hand automobiles, provision of after-sales services for first-hand and second-hand automobiles, sale of automobile parts, accessories and other automobile-related products and sale of motor insurance products. In particular, after-sales services include maintenance and repair services, automobile customization and furnishing services, automobile recall services and automobile consultancy services.

The Target Group has adopted an asset-light business model and currently carries out its operation of the 4S dealership stores in leased premises. In light of the asset-light business model, the current assets of the Target Group, which comprise, among other things, inventories (including motor vehicles, spare parts and accessories), trade receivables, prepayments, deposits and other receivables, bank deposits and cash, accounted for a substantial portion of the total assets of the Target Group. According to the audited combined financial statements of the Target Group for the year ended 31 December 2017, the current assets accounted for approximately 97.0% of the total assets of the Target Group as at 31 December 2017.

Shareholding structure of the Target Group

A group chart comprising the Target Company and the 35 Operating Companies forming the Target Group upon completion of the Restructuring and immediately before and after completion of the Acquisition are listed out in the "Letter from the Board" of the Circular with their respective company name, date of establishment, principal business and equity interests held by the Vendor.

Financial information on the Target Group

Upon completion of the Restructuring, the Target Company will become the holding company of the Operating Companies. As the financial statements of the Target Company and each of the Operating Companies adopted a single uniform set of accounting policies, being the International Financial Reporting Standards, and the Target Company and the Operating Companies have been under the common control of the Vendor throughout the relevant reporting period, accordingly, the financial statements of the Target Group were prepared on a combined basis as if the Target Company had been the holding company of the Operating Companies throughout the relevant reporting period in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants. Independent Shareholders are advised to refer to "Management Discussion and Analysis on the Target Group" set out in the Appendix V to the Circular for further details.

Set out below is the summary of the audited combined financial information of the Target Group prepared in accordance with the International Financial Reporting Standards for each of the four FYs from 2014 to 2017 as extracted from the accountants' report on the Target Group as set out in the Appendix II to the Circular:

Review of operating performance

	For the FY ended			
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Statements of profit or loss				
Revenue	3,185,446	3,376,409	3,805,539	4,102,236
Cost of sales	(2,940,764)	(3,145,713)	(3,504,926)	(3,739,437)
Gross profit	244,682	230,696	300,613	362,799
Gross profit margin	*7.7%*	*6.8%*	*7.9%*	*8.8%*
Other income and other gains and losses	2,830	7,351	9,645	(196)
Selling and distribution expenses	(129,316)	(146,120)	(173,491)	(181,105)
Distribution expenses to revenue	*4.1%*	*4.3%*	*4.6%*	*4.4%*
Administrative expenses	(13,658)	(13,613)	(19,226)	(21,835)
Administrative expenses to revenue	*0.4%*	*0.4%*	*0.5%*	*0.5%*
Finance costs	(25,938)	(26,468)	(22,918)	(21,292)
Profit before tax	78,600	51,846	94,623	138,371
Income tax expense	(21,967)	(17,629)	(23,111)	(34,522)
Profit after tax	56,633	34,217	71,512	103,849
Net profit margins	*1.8%*	*1.0%*	*1.9%*	*2.5%*
Non-controlling interests	(162)	(2,741)	(1,882)	(926)
Profit attributable to owners of the Target Group	56,471	31,476	69,630	102,923
Statements of cash flows				
Operating cash inflows before movements in working capital	115,331	83,723	120,314	169,786
Net cash (used in)/generated from operating activities	(94,451)	37,239	(24,373)	101,772
Net cash (used in)/generated from investing activities	(9,011)	9,036	(101)	(10,466)
Net cash generated from/(used in) financing activities	94,890	(32,885)	10,284	(89,001)
Net cash (outflow)/inflow	(8,572)	13,390	(14,190)	2,305
Cash and cash equivalents at end of year	56,067	69,457	55,267	57,572

The Target Group's revenue had been growing steadily in amounts of RMB3,185.4 million, RMB3,376.4 million, RMB3,805.5 million and RMB4,102.2 million for each of the four FYs from 2014 to 2017, respectively, representing a compound annual growth rate of approximately 8.8% during the four FYs from 2014 to 2017. Such steady increasing trend had demonstrated that the Target Group had slightly out-performed when compared to the market, even though the automobile industry come across a challenging environment in the FY 2015.

However, the Target Group had experienced a relatively difficult and challenging business environment in the FY 2015 due to the "new normal" macro-economic policy promulgated by the PRC government. The Target Group recorded a slight decline in gross profit and gross profit margins during the FY 2015 in amounts of RMB244.7 million, RMB230.7 million, RMB300.6 million and RMB362.8 million for each of the four FYs from 2014 to 2017, respectively, with gross profit margins accounting for approximately 7.7%, 6.8%, 7.9% and 8.8% of its total revenue for the same period respectively, mainly due to the slowing trends and challenging environment in the PRC's automobile industry and macro-economy as a whole in the FY 2015, but fortunately had recovered since the FY 2016 and thereafter.

The Target Group's selling and distribution expenses had been growing steadily in amounts of approximately RMB129.3 million, RMB146.1 million, RMB173.5 million and RMB181.1 million for each of the four FYs from 2014 to 2017, respectively; and accounted for approximately 4.1%, 4.3%, 4.6% and 4.4% of its total revenue for the same period respectively.

The Target Group's administrative expenses had been relatively stable in amounts of approximately RMB13.7 million, RMB13.6 million, RMB19.2 million and RMB21.8 million for each of the four FYs from 2014 to 2017, respectively; and accounted for approximately 0.4%, 0.4%, 0.5% and 0.5% of its total revenue for the same period respectively.

As directly affected by the decline in gross profit and gross profit margin in the FY 2015, the Target Group had correspondingly recorded a decline in net profit and net profit margins during the FY 2015, which amounted to approximately RMB56.6 million, RMB34.2 million, RMB71.5 million and RMB103.8 million for each of the four FYs from 2014 to 2017, respectively, with net profit margins accounting for approximately 1.8%, 1.0%, 1.9% and 2.5% of its total revenue for the same period respectively, but fortunately had recovered since the FY 2016 and thereafter.

The Target Group had strong capability to generate positive operating cash inflow before movements in working capital of approximately RMB115.3 million, RMB83.7 million, RMB120.3 million and RMB169.8 million for each of the four FYs from 2014 to 2017, respectively, *Review of financial position*

	As at 31 December			
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Statements of financial position				
Non-current assets	54,323	45,853	45,936	43,771
Current assets	1,276,124	1,296,832	1,404,997	1,393,323
Total assets	1,330,447	1,342,685	1,450,933	1,437,094
Current liabilities	(779,125)	(773,146)	(838,783)	(776,595)
Non-current liabilities	(78,700)	(62,700)	(22,500)	–
Total liabilities	(857,825)	(835,846)	(861,283)	(776,595)
Total equity	472,622	506,839	589,650	660,499
Equity attributable to the owners of the Company/net asset value	455,180	486,656	567,519	637,326
Cash and cash equivalents	56,067	69,457	55,267	57,572
Net current assets	496,999	523,686	566,214	616,728
Current ratio	*1.64 times*	*1.68 times*	*1.68 times*	*1.79 times*
Gearing ratio	*114.8%*	*98.6%*	*102.4%*	*78.7%*

The Target Group has adopted an asset-light business model and currently carries out its operation of the 4S dealership stores in leased premises. In light of the asset-light business model, the current assets of the Target Group, which mainly comprised inventories (including motor vehicles, spare parts and accessories), trade receivables, prepayments, deposits and other receivables, bank deposits and cash, accounted for a substantial portion of the total assets of the Target Group. According to the combined financial statements of the Target Group for the two FYs 2016 and 2017, its property, plant and equipment was relatively minimal and amounted to approximately RMB34.8 million and RMB35.2 million as at 31 December 2016 and 2017, respectively, representing merely around 2.4% of the total assets of the Target Group as at the respective year-end dates.

As at 31 December 2017 versus 31 December 2016

As at 31 December 2017, the Target Group had current assets of approximately RMB1,393.3 million (2016: approximately RMB1,405.0 million), and current liabilities of approximately RMB776.6 million (2016: approximately RMB838.8 million), representing a net current asset position and current ratio of approximately RMB616.7 million (2016: approximately RMB566.2 million) and 1.79 times (2016: approximately 1.68 times), respectively. The Target Group's current ratio had slightly improved and moderately above 1.0 times, this level can be regarded as healthy. As at 31 December 2017, the Group had cash and cash equivalents of approximately RMB57.6 million (2016: approximately RMB55.3 million).

As at 31 December 2017, the Target Group's bank and other borrowings amounted to approximately RMB361.6 million (2016: approximately RMB436.3 million) and borne interest rates from 5.0% to 15.6% per annum. The Target Group's gearing ratio as at 31 December 2017 accounted for approximately 78.7% (2016: approximately 102.4%). The obvious improvement in the Target Group's gearing ratio as at 31 December 2017 was mainly due to the further increase in total equity by approximately RMB70.8 million arising from net profit of approximately RMB103.8 million recognised during the period, whilst there was a net repayment of total borrowings of approximately RMB83.7 million during the period.

As at 31 December 2016 versus 31 December 2015

As at 31 December 2016, the Target Group had current assets of approximately RMB1,405.0 million (2015: approximately RMB1,296.8 million), and current liabilities of approximately RMB838.8 million (2015: approximately RMB773.1 million), representing a net current asset position and current ratio of approximately RMB566.2 million (2015: approximately RMB523.7 million) and 1.68 times (2015: approximately 1.68 times), respectively. The Target Group's current ratio had been stable and moderately above 1.0 times, this level can be regarded as healthy. As at 31 December 2016, the Target Group had cash and cash equivalents of approximately RMB55.3 million (2015: approximately RMB69.5 million).

As at 31 December 2016, the Target Group's bank and other borrowings amounted to approximately RMB436.3 million (2015: approximately RMB413.1 million) and borne interest rates from 4.85% to 10.80% per annum. The Target Group's gearing ratio as at 31 December 2016 accounted for approximately 102.4% (2015: approximately 98.6%), which is calculated as the sum of bank and other borrowings and amount due to related parties, and then divided by its total equity as at the respective year end dates. The slight increase in the Target Group's gearing ratio as at 31 December 2016 was mainly due to the larger increase in total borrowings by approximately RMB103.6 million for the FY 2016, even though a net profit of approximately RMB71.5 million recognised during the FY 2016.

Review of financial performance for the three months ended 31 March 2018

The Target Group's financial performance for the three months ended 31 March 2018 in terms of operating profit and profit attributable to the owners of the Target Group had been growing and relatively stable, notwithstanding the decreases in revenue and gross profit during the period.

The decrease in revenue of the Target Group by approximately 15.2% from approximately RMB842.2 million for the three months ended 31 March 2018 when compared to that of approximately RMB714.0 million for the corresponding period in the FY 2017 was primarily attributable to the decrease in sales volume of (i) automobiles of lower-end brands such as SGMW and Tianjin FAW; and (ii) the Changan Ford automobiles. Despite the decrease in sales volume of automobiles and revenue, the Target Group's gross profit margin conversely increased to approximately 8.9% for the three months ended 31 March 2018 when compared to that of approximately 7.8% for the corresponding period in the FY 2017, which was primarily attributable to the relative increase in the average selling price (as compared to average cost) of automobiles sold by the Target Group due to its product mix improvement in respect of the sale of automobile and provision of after-sales services segment. In light of the peculiar circumstances, the Board does not consider the decrease in sales volume of automobiles and revenue of the Target Group for the three months ended 31 March 2018 compared to the three months ended 31 March 2017 as a fair and reasonable reflection of the business and financial performance of the Target Group. In addition, sales in the first quarter of the year are normally affected by the Chinese New Year holiday and the peak season for auto sales usually occurs in the second half of the year.

Despite of the decrease in revenue and gross profit, the Target Group's operating profit (i.e. profit before taxation) increased by approximately 49.2% to approximately RMB9.7 million for the three months ended 31 March 2018 when compared to that of approximately RMB6.5 million for the corresponding period in the FY 2017; whilst its profit attributable to owners of the Target Group had also increased by approximately 13.5% to approximately RMB4.2 million for the three months ended 31 March 2018 when compared to that of approximately RMB3.7 million for the corresponding period in the FY 2017.

Based on the above scenario, we concur with the Board's view that the Target Group's financial performance for the three months ended 31 March 2018 will unlikely be reflective of its financial performance for the year ending 31 December 2018, and does not affect the assessment of the Acquisition of the Board. However, we would advise the Independent Shareholders to refer to the Appendices II and V to the Circular for more detailed discussion and analysis on the Target Group's financial performance for the past three FYs from 2015 to 2017 and the three months ended 31 March 2018.

Conclusion

Based on the above analysis, the Target Group (i) has basically been operating well in terms of revenue, gross profit and net profit for the four FYs from 2014 to 2017; (ii) had strong capability to generate meaningful operating cash inflow before movements in working capital for the same period; (iii) had basically healthy liquidity positions with stable current ratios of approximately 1.64 times to 1.79 times as at the past four year end dates; and (iv) had relatively higher gearing positions in the recent years between about 114.8% to 78.7% of its total equity, but which had been gradually improving at approximately 78.7% as at 31 December 2017. This scenario reveals that the Target Group's revenue and profitability had been stable with steady growth over the period, while its liquidity and financial stability positions had been going healthier and stronger.

According to the above understanding, we consider that it shall be commercially justifiable for the Group to expand its business operation through the Acquisition, by which, the Directors currently expect that the Target Group may bring into the Group a new business development direction by expanding its business scope of the automobile-related service portfolio and coverage to the area in Inner Mongolia. On such basis, we are of the view that the Acquisition shall be regarded as an investing activity of the Group for enhancing its operating capability and business development in the long-term future. Therefore, while the Equity Transfer Agreement and the transactions contemplated thereunder are not conducted in the ordinary and usual course of business of the Group, the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

7. Principal terms of the Equity Transfer Agreement

On 2 March 2018, the Purchaser, a wholly-owned subsidiary of the Company, and the Vendor entered into the Equity Transfer Agreement, pursuant to which the Purchaser agreed to acquire, and the Vendor agreed to dispose of, 100% of the equity interests in the Target Company at the Consideration of RMB660,000,000, subject to the terms and conditions of the Equity Transfer Agreement.

Subject matter

Pursuant to the Equity Transfer Agreement, the Purchaser agreed to acquire, and the Vendor agreed to dispose of, 100% of the equity interests in the Target Company, subject to the terms and conditions of the Equity Transfer Agreement.

The Target Company was established by the Vendor under the laws of the PRC with limited liability on 9 February 2018 and is a wholly-owned subsidiary of the Vendor. Upon completion of the Restructuring, the Target Company will directly hold the Target Assets, which will be the primary assets of the Target Company.

Restructuring

Pursuant to the Equity Transfer Agreement, the Vendor is required to complete the Restructuring within 30 working days of the date of the Equity Transfer Agreement, such that all the Target Assets will be held directly by the Target Company.

As at the date of the Equity Transfer Agreement, the Target Assets were held directly or indirectly by the Vendor. The Restructuring will involve the transfer of the Target Assets by the Vendor Group to the Target Company, such that the Target Assets will be directly held by the Target Company upon completion of the Restructuring.

Completion of the Restructuring shall take place when (i) the Target Company has been registered as a shareholder in the register of shareholders of each of the Operating Companies; and (ii) the registration of change with the relevant industry and commerce administration authority in the PRC in respect of the transfer of the Target Assets to the Target Company has been completed.

As at the Latest Practicable Date, the Target Company was registered as a shareholder in the register of shareholders of each of the Operating Companies. The

Vendor is currently arranging for the registration of change with the relevant industry and commerce administration authority in the PRC in respect of the transfer of the Target Assets to the Target Company and according to the information provided by the Vendor, it is currently expected that the aforementioned registration of change will be completed by the end of September 2018.

Completion of the Restructuring is one of the Conditions Precedent. As at the Latest Practicable Date, the Purchaser had no present intention to waive the Condition Precedent for completion of the Restructuring. In order to protect the interest of the Group and the Shareholders, the Purchaser will ensure that the Restructuring has been duly completed before proceeding with completion of the Equity Transfer Agreement.

For fuller details of the shareholding structures of the Target Group immediately after the Restructuring and immediately before and after the Completion, please refer to the "Letter from the Board" of the Circular.

Consideration

The Consideration for the Acquisition is RMB660,000,000, which was determined after arm's length negotiations between the Purchaser and Vendor on normal commercial terms with reference to a number of factors, including (i) the unaudited total equity assets of the Target Group of approximately RMB666,722,000 and the unaudited net asset value of the Target Company of approximately RMB642,337,000 as at the Benchmark Date; (ii) the historical financial performance of the Target Group; (iii) the business development and prospects of the Target Group; (iv) the prospect of the 4S dealership industry in the PRC as a whole; and (v) the benefits of the Acquisition as mentioned above.

In determining the Consideration, the Board considered that (i) the Consideration is close to the unaudited net asset value of the Target Company of approximately RMB642,337,000 as at the Benchmark Date; (ii) the Target Group has strong historical financial performance for the three FYs from 2014 to 2016 and the ten months ended 31 October 2017 and there has been a steady growth in the revenue of the Target Group over the same period; (iii) the Target Group has a leading position in the 4S dealership stores and related businesses in Inner Mongolia; (iv) the prospect of the 4S dealership industry in the PRC is positively benefiting from the steady growth in the sales of new automobiles and the demand for professional automobile after-sales services in the PRC market; and (v) the Acquisition is expected to bring in new business opportunities for the Group and expand the scope of the automobile-related services portfolio of the Group.

In considering the Acquisition and assessing the Consideration, the Board have, among other things, (i) engaged the PRC Legal Advisers to conduct legal due diligence on the Target Group; (ii) reviewed the draft legal due diligence report on the Target Group prepared by the PRC Legal Advisers and discussed the preliminary due diligence results with the PRC Legal Advisers; (iii) reviewed the unaudited combined financial statements of the Target Group prepared in accordance with the International Financial Reporting Standards for the three FYs from 2015 to 2017; (iv) conducted financial due diligence on the Target Group by having management discussion and analysis with the management of the Target Group, (v) conducted onsite due diligence on certain 4S dealership stores of the Operating Companies in the Inner Mongolia with the management of the Operating Companies; and (vi) reviewed the statistics from the China Association of Automobile Manufacturers regarding the prospects of the 4S dealership industry in the PRC.

Taking into account (i) the Consideration being close to the unaudited equity attributable to owners of the Target Company as at the Benchmark Date; (ii) the historical financial performance of the Target Group; and (iii) the preliminary results of the legal due diligence on the Target Group, and based on the knowledge and experience of the relevant Directors and management of the Company in the 4S dealership stores and related businesses in the PRC, the Board is of the view that no independent valuation on the assets and business of the Target Group was necessary.

The Consideration will be financed by the proceeds from the Subscription. As disclosed in the announcement of the Company dated 19 June 2018, completion of the Subscription had taken place on 19 June 2018. The net proceeds from the Subscription, after deducting all related fees and expenses, are expected to be approximately HK$765.0 million.

Comparison of market multiples in the similar industry

In order to assess the fairness and reasonableness of the Consideration, we have conducted an analysis and identified a population of five companies, which, (i) to the greatest possible extent, are engaged in businesses similar to those of the Target Group (i.e. sale/dealership/distribution of automobiles or motor vehicles and provision of the automobile-related services and/or products in the PRC); (ii) the profitability and/or net asset value are more closely comparable to that of the Target Group; and (iii) the securities of which are listed on the Stock Exchange (together, the "**Industry Comparables**"). To the best of our knowledge and belief, such a population of five Industry Comparables can sufficiently form a fair and representative sample for Independent Shareholders' reference, as they shall represent an exhaustive and meaningful list based on our selection and identification criteria. Other automobile dealership companies listed on the Stock Exchange are somehow loss-making or typically having their much larger (i) net profits of at least 4.8 times; or (ii) net asset value of at least 6.7 times, over that of the Target Group, which we consider inappropriate and/or incomparable to be included in our analysis below on the basis that enterprises in an industry (regardless of whichever industry or business nature) with much stronger profitability and/or net asset base will generally have stronger market power and competitiveness which in turn would attract higher market valuation in terms of P/E Ratios and/or P/B Ratios than those with lower ones. Given the Target Group's scale of operation is comparatively smaller in terms of net profit (i.e. approximately

HK$85.6 million or RMB69.6 million) and net asset value, we then set our selection and identification criteria at net profit of not more than HK$350 million (i.e. which is relatively closer to that of approximately HK$85.6 million of the Target Group) as published in their latest audited financial statements for a full FY, so as to effectively gather a sufficient number of samples of Industry Comparables for forming a meaningful comparison. Accordingly, we have compared the market statistics of the Industry Comparables with the Consideration in details below.

Name of listed companies (Stock Code)	**Principal business activities of the listed companies**	**Market capitalisation as at 2 March 2018** *HK$' million*	**Net profit for the latest full FY** *HK$' million*	**Net asset value as at the latest year end dates** *HK$' million*	**Historical P/E Ratio as at 2 March 2018** *(times)* *Note 1*	**Historical P/B Ratio as at 2 March 2018** *(times)* *Note 2*
Sparkle Roll Group Limited (970)	Distribution of automobiles	3,310.6	89.8	1,774.0	36.89	1.87
China MeiDong Auto Holdings Limited (1268)	4S dealership business	3,222.5	187.0	1,063.3	17.23	3.03
China Rundong Auto Group Limited (1365)	Sales of motor vehicles and the provision of related services	2,990.9	336.4	4,168.4	8.89	0.72
Sunfonda Group Holdings Limited (1771)	Sale and service of motor vehicles	720.0	57.6	2,040.5	12.49	0.35
G.A. Holdings Limited (8126)	Sales of motor vehicles and provision of car-related technical services, servicing of motor vehicles, sales of auto parts and provision of car rental services	219.1	47.9	541.1	4.57	0.40
				Maximum	**36.89**	**3.03**
				Average	**16.01**	**1.27**
				Median	**12.49**	**0.72**
				Minimum	**4.57**	**0.35**
					Note 3	*Note 4*
The Target Company	**4S dealership stores offering a comprehensive range of automobile-related products and services**	**811.8 (about RMB660.0)**	**85.6 (about RMB69.6)**	**790.1 (about RMB642.3)**	**9.48**	**1.03**

Notes:

1. The implied P/E Ratios of the Industry Comparables are calculated based on their respective market capitalisation, which was calculated based on the total number of issued shares multiplied by the closing price of its shares as at 2 March 2018 (i.e. being the date of the Equity Transfer Agreement), and then divided by the net profit attributable to owners of such Industry Comparables for their latest full FYs as published on the Stock Exchange's website.

2. The implied P/B Ratios of the Industry Comparables are calculated based on their respective market capitalisation, which was calculated based on the total number of issued shares multiplied by the closing price of its shares as at 2 March 2018 (i.e. being the date of the Equity Transfer Agreement), and then divided by the net asset value of such Industry Comparables as at their latest year end dates as published on the Stock Exchange's website.

3. The implied P/E Ratio of the Target Company is calculated based on the Consideration of RMB660.0 million (equivalent to approximately HK$811.8 million translated at the then prevailing exchange rate at RMB0.813 = HK$1.000) divided by the profit attributable to the owners of the Target Company of approximately RMB69,630,000 (equivalent to approximately HK$85.6 million) for the latest full FY ended 31 December 2016 prior to the entering into of the Equity Interest Agreement.

4. The implied P/B Ratio of the Target Company is calculated based on the Consideration of RMB660.0 million (equivalent to approximately HK$811.8 million translated at the then prevailing exchange rate at RMB0.813 = HK$1.000) divided by the net asset value of the Target Company of approximately RMB642,337,000 (equivalent to approximately HK$790.1 million) for the latest full FY ended 31 December 2016 prior to the entering into of the Equity Interest Agreement.

Source: the website of the Stock Exchange

Given that there is no publicly available and reliable financial information on the privately-owned 4S automobile dealership companies in Hong Kong and the PRC, we are of the view that it is appropriate to provide the market statistics of the Industry Comparables which are engaged in similar business as the Target Company with major operations located in the PRC as a measure of comparison for Independent Shareholders' reference.

As shown in the above table, the P/E Ratios of the Industry Comparables ranged widely from approximately 4.57 times to 36.89 times and the average P/E Ratio of the Industry Comparables is approximately 16.01 times. Based on the above scenario, determination of the Consideration at the P/E Ratio of approximately 9.48 times is below the average and median, and within the range, of the P/E Ratios of the Industry Comparables.

Having considered the business nature of the Target Group as well as the Industry Comparables, we consider P/E Ratio, rather than P/B Ratio, to be more appropriate for appraising the business value of the Target Group on the basis that business value of a typical 4S automobile dealership enterprise shall be dependent on its earning capability by sales and distribution of automobiles and providing the automobile-related services and/or products to their customers in the long-term future, rather than their asset base/value at a particular point of time. In evidence, the Target Group has adopted an asset-light business model with its property, plant and machinery accounting for merely around 2.4% of the total assets thereof as at the Benchmark Date.

Nevertheless, in determining the Consideration, the Board has considered and made reference to the equity attributable to owners (i.e. net asset value) of the Target Company of approximately RMB642.3 million as at the Benchmark Date and its historical financial performance for the past three FYs from 2014 to 2016 and the ten months ended 31 October 2017. As such, it shall be helpful to make a further analysis for the Independent Shareholders' additional reference as how the market valuation of those Industry Comparables recently performed in terms of P/B Ratios. As shown in the above table, the P/B Ratios of the Industry Comparables also ranged widely from approximately 0.35 times to 3.03 times and the average P/B Ratio of the Industry Comparables is approximately 1.27 times. Based on the above scenario, determination of the Consideration at the P/B Ratio of approximately 1.03 times is standing at the middle between the average and median of the P/B Ratios of the Industry Comparables at about 1.27 times and 0.72 times, respectively.

Having considered the factors outlined above, including, (i) the market multiples for the Industry Comparables in terms of either the P/E Ratio or the P/B Ratio; and (ii) the reasons for and benefits of the Acquisition, we are of the view that determination of the Consideration (including the payment terms) is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and its Shareholders as a whole.

Payment of the Consideration

Pursuant to the Equity Transfer Agreement, the parties agreed that the Purchaser is entitled to set off the Outstanding Debts, being the aggregate amount of the principal amount of the Loan of HK$290,000,000 together with any accrued interest up to the date of payment of the Consideration, against the Consideration payable under the Equity Transfer Agreement, based on the reference rate of RMB to HK$ published by the People's Bank of China on the date of the payment of the Consideration by the Purchaser to the Vendor.

According to the PRC Legal Advisers, the Purchaser is entitled to, at its absolute discretion, set off the Outstanding Debts against the Consideration under the relevant PRC laws and regulations.

The Purchaser shall pay to the Vendor the Consideration, subject to the abovementioned set off of the Outstanding Debts, if such entitlement is exercised by the Purchaser, to the designated bank account of the Vendor within five working days of the completion of the registration of change with the relevant industry and commerce administration authority in the PRC in respect of the Acquisition. As at the Latest Practicable Date, the Board intends to exercise its entitlement to set off the Outstanding Debts against the Consideration payable under the Equity Transfer Agreement.

According to the PRC Legal Advisers, the consideration for the transfer of equity interests in limited liability companies established under the laws of the PRC is subject to the parties' commercial agreement, and may be paid before or after the registration of change with the relevant industry and commerce administration authority in the PRC.

As the assistance of the Vendor will be required in completing the registration of change with the relevant industry and commerce administration authority in the

PRC in respect of the Acquisition, in order to protect the interest of the Group, the Consideration will only be payable within five working days of the completion of the aforementioned registration of change.

We consider that the payment arrangement under the Equity Interest Agreement can effectively protect the interest of the Purchaser, and accordingly, is fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Conditions Precedent

Completion of the Acquisition is subject to the satisfaction or, if applicable, the waiver of the following Conditions Precedent:

(a) the representations, warranties and undertakings made by the Vendor under the Equity Transfer Agreement remaining true and accurate at Completion;

(b) from the date of the Equity Transfer Agreement until the Completion Date, in the reasonable opinion of the Purchaser, 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 assets and financial position of the Target Group as a whole;

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

(d) the Purchaser 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 Company is subject to) in respect of the Equity Transfer Agreement and the transactions contemplated thereunder;

(e) the Purchaser having completed the due diligence review of the business, financial and legal aspects of the Target Group, the results of such review being satisfactory to the Purchaser;

(f) the Purchaser having received a copy of the combined financial statements of the Target Group for the period ended the Benchmark Date audited by an accounting firm appointed by the Purchaser and the combined management accounts for the period from the first day of the month immediately after the Benchmark Date to the last day of the month immediately preceding the Completion Date, in the form and substance satisfactory to the Purchaser; and

(g) the Restructuring having been completed.

Pursuant to the Equity Transfer Agreement, the Purchaser may, in its discretion, waive any of the Conditions Precedent other than the Condition Precedent set out in paragraph (d) above. As advised by the PRC Legal Advisers, pursuant to the Equity Transfer Agreement, the Purchaser has an absolute discretion as to whether or not it will waive any of the Conditions Precedent (other than the Condition Precedent set out in paragraph (d) above) and no specific circumstance is required before the Purchaser may exercise such discretion.

The Condition Precedent set out in paragraph (d) above relates to the necessary internal approval of the Purchaser and is not capable of being waived. The other Conditions Precedent which are capable of being waived are intended to provide flexibility for the Company to implement the Acquisition in the event that any of those Conditions Precedent are not satisfied, such as a minor deviation in the implementation of the Restructuring.

As at the Latest Practicable Date, the Purchaser has no present intention to waive any of the Conditions Precedent and will only exercise its right to waive such Conditions Precedent if it is fair and reasonable and in the interests of the Group and its Shareholders as a whole. As at the Latest Practicable Date, none of the above Conditions Precedent has been fulfilled.

Based on our extensive experience in acting as independent financial advisers for numerous past cases in a wide variety of business and transaction nature, we consider that all the Conditions Precedent are typical and not unusual for general merger and acquisition activities in the market and therefore are on normal commercial terms and conditions.

Completion

Subject to Completion, the Purchaser shall be entitled to the operating profit or loss of the Target Group for the period between the date immediately after the Benchmark Date and the Completion Date.

Completion shall take place on the date on which the Purchaser is registered as a shareholder in the register of shareholders of the Target Group.

The parties shall jointly procure that the Target Company completes:

(a) the registration of the Purchaser as a shareholder in the register of shareholders of the Target Company within five working days of the date after all the Conditions Precedent set out above have been satisfied (or, if applicable, waived), and in any event, by no later than 31 October 2018, as extended pursuant to the Supplemental Agreement; and

(b) the registration of change with the relevant industry and commerce administration authority in the PRC in respect of the Acquisition within 30 working days of the Completion Date.

Termination

In the event that one or more of the Conditions Precedent is not satisfied (or, if applicable, waived) by 31 October 2018, as extended pursuant to the Supplemental Agreement, each party shall have the right to terminate the Equity Transfer Agreement by way of written notice without liability to the other party for breach of the Equity Transfer Agreement, save and except for any antecedent breach prior to the termination of the Equity Transfer Agreement.

8. Financial effects of the Group on the Acquisition

Earnings

Upon the Completion, there is no immediate material impact on earnings of the Group, while the Directors expect that the Acquisition may bring into the Group a new business development direction by expanding its business scope of the automobile-related services portfolio and coverage to the area in Inner Mongolia, so as to enhance its existing operating capability and future business development, and then further contribute to its earnings base in the long run, but the quantification of such impact will depend on the future operating performance of the Target Group thereafter.

For accounting treatment, the operating performance and financial position of the Target Group will be included in the consolidated financial statements of the Group upon the Completion. Based on the accountants' report as set out in the Appendix II to the Circular, the Target Group has been operating profitably with stable profit growth for the past three FYs from 2015 to 2017, we concur with the Directors' optimistic expectation that the Target Group will continue to contribute concrete profit to the Enlarged Group following the Completion.

Working capital

The Consideration of RMB660.0 million for the Acquisition will be financed by the net proceeds from the Subscription, which will only be payable within five working days of the completion of the necessary registration of change procedures. In addition, the Purchaser is entitled to, at its absolute discretion, set off the Outstanding Debts in an amount of HK$290.0 million (equivalent to approximately RMB235.8 million) against the Consideration payable under the Equity Transfer Agreement, therefore enjoying certain degree of flexibility in terms of the settlement of the Consideration. As the flexibility of the payment method of the Consideration would allow the Group to optimize its financial resources, the Directors consider that the payment method is favourable and beneficial to the Group. According to such payment arrangement, the Consideration would not exert considerable pressure on the working capital of the Group.

Based on our review of the accountants' report on the Target Group as set in the Appendix II to the Circular, the Target Group had strong capability to generate positive operating cash inflow before movements in working capital of approximately RMB115.3 million, RMB83.7 million, RMB120.3 million and RMB169.9 million for each of the four FYs from 2014 to 2017, respectively, we concur with the Directors' optimistic expectation that the Target Group will continue to generate meaningful operating cash inflow before movements in working capital to the Enlarged Group following the Completion.

According to the unaudited pro forma financial information of the Enlarged Group contained in Appendix III to the Circular, assuming that Completion had taken place on 31 December 2017, it is expected that the Group's working capital position would be strengthened following the Completion, and it is beneficial to the Group and the Shareholders as a whole.

As set out in the Appendix I to the Circular, taking into account of the financial resources available to the Enlarged Group, including internally generated funds and the presently available credit facilities, the Directors are of the opinion that the Enlarged Group has sufficient working capital for at least the next 12 months from the date of the Circular.

Net asset value

According to the Annual Report, the audited consolidated net asset value (excluding non-controlling interests) of the Group was approximately RMB196.4 million as at 31 December 2017. It is currently expected that there will not be any significant impact on the net asset position of the Group following the Completion, as the increase in the net asset value attributable to the Target Group will be offset by the decrease in the Group's cash resources to be obtained from the Subscription. There will also be no material impact on the income statement and reserves of the Group.

Gearing

As at 31 December 2017, the Group had interest-bearing borrowings of approximately RMB462.3 million, and hence a relatively higher gearing ratio (which is calculated as total interest-bearing borrowings divided by the total equity of the Group) of approximately 212.1%. As the Consideration of RMB660.0 million under the Acquisition will be fully funded by the net proceeds from the Subscription, and hence no external interest-bearing borrowing would be required, it is currently anticipated that the gearing position of the Group would not deteriorate.

Conclusion

In light of the foregoing financial effects of the Acquisition on the earnings, working capital, net asset value as well as gearing position of the Group, we are of the view that the Acquisition would have no significant adverse impact on the Group's financial position, save and except for the reduction in cash resources to be obtained from the Subscription, which are inevitable as the Group intends to fully finance the aggregate Consideration by cash resources therefrom. Therefore, we are of the view that while the Group's cash resources would be reduced, the Acquisition is an effective utilisation of its cash resources which is aimed at positioning the Group for better growth in the future which, in the long run, is expected to benefit the Company and the Shareholders as a whole.

RECOMMENDATION

Having taken into account the above principal factors and reasons, in particular, (i) the long-term benefits of the Acquisition to the Group; (ii) the basis for determination of the Consideration; and (iii) the financial effects of the Acquisition to the Group, we are of the view that the Acquisition shall be regarded as an investing activity of the Group for enhancing its operating capability and business development in the long-term future. While the Equity Transfer Agreement and the transactions contemplated thereunder are not conducted in its ordinary and usual course of business of the Group, the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited
Nicholas Cheng
Director

Note:

Mr. Nicholas Cheng has been the Responsible Officer of Type 6 (advising on corporate finance) regulated activity under the SFO, and has over 16 years of experience in corporate finance industry. He has participated in the provision of independent financial advisory services for numerous connected transactions involving companies listed in Hong Kong.

I. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the three years ended 31 December 2015, 2016 and 2017 respectively are disclosed in the following documents which have been published on websites of the Stock Exchange (www.hkexnews.hk) and the Company (https://www.nfa360.com/):

(i) annual report of the Company for the year ended 31 December 2015 published on 28 April 2016 (pages 42–128)

http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0428/LTN20160428529.pdf

(ii) annual report of the Company for the year ended 31 December 2016 published on 27 April 2017 (pages 49–144)

http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0427/LTN201704271540.pdf

(iii) annual report of the Company for the year ended 31 December 2017 published on 27 April 2018 (pages 51–150)

http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0427/LTN20180427996.pdf

II. STATEMENT OF INDEBTEDNESS

Loans

As at the close of business on 30 June 2018, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding loans of approximately RMB546,858,000. These borrowings comprised (i) secured bank loans of approximately RMB195,036,000; (ii) unsecured bank loans of approximately RMB3,990,000; (iii) secured non-bank loans of approximately RMB342,452,000; and (iv) unsecured non-bank loans of approximately RMB5,380,000.

The Enlarged Group's secured bank loans and secured non-bank loans bear contractual interest rate ranging from approximately 4.00% to 14.00% per annum. The unsecured bank loans and unsecured non-bank loans of the Enlarged Group carry interest at approximately 10.80% and 15.60% per annum.

Securities

The secured bank and other loans of the Enlarged Group were secured by (i) inventories of the Enlarged Group, (ii) properties, plant and equipment of the Enlarged Group, (iii) corporate guarantee of the Target Group; and (iv) personal guarantees from a director of the Enlarged Group and a director of a subsidiary, and their spouses. The carrying values of the aforementioned (i) inventories of the Enlarged Group, (ii) properties, plant and equipment of the Enlarged Group, and (iii) pledged bank deposit of the Enlarged Group, as at 30 June 2018, which were pledged to secure the secured bank and other loans of the Enlarged Group, amounted to approximately RMB234,220,000, RMB105,249,000 and RMB10,805,000 respectively.

Convertible notes

As at close of business on 30 June 2018, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement prior to the printing of this circular, the Enlarged Group had issued convertible notes with carrying amounts of approximately RMB170,045,000. The convertible notes bear interest at 7.0% per annum and are repayable on maturity on 1 September 2019.

Save as disclosed above and apart from intra-group liabilities, as at the close of business on 30 June 2018, 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.

The Directors confirmed that there is no material change in the indebtedness and contingent liabilities of the Enlarged Group since 30 June 2018 up to the Latest Practicable Date.

III. WORKING CAPITAL SUFFICIENCY OF THE ENLARGED GROUP

Taking into account of the financial resources available to the Enlarged Group, including internally generated funds and the presently available credit facilities, the Directors are of the opinion that the Enlarged Group has sufficient working capital for at least 12 months from the date of this circular.

The following is the text of a report, received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF NEW FOCUS AUTO TECH HOLDINGS LIMITED

Introduction

We report on the historical financial information of Inner Mongolia Chuangying Automobile Co., Ltd. (the "Target Company") and its respective subsidiaries (together, the "Target Group"), set out on pages II-4 to II-60, which comprises the combined statements of financial position as at 31 December 2015, 2016 and 2017 and 31 March 2018 and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years then ended and for the three months ended 31 March 2018 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-60 forms an integral part of this report, which has been prepared for inclusion in the circular of New Focus Auto Tech Holdings Limited (the "Company") dated 24 August 2018 (the "Circular") in connection with the proposed acquisition of the Target Company (the "Potential Acquisition").

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 3(a) to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the directors' preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 3(a) to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, as well as evaluating the overall presentation of the Historical 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, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2015, 2016 and 2017 and 31 March 2018 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 3(a) to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the three months ended 31 March 2017 and other explanatory information (the "Stub Period Comparative Historical Financial Information").

The directors of the Target Company are responsible for the preparation of the Stub Period Comparative Historical Financial Information in accordance with the basis of preparation set out in Note 3(a) to the Historical Financial Information of the Target Group. Our responsibility is to express a conclusion on the Stub Period Comparative Historical Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Historical Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 3(a) to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the Relevant Periods.

Yours faithfully
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Shek Lui
Practising Certificate Number: P05895
Hong Kong, 24 August 2018

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The combined financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and were audited by us in accordance with International Standards on Auditing issued by the International Federation of Accountants (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Three months ended 31 March	
		2015	2016	2017	2017	2018
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue	7	3,376,409	3,805,539	4,102,236	842,227	714,016
Cost of sales and services		(3,145,713)	(3,504,926)	(3,739,437)	(776,298)	(650,234)
Gross profit		230,696	300,613	362,799	65,929	63,782
Other income and other gains and losses	8	7,351	9,645	(196)	772	699
Selling and distribution expenses		(146,120)	(173,491)	(181,105)	(50,212)	(40,726)
Administrative expenses		(13,613)	(19,226)	(21,835)	(4,639)	(5,706)
Finance costs	9	(26,468)	(22,918)	(21,292)	(5,323)	(8,387)
Profit before taxation	10	51,846	94,623	138,371	6,527	9,662
Income tax expense	11	(17,629)	(23,111)	(34,522)	(2,631)	(6,109)
Profit and total comprehensive income for the year/period		34,217	71,512	103,849	3,896	3,553
Profit/(Loss) for the years attributable to:						
Owners of the Target Group		31,476	69,630	102,923	3,665	4,150
Non-controlling interests		2,741	1,882	926	231	(597)
		34,217	71,512	103,849	3,896	3,553

The accompanying notes form an integral part of the Historical Financial Information.

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 March
		2015	2016	2017	2018
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	*14*	34,898	34,866	35,209	32,476
Deferred tax assets	*15*	10,955	11,070	8,562	6,266
		45,853	45,936	43,771	38,742
Current assets					
Inventories	*16*	352,285	364,061	332,452	391,090
Trade receivables	*17*	36,448	48,044	52,193	28,937
Prepayments, deposits and other receivables	*18*	270,180	282,832	300,727	251,514
Amounts due from related parties	*19*	440,054	611,785	614,620	644,254
Pledged bank deposits	*20*	126,267	39,930	33,893	25,078
Cash and cash equivalents	*20*	69,457	55,267	57,572	60,006
Tax recoverable		2,141	3,078	1,866	2,205
		1,296,832	1,404,997	1,393,323	1,403,084
LIABILITIES					
Current liabilities					
Trade and bills payables	*21*	215,169	62,379	53,501	56,429
Other payables and accruals	*22*	110,695	184,018	190,097	208,606
Amounts due to related parties	*19*	86,848	167,260	158,174	147,860
Bank and other borrowings	*23*	350,423	413,793	361,637	360,101
Tax payables		10,011	11,333	13,186	4,778
		773,146	838,783	776,595	777,774
Net current assets		523,686	566,214	616,728	625,310
Total asset less current liabilities		569,539	612,150	660,499	664,052
Non-current liability					
Bank and other borrowings	*23*	62,700	22,500	–	–
		62,700	22,500	–	–
Net assets		506,839	589,650	660,499	664,052

		As at 31 December			As at 31 March
		2015	**2016**	**2017**	**2018**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
EQUITY					
Equity attributable to owners of the Target Group					
Combined capitals	*25*	10,000	10,000	10,000	10,000
Reserves	*26*	476,656	557,519	627,326	631,476
		486,656	567,519	637,326	641,476
Non-controlling interests		20,183	22,131	23,173	22,576
Total Equity		506,839	589,650	660,499	664,052

The accompanying notes form an integral part of the Historical Financial Information.

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company						Non-	
	Combined capitals	Statutory reserves	Other reserves	Merger reserves	Retained earnings	Sub-total	controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
1 January 2015	10,000	23,607	(8,937)	189,059	241,451	455,180	17,442	472,622
Total comprehensive income for the year	–	–	–	–	31,476	31,476	2,741	34,217
Transfer to statutory reserves	–	7,378	–	–	(7,378)	–	–	–
At 31 December 2015 and 1 January 2016	10,000	30,985	(8,937)	189,059	265,549	486,656	20,183	506,839
Total comprehensive income for the year	–	–	–	–	69,630	69,630	1,882	71,512
Transfer to statutory reserves	–	7,594	–	–	(7,594)	–	–	–
Issue of shares *(note 24(b))*	–	–	–	10,000	–	10,000	–	10,000
Addition of an entity combined into the Target Group *(note 24(b))*	–	–	–	9,492	(8,259)	1,233	66	1,299
At 31 December 2016 and 1 January 2017	10,000	38,579	(8,937)	208,551	319,326	567,519	22,131	589,650
Total comprehensive income for the year	–	–	–	–	102,923	102,923	926	103,849
Dividend declared during the year	–	–	–	–	(40,000)	(40,000)	–	(40,000)
Transfer to statutory reserves	–	9,501	–	–	(9,501)	–	–	–
Issue of shares *(note 24(b))*	–	–	–	6,884	–	6,884	116	7,000
At 31 December 2017 and 1 January 2018	10,000	48,080	(8,937)	215,435	372,748	637,326	23,173	660,499

	Attributable to owners of the Target Company						Non-	
	Combined capitals	Statutory reserves	Other reserves	Merger reserves	Retained earnings	Sub-total	controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2017 and 1 January 2018	10,000	48,080	(8,937)	215,435	372,748	637,326	23,173	660,499
Total comprehensive income/(loss) for the period	–	–	–	–	4,150	4,150	(597)	3,553
Transfer to statutory reserves	–	1,068	–	–	(1,068)	–	–	–
At 31 March 2018	10,000	49,148	(8,937)	215,435	375,830	641,476	22,576	664,052
At 31 December 2016 and 1 January 2017	10,000	38,579	(8,937)	208,551	319,326	567,519	22,131	589,650
Total comprehensive income for the period	–	–	–	–	3,665	3,665	231	3,896
Transfer to statutory reserves	–	267	–	–	(267)	–	–	–
Issue of shares *(note 24(b))*	–	–	–	5,000	–	5,000	–	5,000
At 31 March 2017 (unaudited)	10,000	38,846	(8,937)	213,551	322,724	576,184	22,362	598,546

COMBINED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December 2015 RMB'000	2016 RMB'000	2017 RMB'000	Three months ended 31 March 2017 RMB'000 (unaudited)	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash flows from/(used in) operations	*24(a)*	60,306	(1,532)	130,721	(20,988)	23,997
Tax paid		(23,067)	(22,841)	(28,949)	1,061	(12,560)
Net cash from/(used in) operating activities		37,239	(24,373)	101,772	(19,927)	11,437
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		8,125	7,589	476	120	145
Addition of combined company *(note 24(b))*		–	486	–	–	–
Proceeds from disposal of property, plant and equipment		23,744	23,373	19,972	8,335	4,400
Additions to property, plant and equipment	*14*	(22,833)	(31,549)	(30,914)	(7,728)	(3,641)
Net cash from/(used in) investing activities		9,036	(101)	(10,466)	727	904
CASH FLOWS FROM FINANCING ACTIVITIES						
Capitals injection	*24(b)*	–	10,000	7,000	5,000	–
Drawdown of loans	*24(c)*	2,401,339	2,924,508	3,009,340	752,335	557,476
Repayment of loans	*24(c)*	(2,407,667)	(2,901,338)	(3,083,996)	(745,518)	(559,012)
Interest paid		(26,557)	(22,886)	(21,345)	(5,337)	(8,371)
Net cash (used in)/from financing activities		(32,885)	10,284	(89,001)	6,480	(9,907)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		13,390	(14,190)	2,305	(12,720)	2,434
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD		56,067	69,457	55,267	55,267	57,572
CASH AND CASH EQUIVALENTS AT END OF YEARS/PERIOD	20	69,457	55,267	57,572	42,547	60,006

The accompanying notes form an integral part of the Historical Financial Information.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND REORGANISATION

General information

On 9 February 2018, Inner Mongolia Chuangying Automobile Co., Ltd. (the "Target Company") was incorporated in the People's Republic of China (the "PRC") with limited liability. The address of its registered office and principal place of business is 176-6-8 Hailaer road (west), Huimin District, Hohhot, Inner Mongolia. The Target Company is a wholly-owned subsidiary of the immediate holding company Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (the "Vender", and hereafter "Lifeng Dingsheng").

The principal activities of the Target Company and its subsidiaries (the "Target Group") are i) Sales of automobile and provision of after-sales services, including primarily repair and maintenance services and ii) distribution of automobile insurance products and automobile financial products in the People's Republic of China (the "PRC").

During the Relevant Periods and as at the date of this report, the particulars of the Target Companies and the companies controlled by the Target Companies, which are limited liability companies established and operating in the PRC, are as follows:

Name	Paid up registered capital *RMB'000*	2015	2016	2017	As at the date of this report	Principal activities	Date of establishment
內蒙古利豐保險代理有限責任公司 Inner Mongolia Lifeng Insurance Agent Co., Ltd.*	2,000,000	100%	100%	100%	100%	Distribution of automobile Insurance	10 December 2004
內蒙古利豐泰裕汽車服務有限公司 Inner Mongolia Lifeng Taiyu Automobile Service Co., Ltd.*	16,000,000	100%	100%	100%	100%	Distribution of automobile insurance	14 May 2007
內蒙古利豐慶業汽車銷售服務有限公司 Inner Mongolia Lifeng Qingye Automobile Sales and Service Co., Ltd.*	8,000,000	100%	100%	100%	100%	Trading of automobile	8 September 2011
內蒙古利豐泰祥汽車服務有限公司 Inner Mongolia Lifeng Tai Xiang Automobile Service Co., Ltd.*	5,000,000	100%	100%	100%	100%	Distribution of automobile insurance	27 September 2006
內蒙古利豐泰迪汽車服務有限公司 Inner Mongolia Lifeng Taidi Automobile Service Co., Ltd.*	15,000,000	100%	100%	100%	100%	Trading of automobile	15 December 2003
呼和浩特市利豐泰永汽車服務有限公司 Hohhot Lifeng Taiyong Automobile Service Co., Ltd.*	2,000,000	100%	100%	100%	100%	Trading of automobile	27 May 2010

Name	Paid up registered capital *RMB'000*	2015	2016	2017	As at the date of this report	Principal activities	Date of establishment
內蒙古利豐泰津汽車服務有限公司 Inner Mongolia Lifeng Taijin Automobile Service Co., Ltd.* *(Note (a))*	20,000,000	100%	100%	100%	100%	Trading of automobile	27 May 2010
內蒙古利豐泰威汽車服務有限公司 Inner Mongolia Lifeng Taiwei Automobile Service Co., Ltd.*	10,000,000	100%	100%	100%	100%	Trading of automobile	17 May 2007
內蒙古利豐泰隆汽車服務有限公司 Inner Mongolia Lifeng Tailong Automobile Service Co., Ltd.* *(Note (b))*	10,000,000	100%	100%	100%	100%	After-sales Services	23 February 2004
內蒙古利豐泰鑫汽車服務有限公司 Inner Mongolia Lifeng Taixin Automobile Service Co., Ltd.*	3,000,000	100%	100%	100%	100%	Distribution of automobile insurance	17 October 2012
包頭市利豐泰迪汽車服務有限責任公司 Baotou Lifeng Taidi Automobile Service Co., Ltd.*	5,000,000	92.5%	92.5%	92.5%	92.5%	Distribution of automobile insurance	27 November 2007
包頭利豐恒信汽車服務有限公司 Baotou Lifeng Hengxin Automobile Service Co., Ltd.*	3,000,000	92.5%	92.5%	92.5%	92.5%	Trading of automobile	16 November 2006
赤峰市利豐汽車服務有限責任公司 Chifeng Lifeng Automobile Service Co., Ltd.*	100,000	94.917%	94.917%	94.917%	94.917%	Trading of automobile	12 May 2010
赤峰市利豐五菱汽車銷售服務有限公司 Chifeng Lifeng Wuling Automobile Sales & Service Co., Ltd.*	2,000,000	94.917%	94.917%	94.917%	94.917%	Trading of automobile	21 May 2009
赤峰市利豐通汽車行有限公司 Chifeng Lifengtong Vehicle Store Co., Ltd.*	5,000,000	94.917%	94.917%	94.917%	94.917%	Trading of automobile	29 November 2007
赤峰利豐豐田汽車銷售服務有限公司 Chifeng Lifeng Toyota Automobile Sales & Service Co., Ltd.* *(Note (c))*	10,000,000	–	94.92%	94.92%	94.92%	Trading of automobile	25 April 2011
赤峰市利豐泰津汽車銷售服務有限公司 Chifeng Lifeng Taijin Automobile Sales & Service Co., Ltd.*	2,000,000	94.917%	94.917%	94.917%	94.917%	Trading of automobile	12 May 2010
鄂爾多斯市天馳汽車銷售服務有限公司 Erdos Shi Tianchi Automobile Sales & Service Co., Ltd.*	7,500,000	100%	100%	100%	100%	Distribution of automobile	21 April 2005

Name	Paid up registered capital *RMB'000*	2015	2016	2017	As at the date of this report	Principal activities	Date of establishment
鄂爾多斯市天為汽車銷售服務有限公司 Erdos Shi Tianwei Automobile Sales & Service Co., Ltd.	5,000,000	100%	100%	100%	100%	Trading of automobile	25 September 2006
呼倫貝爾市利豐泰迪汽車銷售有限公司 Hulun Buir Lifeng Taidi Automobile Service Co., Ltd.*	7,000,000	96%	96%	96%	96%	Trading of automobile	13 September 2010
呼倫貝爾市利豐五菱汽車銷售服務有限公司 Hulun Buir Lifeng Wuling Automobile Sales & Service Co., Ltd.*	2,000,000	96%	96%	96%	96%	Trading of automobile	23 February 2010
呼倫貝爾市利豐泰鈴汽車銷售服務有限公司 Hulun Buir Lifeng Tailing Automobile Sales & Service Co., Ltd.*	3,000,000	96%	96%	96%	96%	Distribution of automobile Insurance	19 June 2012
呼倫貝爾市利豐通汽車行有限公司 Hulun Buir Lifengtong Vehicle Store Co., Ltd.*	5,000,000	96%	96%	96%	96%	Trading of automobile	25 August 2009
呼倫貝爾市利豐泰萊汽車服務有限公司 Hulun Buir Lifeng Tailai Automobile Service Co., Ltd.*	5,000,000	96%	96%	96%	96%	Trading of automobile	25 August 2009
通遼市利豐通汽車行有限公司 Tongliao Lifengtong Vehicle Store Co., Ltd.	5,000,000	94.225%	94.225%	94.225%	94.225%	Trading of automobile	27 November 2007
通遼市利豐泰達汽車銷售服務有限公司 Tongliao Lifeng Taida Automobile Sales & Service Co., Ltd.*	10,000,000	94.225%	94.225%	94.225%	94.225%	Trading of automobile	30 June 2009
通遼市利豐泰昌汽車銷售服務有限公司 Tongliao Lifeng Taichang Automobile Sales & Service Co., Ltd.*	5,000,000	94.225%	94.225%	94.225%	94.225%	Trading of automobile	6 May 2009
通遼市利豐泰迪汽車銷售服務有限公司 Tongliao Lifeng Taidi Automobile Sales & Service Co., Ltd.*	7,000,000	94.225%	94.225%	94.225%	94.225%	Trading of automobile	7 May 2010
通遼市利豐泰宇汽車銷售服務有限公司 Tongliao Lifeng Taiyu Automobile Sales & Service Co., Ltd.* *(Note (d))*	6,000,000	94.225%	94.225%	94.225%	94.225%	Trading of automobile	3 June 2009
錫林郭勒盟利豐通汽車行有限公司 Xilinguolemeng Lifengtong Vehicle Store Co., Ltd.*	5,000,000	97.44%	97.44%	97.44%	97.44%	Trading of automobile	6 August 2008

Name	Paid up registered capital *RMB'000*	2015	2016	2017	As at the date of this report	Principal activities	Date of establishment
錫林郭勒盟利豐豐田汽車銷售服務有限公司 Xilinguolemeng Lifeng Toyota Automobile Sales & Service Co., Ltd.*	10,000,000	96%	96%	96%	96%	Distribution of automobile Insurance	15 August 2011
興安盟利豐泰宇汽車銷售有限公司 Hinggan Lifeng Taiyu Automobile Sales Co., Ltd.*	10,000,000	54.5%	54.5%	54.5%	54.5%	Trading of automobile	15 October 2010
興安盟利豐泰裕汽車服務有限公司 Hinggan Lifeng Taiyu Automobile Service Co., Ltd.*	11,000,000	100%	100%	100%	100%	Trading of automobile	16 January 2013
烏蘭浩特市泰迪汽車銷售利豐服務有限公司 Ulanhot Lifeng Taidi Automobile Sales & Service Co., Ltd.*	5,000,000	54.5%	54.5%	54.5%	54.5%	Distribution of automobile Insurance	4 August 2011
興安盟泰宏五菱汽車銷售有限公司 Hinggan Taihong Wuling Motor Sales Co., Ltd.*	1,000,000	54.5%	54.5%	54.5%	54.5%	Trading of automobile	27 January 2010

Notes:

(a) During 2016, Lifeng Dingsheng has further injected capitals of RMB10,000,000 to meet the operation needs.

(b) During March 2017, Lifeng Dingsheng has further injected capitals of RMB5,000,000 to meet the operation needs.

(c) Lifeng Dingsheng has acquired the subsidiary on June 2016. Details of the acquisition are disclosed in note 24(b).

(d) During September 2017, Lifeng Dingsheng has further injected capitals of RMB2,000,000 to meet the capital requirement for bank borrowings.

* *The English name is for identification purpose only*

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD ("IFRSs")

As at the date of this report, the IASB has issued the following new and revised standards, amendments and interpretations that are not yet effective. The Target Group has not early adopted these standards, amendments or interpretations for the accounting period beginning 1 January 2018. These new and revised IFRSs include the following which may be relevant to the Target Group.

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transaction[1]
IFRIC – Int 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 9 and IFRS 28	Sale or Contribution of Assets between and Investor and its Associate or Joint Venture[2]
Amendments to IFRS 28	Long-term Interests in Associates and Joint Ventures1
Amendments to IFRSs	Annual Improvement to IFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after to be determined.
3 Effective for annual periods beginning on or after 1 January 2021.

The Target Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. The Target Group has identified some aspects of the new standards which may have a significant impact on the Historical Financial Information of the Target Group. Further details of the expected impacts are discussed below.

IFRS 9 Financial Instruments

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises credit losses earlier than under the "incurred loss" model in IASAS 39.

The Target Group applies the new ECL model to financial assets measured at amortised cost, including pledged deposits, deposits with banks, cash at bank and in hand, trade and other receivables. Financial assets measured at fair value, including equity investments designated at FVOCI, are not subject to the ECL assessment.

Under IFRS/HKFRS 9, ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected life of a financial instrument to which the ECL model applies.

For trade and other receivables, the Target Group has measured the loss allowance as an amount equal to lifetime ECLs. The Target Group has established a provision for doubtful debts based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For pledged deposits, deposits with banks and cash at bank and in hand, the Target Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

The Target Group has concluded that there is no material impact for the initial application of the new impairment requirements.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Target Group has consistently adopted all the new and amended International Financial Reporting Standards ("IFRSs") which are effective for the Target Group's accounting periods beginning on 1 January 2018 throughout the Relevant Periods.

The Historical Financial Information have been prepared in accordance with IFRSs issued by the IASB. In addition, the Historical Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based Payment", leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets". In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability

(b) Basis of combination

Pursuant to the Equity Transfer Agreement on 2 March 2018, the Inner Mongolia Chuangying Auto Limited (the "Company") will become the holding company of the thirty-five individual entities (the "Group"). The Company and thirty-five individual entities were under the common control of Inner Mongolia Lifengdingsheng Auto Limited throughout the Relevant Periods. The financial statements of the Company and the thirty-five individual entities adopted a single uniform set of accounting policies. Accordingly, for the purpose of the preparation of the Historical Financial Information of the Group, the Company has been considered as the holding company of the thirty-five individuals as if 1 January 2015 throughout Relevant Periods. The Group is under the common control of the controlling shareholders prior and after the reorganisation.

The net assets of the combining entities are combined using the existing carrying values of the Group's perspective. There is no recognition of any additional goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination to the extent of the continuation of the Inner Mongolia Lifeng Dingsheng's Auto Limited's interests. The share capital of the thirty-five individual entities have been recognised directly in equity as part of the merger reserve. The Historical Financial Information includes the results of each of the combining entities or businesses from the date of incorporation/establishment or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

All inter-group balance, transaction and expenses and profits and losses resulting from Target Group are eliminated in full. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred.

Transaction costs incurred in combining operations of the previously separate businesses, in relation to the common control combination that is to be accounted for by using merger accounting, are recognised as an expense in the period in which they are incurred.

(c) Revenue recognition

(i) Revenue

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is rewarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- When the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Target Group recognizes revenue from sales of automobile, provision of after-sales services, including primarily repair and maintenance services and distribution of automobile insurance products and automobile financial products.

(ii) Interest income

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

(iii) Service fee income

Service fee income is recognised when the services are rendered.

(iv) Subsidies from the government

Subsidies from the government are recognised at their fair values when there is reasonable assurance that the subsidies will be received and the Target Group will comply with all attached conditions.

(d) Lease

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(e) Foreign currencies

In preparing the financial statements of each individual Target Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting Historical Financial Information, the assets and liabilities of the Target Group's foreign operations are translated into the presentation currency of the Target Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributable to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Target Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Target Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Target Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributable to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Target Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

(f) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of assets, which are assets that necessary take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All borrowing costs are recognised in profit or loss in the period in which they are included.

(g) Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

In accordance with the rules and regulations in the PRC, the PRC based employees of the Target Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Target Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above.

Other than the monthly contributions, the Target Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from the subsidiary in an independent fund managed by the PRC government.

(h) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rate that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(i) Property, plant and equipment

Property, plant and equipment, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets, less their residual values over their useful lives, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The property, plant and equipment, are depreciated over their estimated useful lives, after taking into account of their residual value, on a straight-line basis at the following rates per annum:

Office equipment	3–5 years
Leasehold improvement	Over the lease terms
Plant and machinery	3–10 years
Motor vehicles	5 years

(j) Impairment of assets other than goodwill

At the end of each reporting period, the Target Group reviews the carrying amounts of its assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Target Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is computed using the weighted average method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price for inventories less all estimated costs of completion and 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 expense in the period in which the reversal occurs.

(l) Provisions

Provisions are recognised when the Target Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Target Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(m) Financial instruments

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at "fair value through profit or loss" ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at FVTPL, "held-to-maturity" investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including stock of properties, prepayments, deposits and other receivables, amount due from a related party, sales proceeds held by stakeholders and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short- term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

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

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by Target Group is classified as either financial liabilities or as equity in according with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its liabilities. Equity instruments issued by the Target Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Target Group equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Target Group own equity instruments.

Other financial liabilities

Other financial liabilities (including accruals and other payables, loan from non-controlling shareholder of a subsidiary, loan from immediate holding company and amounts due to related parties) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at fair value through profit or loss.

Derecognition

The Target Group derecognises a financial asset only when the contractual rights to receive cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Target Group neither transfer nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirely, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Target Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(n) Related parties transactions

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

(a) 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 of a parent of the Target Group;

(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 Target Group (which means that each parent, subsidiary and fellow subsidiaries is related to the others);

(ii) one entity is an associate or joint venture of the other entity for an associate or joint venture of a member of a Target Group (which the other entity is a member);

(iii) the entity and the Target Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(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); or

(viii) The entity or any member of a Target Group of which it is a part, provides key management personnel services to the Target Group or the Target Group's parent.

Close family members of an individual are those family members who may be expected to influence, or be influence by, that person in their dealing with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources, or obligations between the Target Group and a related party, regardless of whether a price is charged.

(o) Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and at banks that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within one year when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the combined statements of financial position, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

(p) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Target Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Target Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(q) Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target Group as lessee

Assets held under finance leases are initially recognised as assets of the Target Group at their fair values at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Target Group 's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits form the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

(r) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Target Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments.

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

In the application of the Target Group's accounting policies, which are described in Note 3, the directors of the Target Group 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 on-going 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.

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

Impairment of trade and other receivables

When there is objective evidence of impairment loss, the Target Group takes into consideration the estimation of future cash flows. The amount of 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. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Income taxes

The Target Group is subject to income taxes in PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Target Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax asset

As at 31 December 2014, 2015 and 2017 and period ended 31 March 2018, a deferred tax asset of approximately RMB10,955,000, RMB11,070,000, RMB8,562,000 and RMB6,266,000 respectively, in relation to unused tax losses has been recognized in the Target Group's combined statements of financial position. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

Property, plant and equipment

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Target Group reviews the estimated useful lives of the assets regularly 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 technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Write-down of inventories

Inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. In addition, the management performs an inventory review on a product-by-product basis at the end of the reporting period and assess the need for writedown of inventories.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows:

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
– Trade receivables	37,867	49,718	53,867	30,611
– Other receivables	75,785	86,867	112,277	92,957
– Amounts due from related parties	440,054	611,785	614,620	644,254
– Pledged bank deposit	126,267	39,930	33,893	25,078
– Cash and cash equivalents	69,457	55,267	57,572	60,006
	749,430	843,567	872,229	852,906

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities				
– Trade and bills payables	215,169	62,379	53,501	56,429
– Other payables	28,443	42,556	21,226	27,712
– Amount due to related parties	86,848	167,260	158,174	147,860
– Bank and other borrowing	413,123	436,293	361,637	360,101
	743,583	708,488	594,538	592,102

(b) Financial risk management objectives and policies

The Target Group's activities expose to a variety of financial risks: market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

(a) Market risk

(i) Interest rate risk

The Target Group is exposed to cash flow interest rate risk in respect of its variable-rate bank borrowings, pledged bank deposits and bank balances due to changes of interest rates. It is the Target Group's present policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The Target Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant fixed-rate bank and other borrowings should the need arise.

Sensitivity analysis

As at 31 December 2015, 2016 and 2017 and period ended 31 March 2018, if the interest rate on all variable-rate borrowings had been 100 basis points higher/lower with all other variables held constant, the Target Group's profit before income tax for the year/period would have been decreased/increased by approximately RMB173,000, RMB154,000, RMB113,000 and RMB15,000 respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of each of the Relevant Periods and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis during the Relevant Periods.

(ii) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Target Group operates mainly in PRC and majority of transactions are dominated in RMB. The Target Group is exposed to limited foreign exchange risk as most assets and liabilities are denominated in RMB. The Target Group currently does not have a foreign currency hedging policy in respect of foreign current assets and liabilities. The Target Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The main operations of the Target Group were in the PRC and most of the transactions were denominated in RMB. The Target Group did not use any derivative financial instruments to hedge for its foreign exchange risk exposure during the Relevant Periods.

(b) Credit risk

At the end of each reporting period, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position.

The Target Group's credit risk is primarily attributable to bank deposits, trade and bills receivable and other receivables. In order to minimise the credit risk, management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis and follow-up action is taken to recover overdue debts. In addition, the management reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Target Group's credit risk is adequately managed and mitigated.

(c) Liquidity risk

The Target Group's liquidity risk management includes maintaining flexibility by keeping sufficient cash and cash equivalents generated from operations. The Target Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following table details the Target Group's remaining contractual maturity for its non-derivatives financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial liabilities, the table reflects the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 and 5 years	Over 5 years	Total contractual undiscounted cash flows	Total Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2015						
Financial liabilities:						
Trade and bills payables	–	215,169	–	–	215,169	215,169
Other payables	–	28,443	–	–	28,443	28,443
Amounts due to related parties	–	86,848	–	–	86,848	86,848
Bank and other borrowings	4.62%	366,623	65,016	–	431,639	413,123
		697,083	65,016	–	762,099	743,583

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 and 5 years	Over 5 years	Total contractual undiscounted cash flows	Total Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2016						
Financial liabilities:						
Trade and bills payables	–	62,379	–	–	62,379	62,379
Other payables	–	42,556	–	–	42,556	42,556
Amounts due to related parties	–	167,260	–	–	167,260	167,260
Bank and other borrowings	3.73%	429,240	23,340	–	452,580	436,293
		701,435	23,340	–	724,775	708,488

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 and 5 years	Over 5 years	Total contractual undiscounted cash flows	Total Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2017						
Financial liabilities:						
Trade and bills payables	–	53,501	–	–	53,501	53,501
Other payables	–	21,226	–	–	21,226	21,226
Amounts due to related parties	–	158,174	–	–	158,174	158,174
Bank and other borrowings	3.27%	373,446	–	–	373,446	361,637
		606,347	–	–	606,347	594,538

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 and 5 years	Over 5 years	Total contractual undiscounted cash flows	Total Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 March 2018						
Financial liabilities:						
Trade and bills payables	–	56,429	–	–	56,429	56,429
Other payables	–	27,712	–	–	27,712	27,712
Amounts due to related parties	–	147,860	–	–	147,860	147,860
Bank and other borrowings	1.47%	365,390	–	–	365,390	360,101
		597,391	–	–	597,391	592,102

Fair value measurement

The Target Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: Fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

Except as disclosed as above, the Directors consider the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the combined financial statements approximates to their fair values.

6. CAPITAL MANAGEMENT

The Target Group manages its capital to ensure that entities will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Target Group consists of total borrowings and equity attributable to owners of the Target Group, comprising combined capital, reserves and retained earnings as disclosed in the Historical Financial Information.

The directors of the Target Group review the capital structure regularly. The Target Group considers the cost of capital and the risks associated with each class of capital, and balance its overall capital structure through the payment of dividends and injection of capital.

The following is the gearing ratio at the end of each reporting period:

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total borrowings *(Note (a))*	499,971	603,553	519,811	507,961
Total equity *(Note (b))*	506,839	589,650	660,499	664,052
Gearing ratio	98.6%	102.4%	78.7%	76.5%

Notes:

(a) Total borrowings represent bank and other borrowings and amounts due to related parties.

(b) Total equity includes combined capital and reserves at the end of each reporting periods.

7. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue, represents the sales value of goods supplied and services provided to customers and is analysed as follows:

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Sale of automobile and provision of after-sales services	3,281,772	3,691,607	3,937,117	807,827	685,332
Distribution of insurance products and automobile financial products	94,637	113,932	165,119	34,400	28,684
	3,376,409	3,805,539	4,102,236	842,227	714,016

Reportable segment

Information reported to the board of directors of the Target Group, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The Target Group operates in two reportable segments: (i) sales of automobile and provision of after-sales services, including primarily repair and maintenance services (the "Wholesales and After Sales Business"); and (ii) distribution of automobile insurance products and automobile financial products (the "Distribution Business").

Inter-segment transactions are priced with reference to prices charged to external parties for similar orders.

Central asset and liabilities such as amounts due from related parties and amounts due to related are not allocated to the operating segments as they are not included in the measure of the segments' results that is used by the chief operating decision-makers for assessment of segment performance.

	The Wholesales and After Sales Business	**The Distribution Business**	**Unallocated**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2015				
Segment revenue	3,374,640	104,646	–	3,479,286
Inter-segment revenue	(92,868)	(10,009)	–	(102,877)
Segment revenue	3,281,772	94,637	–	3,376,409
Reportable segment results	(13,582)	65,428	–	51,846
Interest income	3,665	4,460	–	8,125
Finance costs	26,461	7	–	26,468
Depreciation and amortisation charges	12,783	36	–	12,819
Addition of property, plant and equipment	22,812	21	–	22,833
Segment assets	890,277	12,354	440,054	1,342,685
Segment liabilities	(737,799)	(11,199)	(86,848)	(835,846)

	The Wholesales and After Sales Business	The Distribution Business	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2016				
Segment revenue	3,785,029	124,715	–	3,909,744
Inter-segment revenue	(93,422)	(10,783)	–	(104,205)
Segment revenue	3,691,607	113,932	–	3,805,539
Reportable segment results	22,576	72,047	–	94,623
Interest income	3,268	4,321	–	7,589
Finance costs	22,908	10	–	22,918
Depreciation and amortisation charges	12,835	39	–	12,874
Addition of property, plant and equipment	31,463	86	–	31,549
Segment assets	823,975	15,173	611,785	1,450,933
Segment liabilities	(682,037)	(11,986)	(167,260)	(861,283)

	The Wholesales and After Sales Business	The Distribution Business	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2017				
Segment revenue	3,937,213	165,119	–	4,102,332
Inter-segment revenue	(96)	–	–	(96)
Segment revenue	3,937,117	165,119	–	4,102,236
Reportable segment results	64,493	73,878	–	138,371
Interest income	469	7	–	476
Finance costs	21,272	20	–	21,292
Depreciation and amortisation charges	10,028	91	–	10,119
Addition of property, plant and equipment	30,612	302	–	30,914
Segment assets	800,345	22,129	614,620	1,437,094
Segment liabilities	(603,673)	(14,748)	(158,174)	(776,595)

	The Wholesales and After Sales Business	The Distribution Business	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the period ended 31 March 2018				
Segment revenue	698,448	28,709	–	727,157
Inter-segment revenue	(13,116)	(25)	–	(13,141)
Segment revenue	685,332	28,684	–	714,016
Reportable segment results	1,212	8,450	–	9,662
Interest income	142	3	–	145
Finance costs	8,377	10	–	8,387
Depreciation and amortisation charges	2,381	24	–	2,405
Addition of property, plant and equipment	3,641	–	–	3,641
Segment assets	784,537	13,035	644,254	1,441,826
Segment liabilities	(619,563)	(10,351)	(147,860)	(777,774)

	The Wholesales and After Sales Business	The Distribution Business	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the period ended 31 March 2017 (unaudited)				
Segment revenue	807,851	34,400	–	842,251
Inter-segment revenue	(24)	–	–	(24)
Segment revenue	807,827	34,400	–	842,227
Reportable segment results	3,042	3,485	–	6,527
Interest income	117	3	–	120
Finance costs	5,318	5	–	5,323
Depreciation and amortisation charges	2,507	23	–	2,530
Addition of property, plant and equipment	7,653	75	–	7,728
Segment assets	806,574	29,210	612,494	1,448,278
Segment liabilities	(660,525)	(24,220)	(164,987)	(849,732)

Geographical information

All of the Target Group's revenue is generated from trading of automobiles, provision of after-sales services, and distribution of automobile insurance products and automobile financial product in the PRC and all of the Target Group's principal assets and liabilities for operation are located in the PRC.

Information about major customers

No single customer accounted for 10% or more of the Target Group' revenue for the relevant reporting period.

8. OTHER INCOME AND OTHER GAINS AND LOSSES

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Bank deposit and guarantee interest income	1,671	824	282	71	126
Interest income from related parties	6,285	6,656	–	–	–
Other interest income	169	109	194	49	19
Government grants and subsidies	26	10	16	4	–
Gain on disposal of property, plant and equipment	60	2,905	2,806	702	431
Written-off of inventories	–	(138)	–	–	–
Impairment loss on property, plant equipment	–	–	(3,286)	–	–
Impairment loss on trade receivables	(775)	(255)	–	–	–
Sundry (loss)/gain	(85)	(466)	(208)	(54)	123
	7,351	9,645	(196)	772	699

9. FINANCE COSTS

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest on bank and other borrowings	10,057	13,976	15,537	3,884	2,558
Interest on borrowings from entities controlled by suppliers	6,369	3,255	1,236	309	1,138
Interest on loan from related parties	5,536	953	–	–	4,041
Interest and bank charge on bill payables	4,304	4,341	4,175	1,044	560
Others	202	393	344	86	90
	26,468	22,918	21,292	5,323	8,387

10. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Directors' emoluments	1,533	1,939	4,779	1,195	1,246
Salaries, wages and other benefits (excluding directors' emoluments)	66,347	89,957	87,429	17,683	20,968
Retirement benefit scheme contributions (excluding directors' emoluments)	2,663	4,603	17,158	3,574	3,499
	70,543	96,499	109,366	22,452	25,713
Auditors' remuneration	298	507	542	135	170
Depreciation of property, plant and equipment	12,819	12,874	10,119	2,530	2,405
Cost of sales and services	3,145,713	3,504,926	3,739,437	776,298	650,234
Operating lease rental expenses in respect of:					
– rental premises	20,543	21,718	22,473	5,618	5,768

11. INCOME TAX EXPENSE

All entities of the Target Group are established in the PRC and is generally subjected to PRC Enterprise Income Tax on its taxable income at an income tax rate of 25%. The target group were not subject to any tax in Hong Kong.

Major components of income tax expense for the years ended 31 December 2015 and 2016 and 2017 and period ended 31 March 2018 are:

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Income tax expenses					
PRC Corporate Tax	23,194	23,226	32,014	2,032	3,813
Deferred tax	(5,565)	(115)	2,508	599	2,296
	17,629	23,111	34,522	2,631	6,109

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for country in which the Target Group's subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before taxation	51,846	94,623	138,371	6,527	9,662
Tax calculated at the rates applicable to profit in the respective tax jurisdiction	12,962	23,656	34,593	1,632	2,416
Tax effect of non-taxable income	(2,625)	(2,803)	(966)	(242)	(160)
Tax effect of non-deductible expenses	773	278	306	77	562
Temporarily differences	(5,565)	(1,537)	2,508	599	2,296
Utilisation of tax losses not previously recognised and tax exemptions	14,057	7,314	6,547	1,637	5,148
Unrecognised tax losses	(1,973)	(3,797)	(8,466)	(1,072)	(4,153)
	17,629	23,111	34,522	2,631	6,109

12. DIVIDENDS

The directors of Target Group do not recommend the payment of any dividend in respect of the Relevant Periods.

13. EARNINGS PER SHARE

No earnings per share information is presented for the purpose of this report as its inclusions is not considered meaningful.

14. PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicle	Leasehold improvement	Plant and machinery	Office equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
As at 1 January 2015	36,114	7,828	23,128	19,159	86,229
Additions	20,032	657	1,308	836	22,833
Disposal	(29,712)	(218)	(687)	(276)	(30,893)
As at 31 December 2015 and 1 January 2016	26,434	8,267	23,749	19,719	78,169
Additions	26,456	890	2,310	1,893	31,549
Disposal	(24,064)	–	(1,347)	(849)	(26,260)
As at 31 December 2016 and 1 January 2017	28,826	9,157	24,712	20,763	83,458
Additions	24,605	2,906	1,180	2,223	30,914
Disposal	(21,533)	(56)	(821)	(1,002)	(23,412)
As at 31 December 2017 and 1 January 2018	31,898	12,007	25,071	21,984	90,960
Additions	3,104	279	88	170	3,641
Disposal	(4,627)	(7)	(109)	(422)	(5,165)
As at 31 March 2018	**30,375**	**12,279**	**25,050**	**21,732**	**89,436**
Accumulated depreciation and impairment loss					
As at 1 January 2014	7,674	5,748	13,305	10,934	37,661
Provided for the year	5,621	964	3,289	2,945	12,819
Eliminated on disposal	(6,233)	(83)	(661)	(232)	(7,209)
As at 31 December 2015 and 1 January 2016	7,062	6,629	15,933	13,647	43,271
Provided for the year	5,454	1,134	3,286	3,000	12,874
Eliminated on disposal	(5,531)	–	(1,148)	(874)	(7,553)
As at 31 December 2016 and 1 January 2017	6,985	7,763	18,071	15,773	48,592
Provided for the year	4,471	1,233	2,557	1,858	10,119
Impairment loss for the year	2,233	18	624	411	3,286
Eliminated on disposal	(4,712)	(56)	(908)	(570)	(6,246)
As at 31 December 2017 and 1 January 2018	8,977	8,958	20,344	17,472	55,751
Provided for the period	1,278	235	548	344	2,405
Eliminated on disposal	(1,085)	(7)	(32)	(72)	(1,196)
As at 31 March 2018	**9,170**	**9,186**	**20,860**	**17,744**	**56,960**
Net book values					
As at 31 December 2015	19,372	1,638	7,816	6,072	34,898
As at 31 December 2016	21,841	1,394	6,641	4,990	34,866
As at 31 December 2017	22,921	3,049	4,727	4,512	35,209
As at 31 March 2018	**21,205**	**3,093**	**4,190**	**3,988**	**32,476**

15. DEFERRED TAX ASSETS

	Tax losses Total
	RMB'000
At 1 January 2015	5,390
Credit to profit or loss	5,565
At 31 December 2015 and 1 January 2016	10,955
Credit to profit or loss	115
At 31 December 2016 and 1 January 2017	11,070
Charge to profit or loss	(2,508)
At 31 December 2017 and 1 January 2018	8,562
Charge to profit or loss	(2,296)
At 31 March 2018	6,266

The deferred tax balances have reflected the tax rates that are expected to apply in the respective periods when the asset is realized. In the opinion of the management, it is probable that taxable profits will be available and the tax loss above can be utilised.

At year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018, the Target Group has unused tax losses of approximately RMB55,624,000, RMB60,918,000, RMB48,767,000 and RMB37,756,000 respectively, of which approximately RMB43,819,000, RMB44,280,000, RMB34,248,000 and RMB25,065,000 have been recognized as deferred tax assets.

16. INVENTORIES

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Motor vehicles	326,643	337,299	328,597	366,823
Spare parts and accessories	25,642	26,762	3,855	24,267
	352,285	364,061	332,452	391,090

During the year ended 31 December 2016, the Target Group has written-down inventories value of approximately RMB138,000 due to the obsolescence of certain spares parts and accessories.

During the year ended 31 December 2017, the Target Group has reversed RMB41,000 of a previous inventory write-down in the year ended 31 December 2016, as the relevant inventories had been sold to the end users. The amount reversed has been included in the "Cost of sales and services".

During the period ended 31 March 2018, the Target Group has reversed RMB91,000 of a previous inventory write-down in the year ended 31 December 2016, as the relevant inventories had been sold to the end users. The amount reversed has been included in the "Cost of sales and services".

17. TRADE RECEIVABLES

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	37,867	49,718	53,867	30,611
Less: allowance for doubtful debts	(1,419)	(1,674)	(1,674)	(1,674)
	36,448	48,044	52,193	28,937

At 31 December 2015, 2016 and 2017 and period ended 31 March 2018, the trade receivable are comprised mainly of the receivable from suppliers for compensation of expenditures incurred in after-sales services within the standard warranty period to car users and commission receivable for distribution of automobile insurance products and automobile financial products. The general credit period is 60 days.

In general, no trade receivables are related to sales of automobile as no credit period is allowed for sales of automobiles, except for certain corporate customers for passenger vehicles sales, of which case a credit period of not exceeding 60 days is granted.

The following is an ageing analysis of the Target Group's trade receivables presented based on the invoice date at the end of the reporting periods, which approximated the respective revenue recognition dates:

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 30 days	32,077	41,705	47,054	21,333
31 to 60 days	1,615	3,427	2,332	3,759
61 to 90 days	817	758	809	1,037
Over 90 days	3,358	3,828	3,672	4,482
	37,867	49,718	53,867	30,611
Less: allowance for doubtful debts	(1,419)	(1,674)	(1,674)	(1,674)
	36,448	48,044	52,193	28,937

Trade receivable disclosed below are past due at the end of each reporting period but not impaired because the Target Group' considered that there has not been a significant change in credit quality and the amount are still receivable.

The ageing analysis of the Target Group' trade receivables which are past due but not impaired is presented as follows:

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Overdue by:				
1 to 30 days	817	758	809	1,037
More than 30 days	1,939	2,154	1,998	2,808
	2,756	2,912	2,807	3,845

The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year	644	1,419	1,674	1,674
Additional allowance for the year	775	255	–	–
At end of year	1,419	1,674	1,674	1,674

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments for property, plant and equipment	284	194	974	1,503
Prepayments and deposits to suppliers *(Note (a))*	106,563	113,434	129,550	92,333
Other deposits and prepayments	4,849	6,983	5,339	6,822
Deposit to suppliers for borrowings *(Note (b))*	44,448	42,475	37,405	35,175
Deposits for rental	590	525	633	3,803
Others	4,544	2,591	5,743	5,435
Advance to staffs *(Note (c))*	1,420	1,650	4,390	2,275
Rebate receivable from suppliers	69,821	82,626	102,144	85,247
Other tax receivables	37,661	32,354	14,549	18,921
	270,180	282,832	300,727	251,514

Note:

a. The balance represented down-payment for automobile purchased from the manufacturer.

b. The balance represented guarantee deposits placed at financial institution from suppliers for other borrowings.

c. The balance represented advancement to staffs for business travelling and allowance. The balances are unsecured, interest-free and repayable on demand.

19. AMOUNTS DUE FROM/TO RELATED PARTIES

Amount due from related parties:

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade related	17,202	43,752	111,927	99,459
Non trade-related #	422,852	568,033	502,693	544,795
	440,054	611,785	614,620	644,254

The balances are interest-free, unsecured and expected to be received on demand.

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Name of trade related companies				
Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd. * *(Note (a))*	–	18,188	93,819	91,111
Inner Mongolia Lifeng Wuling Automobile Sale and Services Co., Ltd. * *(Note (c))*	14,779	14,764	14,789	2,289
Inner Mongolia Lifeng Changan Automobile Sale and Services Co., Ltd. *	1,833	1,833	730	665
Chifeng Lifeng Taidi Automobile Service Co., Ltd. *	–	5,391	195	198
Baotou Taidi Automobile Sale and Services Co., Ltd. *	–	1,135	–	61
Inner Mongolia Lifeng Automobile Co., Ltd. *	251	865	–	–
Hohhot Lifeng Vehicle Store Co., Ltd. *	–	817	365	–
Others	339	759	2,029	5,135
	17,202	43,752	111,927	99,459

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Name of non-trade related companies				
Inner Mongolia Lifeng Changan Automobile Sale and Services Co., Ltd.* *(Note (l))*	130,255	175,913	–	4
Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd. * *(Note (a))*	10,000	82,208	258,908	265,400
Tongliao Tong Hua Investment Holdings Co., Ltd. * *(Note (b))*	36,001	35,207	46,660	64,940
Chifeng Lifeng Vehicle Store Co., Ltd.* *(Note (d))*	40,586	38,685	42,922	42,839
Erdos Tianyi Automobile Sale Co., Ltd. * *(Note (e))*	28,328	28,661	32,965	41,932
Inner Mongolia Lifeng Wuling Automobile Sale and Services Co., Ltd. * *(Note (c))*	81,117	80,675	31,353	5,533
Xilinguolemeng Lifeng Vehicle Store Co., Ltd. * *(Note (g))*	13,459	18,140	18,506	18,918
Hinggan Lifeng Hengtai Automobile Sales Co., Ltd. * *(Note (h))*	15,393	31,392	16,784	39,940
Baotou Lifeng Automobile Trading Service Co., Ltd. * *(Note (f))*	12,033	18,668	19,019	20,388
Hulunbuir Lifeng Vehicle Store Co., Ltd.* *(Note (i))*	13,679	16,845	15,798	24,918
Inner Mongolia Lifeng Vehicle Store Co., Ltd. * *(Note (k))*	20,830	19,760	1,570	1,570
Bayannaoer Lifeng Automobile Sale and Services Co., Ltd. * *(Note (j))*	8,979	8,841	12,224	12,386
Inner Mongolia Lifeng Automobile Co., Ltd. *	6,990	6,990	–	–
Others	5,202	6,048	5,984	6,027
	422,852	568,033	502,693	544,795

Note:

a. The maximum outstanding balance for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 were approximately RMB10,000,000, RMB100,396,000, RMB352,727,000 and RMB356,511,000 respectively.

b. The maximum outstanding balance for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 were approximately RMB36,001,000, RMB35,207,000, RMB46,676,000 and RMB64,941,000 respectively.

c. The maximum outstanding balance for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 were approximately RMB95,896,000, RMB95,439,000, RMB46,142,000 and RMB7,822,000 respectively.

d. The maximum outstanding balance for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 were approximately RMB40,586,000, RMB38,685,000, RMB43,414,000 and RMB45,303,000 respectively.

e. The maximum outstanding balance for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 were approximately RMB28,337,000, RMB28,661,000, RMB32,965,000 and RMB41,932,000 respectively.

f. The maximum outstanding balance for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 were approximately RMB12,164,000, RMB18,669,000, RMB19,019,000 and RMB20,388,000 respectively.

g. The maximum outstanding balance for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 were approximately RMB13,459,000, RMB18,140,000, RMB18,875,000 and RMB19,287,000 respectively.

h. The maximum outstanding balance for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 were approximately RMB15,393,000, RMB31,392,000, RMB16,784,000 and RMB39,940,000 respectively.

i. The maximum outstanding balance for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 were approximately RMB13,679,000, RMB16,845,000, RMB15,798,000 and RMB24,918,000 respectively.

j. The maximum outstanding balance for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 were approximately RMB8,979,000, RMB8,841,000, RMB12,224,000 and RMB12,386,000 respectively.

k. The maximum outstanding balance for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 were approximately RMB20,949,000, RMB19,883,000, RMB1,875,000 and RMB1,870,000 respectively.

l. The maximum outstanding balance for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 were approximately RMB132,088,000, RMB177,746,000, RMB730,000 and RMB669,000 respectively.

* *The English name is for identification purpose only*

Amount due to related parties:

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade-related	7,895	45,764	22,881	7,081
Non trade-related	78,953	121,496	135,293	140,779
	86,848	167,260	158,174	147,860

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Name of trade related companies				
Ningbo Yafeng Electric Compliance Co., Ltd.* *(Note (a))*	–	19,000	11,000	–
Chifeng Lifeng Taidi Automobile Service Co., Ltd.*	88	14,125	1,056	12
Inner Mongolia Lifeng Wuling Automobile Sale and Services Co., Ltd.*	1,608	1,607	1,524	1,524
Chifeng Lifeng Vehicle Store Co., Ltd.*	–	135	–	1,218
Ningbo Shenglan Finance Service Co., Ltd.* *(Note (b))*	–	–	2,400	1,004
Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.*	–	917	255	885
Chifeng Taiyue Automobile Sale and Services Co., Ltd.*	–	725	772	772
Huolinguole Lifeng Taidi Automobile Sale and Services Co., Ltd.*	–	–	856	183
Xilinguolemeng Lifeng Vehicle Store Co., Ltd.*	418	304	726	90
Bayannaoer Lifeng Taidi Automobile Sale and Services Co., Ltd.*	9	7	2,057	78
Inner Mongolia Lifeng Automobile Co., Ltd.*	3,114	2,940	22	22
Hulunber Lifeng Taikun Automobile Sale Insurance Agent Co., Ltd.*	–	2,042	171	–
Others	2,658	3,962	2,042	1,293
	7,895	45,764	22,881	7,081

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Name of non-trade related companies				
Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.*	–	87	17,903	49,870
Tongliao Tong Hua Investment Holdings Co., Ltd.*	6,893	18,172	35,357	30,452
Inner Mongolia Lifeng Automobile Co., Ltd.*	18,345	17,615	2,203	18,785
Chifeng Lifeng Vehicle Store Co., Ltd.*	8,904	14,230	34,747	18,110
Inner Mongolia Lifeng Changan Automobile Sale and Services Co., Ltd.*	23,128	19,124	20,775	16,725
Hulunber Lifeng Vehicle Store Co., Ltd.*	8,848	8,928	7,739	3,887
Xilinguolemeng Lifeng Vehicle Store Co., Ltd.*	1,122	2,168	3,204	1,250
Erdos Tianyi Automobile Sale Co., Ltd.*	4,235	24,423	1,753	–
Hinggan Lifeng Hengtai Automobile Sale Insurance Agent Co., Ltd.*	6,250	11,223	7,180	297
Others	1,228	5,526	4,432	1,403
	78,953	121,496	135,293	140,779

Note:

(a) The party has common connected directors.

(b) The party has common connected directors.

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20. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

At 31 December 2015, 2016 and 2017 and period ended 31 March 2018, the Target Group pledged certain of its bank deposits with carrying amounts of approximately RMB32,420,000, RMB11,380,000, RMB13,175,000 and RMB10,601,000 to banks as security for the Target Group's bank and other borrowings.

Details of the security for bank and other borrowings are disclosed in note 23.

At 31 December 2015 and 2016 and 2017 and period ended 31 March 2018, the Target Group also pledged certain of its bank deposits with carrying amounts of RMB93,847,000, RMB28,550,000, RMB20,718,000 and RMB14,477,000, respectively, to banks as security for bills payable. The pledged bank deposits will be released upon the settlement of the relevant bills payable.

The Target Group' bank balances and cash are all denominated in RMB.

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Pledged bank deposit	126,267	39,930	33,893	25,078
Cash and bank balance	69,457	55,267	57,572	60,006
	195,724	95,197	91,465	85,084

21. TRADE AND BILLS PAYABLES

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables *(Note (a))*	13,165	23,080	26,662	34,801
Bills payables *(Note (b))*	202,004	39,299	26,839	21,628
	215,169	62,379	53,501	56,429

Note:

(a) The Target Group' trade payables mainly relate to purchase of spare parts and accessories. A credit period not exceeding 90 days is generally granted by certain suppliers to the Target Group for the purchase of spare parts and accessories. Bills payable primarily relates to the Target Group's use of bank acceptance notes to finance its purchase of passenger vehicles, with a credit period of one to six months.

(b) Certain Bills payables were secured by certain bank deposits. Details of these bank deposits are disclosed in note 20.

The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 30 days	9,919	17,445	20,002	25,607
31 to 60 days	2,302	1,537	3,357	3,731
61 to 90 days	105	30	1,860	3,597
Over 90 days	839	4,068	1,443	1,866
	13,165	23,080	26,662	34,801

As at 31 December 2015, 2016 and 2017 and period ended 31 March 2018, bill payable are payable with 6 months.

22. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits received for renewal contract of insurance	34,545	35,777	38,014	33,109
Deposits received for purchases of goods	29,554	45,332	51,403	71,903
Deposits received from online reseller	7,425	10,058	13,131	12,522
Other deposit received	2,831	3,210	9,598	12,489
Received in advance for the extended warranty	3,780	39,826	45,554	46,376
Received in advance for other services	284	351	1,122	628
Other received in advance *(Note (a))*	7,000	7,000	–	–
Interest payables	76	108	55	71
Accrued salary	8,199	13,958	9,223	8,441
Accrual expenses	506	973	3,598	6,721
Other tax payables	3,833	6,908	10,049	3,868
Other loan *(Note (b))*	360	9,007	965	217
Others	12,302	11,510	7,361	12,261
	110,695	184,018	190,097	208,606

Note:

a. The balance represented a deposit of approximately RMB7,000,000 placed by a customer for a automobile model that has subsequently ceased from production. Such balance was agreed to reimbursed certain project expenses of that customer. The amount has been settled during the year ended 31 December 2017.

b. Included in balance as at 31 December 2016 was approximately of RMB6,000,000 loans from previous shareholders of the Chifeng Lifeng Toyota Automobile Sales & Service Co., Ltd. The balance has been fully settled during the year ended 31 December 2017. Details of such loan are disclosed in note 24(c).

23. BANK AND OTHER BORROWINGS

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings	111,023	151,045	72,161	79,209
Other borrowings	302,100	285,248	289,476	280,892
	413,123	436,293	361,637	360,101
Secured	405,230	429,841	356,637	356,111
Unsecured	7,893	6,452	5,000	3,990
	413,123	436,293	361,637	360,101
Guarantee borrowing by related parties *(Note (a) to (b))*	116,167	136,593	89,870	102,877
Other guarantee borrowings *(Note (c) to (f))*	289,063	293,248	266,767	253,234
	405,230	429,841	356,637	356,111
Bank borrowings are repayable as:				
Within one year	350,423	413,793	361,637	360,101
More than one year, but not exceeding two years	50,100	22,500	–	–
More than two years, but not more than five years	12,600	–	–	–
	412,123	436,293	361,637	360,101

The interest rates per annum of borrowings are as follows

	As at 31 December			As at 31 March
	2015	2016	2017	2018
Bank borrowings	4.85% to 8.00%	4.85% to 10.80%	5.00% to 14.40%	5.00%–15.60%
Other borrowings	5.07% to 10.22%	4.95% to 9.46%	5.45% to 15.60%	5.45%–15.60%

Note:

(a) Bank and other borrowings of approximately RMB7,500,000, RMB13,500,000, RMB15,896,525 and RMB23,570,654 respectively for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 were secured by the land and building of a fellow subsidiary, Inner Mongolia Lifeng Vehicle Store Co., Ltd.*, with a carrying amount of approximately RMB384,267,634, RMB473,970,070, RMB78,915,040 and RMB78,130,152 respectively. Such loan is also secured by the land use right of that subsidiary with a carrying amount of approximately RMB89,702,436, RMB89,702,436, RMB250,964,214 and RMB250,964,214 respectively.

(b) Bank and other borrowings of approximately RMB63,672,085, RMB86,253,900, RMB64,820,406, RMB68,205,606 respectively for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 were jointly secured by the land and building and land use right of a fellow subsidiary, Erdos Tianyi Automobile Sales Co., Ltd.* and Huhhot Lifeng Holding Co., Ltd.*. The carrying amount of land and buildings are approximately RMB63,132,000, RMB63,132,000, RMB10,742,302 and RMB10,639,193 for the respectively year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 and the carrying amount of the land use right are approximately of RMB180,485,520, RMB291,826,688, RMB191,826,688 and RMB191,826,688 respectively for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018.

(c) Bank and other borrowings of approximately RMB235,640,756, RMB240,588,529, RMB165,416,427 and RMB 192,200,006, respectively for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 was secured by bank guarantee and inventory with a carrying amount of approximately RMB249,315,559, RMB242,113,190, RMB247,118,098 and RMB283,554,176 respectively.

(d) Bank and other borrowings of approximately RMB53,260,922, RMB58,801,885, RMB62,927,392 and RMB59,327,293 respectively for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 was secured by the plant and machinery with a carrying amount of approximately RMB41,367,419, RMB56,480,330, RMB51,404,545 and RMB58,588,801 respectively.

(e) Bank and other borrowings of approximately RMB45,155,860, RMB30,697,028, RMB18,110,296 and RMB 12,807,415 respectively for the year ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 was secured by corporate guarantee by the immediate holding company and related parties and shareholders' personal guarantee.

(f) Bank and other borrowings of approximately RMB29,466,370 was secured by 100% shares investment on Inner Mongolia Lifeng Taidi Automobile Service Co., Ltd.*, the direct subsidiary of the Target Company after reorganisation, with net assets value of RMB32,784,504 for the period ended 31 December 2017.

* *The English name is for identification purpose only*

24. NOTE TO THE COMBINED STATEMENTS OF CASH FLOWS

(a) Reconciliation of profit before tax to cash generated from operations

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation	51,846	94,623	138,371	6,527	9,662
Adjustments for:					
Interest income	(8,125)	(7,589)	(476)	(120)	(145)
Interest expenses	26,468	22,918	21,292	5,323	8,387
Depreciation of property, plant and equipment	12,819	12,874	10,119	2,530	2,405
Impairment loss on trade receivables	775	255	–	–	–
Write-off of inventories	–	138	–	–	–
Impairment on property, plant and equipment	–	–	3,286	–	–
Gain on disposal of property, plant and equipment	(60)	(2,905)	(2,806)	(702)	(431)
Increase in trade receivables	(5,349)	(11,797)	(4,149)	(1,037)	23,256
Decrease/(increase) in prepayments, deposits and other receivables	19,354	(10,637)	(17,895)	(23,394)	49,213
Decrease/(increase) in inventories	37,722	(3,313)	31,609	7,902	(58,638)
Increase/(decrease) in trade and bills payables	7,505	(153,011)	(8,878)	(2,077)	2,928
Increase in amounts due from related parties	(56,272)	(173,507)	(42,835)	(709)	(29,634)
(Decrease)/increase in amounts due to related parties	(36,391)	80,412	(9,086)	(2,273)	(10,314)
Increase in other payables and accruals	12,394	63,670	6,132	(14,467)	18,493
Withdrawal of pledged bank deposit	500,840	680,642	479,729	119,932	55,182
Placement of pledged bank deposit	(503,220)	(594,305)	(473,692)	(118,423)	(46,367)
Cash generated from/(used in) operations	60,306	(1,532)	130,721	(20,988)	23,997

(b) Material non-cash transactions

In June 2016, the original controlling shareholder of the Target Group entered into an equity share transfer agreement with an independent third party in relation to obtaining 94.917% effective shareholding of Chifeng Lifeng Toyota Automobile Sales & Service Co., Ltd. ("Chifeng Toyota"). Since then, its financial position and its statement of profit or loss was combined into the combined financial statement of the Target Group. The financial information of Chifeng Toyota at the completion date was disclosed as below:

The carrying amounts and fair value of assets acquired and liabilities recognised at the date of acquisition:

	RMB'000
Property, plant and equipment	1,761
Inventories	8,601
Trade receivable	54
Prepayments, deposit and other receivable	2,015
Cash and cash equivalents	486
Trade payable	(221)
Accrual and other payable*	(9,620)
Tax payable	(1)
Amount due from related parties	(1,776)
Net asset	1,299
Net cash inflow into the Target Group:	
Cash and cash equivalents	486

* Included in the balance was a shareholder loan of approximately RMB6,000,000 from previous shareholder.

(c) Reconciliation of profit before tax to cash generated from operations

	Interest payables *RMB'000*	Bank and other borrowings within 1 year *RMB'000*	Bank and other borrowings more than 1 year *RMB'000*	Total *RMB'000*
Net debts as at 1 January 2015	165	340,751	78,700	419,616
Changes from financing cash flows:				
Proceeds from new loans	–	2,401,339	–	2,401,339
Repayment on loans	–	(2,391,667)	(16,000)	(2,407,667)
Interest paid	(26,557)	–	–	(26,557)
Total changes from financing cash flows	(26,557)	9,672	(16,000)	(32,885)
Other changes				
Interest expenses	26,468	–	–	26,468
Net debts as at 31 December 2015 and 1 January 2016	76	350,423	62,700	413,199
Changes from financing cash flows:				
Proceeds from new loans	–	2,924,508	–	2,924,508
Repayment on loans	–	(2,861,138)	(40,200)	(2,901,338)
Interest paid	(22,886)	–	–	(22,886)
Total changes from financing cash flows	(22,886)	63,370	(40,200)	284
Other changes				
Interest expenses	22,918	–	–	22,918
Net debts as at 31 December 2016 and 1 January 2017	108	413,793	22,500	436,401
Changes from financing cash flows:				
Proceeds from new loans	–	3,009,340	–	3,009,340
Repayment on loans	–	(3,061,496)	(22,500)	(3,083,996)
Interest paid	(21,345)	–	–	(21,345)
Total changes from financing cash flows	(21,345)	(52,156)	(22,500)	(96,001)
Other changes				
Interest expenses	21,292	–	–	21,292
Net debts as at 31 December 2017	55	361,637	–	361,692

	Interest payables *RMB'000*	Bank and other borrowings within 1 year *RMB'000*	Bank and other borrowings more than 1 year *RMB'000*	Total *RMB'000*
Net debts as at 31 December 2017 and 1 January 2018	55	361,637	–	361,692
Changes from financing cash flows:				
Proceeds from new loans	–	557,476	–	557,476
Repayment on loans	–	(559,012)	–	(559,012)
Interest paid	(8,371)	–	–	(8,371)
Total changes from financing cash flows	(8,371)	(1,536)	–	(9,907)
Other changes				
Interest expenses	8,387	–	–	8,387
Net debts as at 31 March 2018	71	360,101	–	360,172
Net debts as at 31 December 2016 and 1 January 2017	108	413,793	22,500	436,401
Changes from financing cash flows:				
Proceeds from new loans	–	752,335	–	752,335
Repayment on loans	–	(745,518)	–	(745,518)
Interest paid	(5,337)	–	–	(5,337)
Total changes from financing cash flows	(5,337)	6,817	–	1,480
Other changes				
Interest expenses	5,323	–	–	5,323
Net debts as at 31 March 2017 (unaudited)	94	420,610	22,500	443,204

25. COMBINED CAPITALS

As mentioned in Note 3(b) above, the Historical Financial Information has been prepared as if the current group structure had been in existence throughout each of the years ended 31 December 2015, 2016 and 2017 and period ended 31 March 2018 or since the respective dates of incorporation of the combining companies whichever is the shorter period. Combined capital represents the share capital of the subsidiaries comprising the Target Group after elimination of inter-company investments.

26. RESERVES

(a) Target Group

The amounts of the Target Group's reserves and movements therein are presented in the combined statements of profit or loss and other comprehensive income and combined statements of changes in equity.

(b) Nature and purpose of reserves

(i) Merger reserve

The merger reserve represents the capital contribution by Lifeng Dingsheng to each of the Subsidiaries of the Target Group. Details of the movement on such reserve are disclosed in combined statement of changes in equity.

(ii) Statutory reserve

In accordance with the relevant laws and regulations of the PRC, it is required to appropriate 10% of its net profit under China Accounting Standards for Business Enterprises, after offsetting any prior years' losses, to the statutory reserve. When the balance of such reserve reaches 50% of the Target Companies' share capital, any further appropriation is optional.

The statutory reserve can be used to offset prior years' losses, if any, and may be converted into registered capital, provided that the remaining balance of the reserve after such conversion is not less than 25% of registered capital. The statutory surplus reserve is non-distributable.

27. PLEDGE OF ASSETS

At the end of each reporting period, the following assets were pledged to bank and suppliers to secure the Target Group's bank and other borrowings and bills payables:

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Pledged bank deposit	126,267	39,930	33,893	25,078
Inventories	227,471	219,606	236,313	272,749
	353,738	259,536	270,206	297,827

28. OPERATING LEASE COMMITMENTS

As lessee

Future minimum rental payables under non-cancellable operating lease of the Target Group in respect of as at the reporting dates are as follows:

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	20,160	17,326	17,209	13,745
Within two to five years	775	6,280	23,485	11,604
Over five years	–	–	15,390	15,105
	20,935	29,306	56,084	40,454

The Target Group leases warehouses under non-cancellable operating leases.

29. CAPITAL COMMITMENTS

As at 31 December 2015 and 2016 and 2017 and period ended 31 March 2018, the Target Group had no material contingent liabilities and did not have any outstanding capital commitments.

30. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in this Circular, the Target Group had entered into the following material transactions with related parties during the Relevant Periods:

(a) Transactions with related parties

Name of related parties	Nature of transaction	Year ended 31 December 2015 RMB'000	2016 RMB'000	2017 RMB'000	As at 31 March 2017 RMB'000 (unaudited)	2018 RMB'000
Chifeng Lifeng Taidi Automobile Service Co., Ltd.*	Sales of goods or services	1,320	23,467	665	166	45,225
Baotou Lifeng Taixiang Automobile Sale and Services Co., Ltd.*	Sales of goods or services	14,649	3,734	9,597	2,399	9,559
Baotou Taidi Automobile Sale and Services Co., Ltd.*	Sales of goods or services	1	103	–	–	8,080
Bayannaoer Lifeng Taidi Automobile Sale and Services Co., Ltd.*	Sales of goods or services	2,637	2,224	452	113	7,458
Hulunber Lifeng Taikun Automobile Sale Insurance Agent Co., Ltd.*	Sales of goods or services	–	3,019	2,832	708	2,832
Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.*	Sales of goods or services	–	17,207	1,487	372	2,039
Xilinguolemeng Lifeng Vehicle Store Co., Ltd.*	Sales of goods or services	846	755	2,206	552	1,503
Tongliao Tong Hua Investment Holdings Co., Ltd.*	Sales of goods or services	1,096	2,166	112	28	1,313
Inner Mongolia Lifeng Changan Automobile Sale and Services Co., Ltd.*	Sales of goods or services	720	219	1,994	499	1,173
Hohhot Lifeng Vehicle Store Co., Ltd.*	Sales of goods or services	4,861	5,601	4,224	1,056	679
Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.*	Purchase of goods or services	–	36,346	3,654	914	11,602
Hohhot Lifeng Vehicle Store Co., Ltd.*	Purchase of goods or services	6,501	4,283	475	119	3,545
Inner Mongolia Lifeng Taiyu Automobile Service Co., Ltd.*	Purchase of goods or services	–	–	–	–	2,691
Inner Mongolia Lifeng Tailai Automobile Service Co., Ltd.*	Purchase of goods or services	1,464	600	25	6	2,600
Tongliao Tong Hua Investment Holdings Co., Ltd.*	Purchase of goods or services	–	–	1,691	423	1,785
Inner Mongolia Taida Automobile Service Co., Ltd.*	Purchase of goods or services	–	–	–	–	1,516
Hinggan Lifeng Hengtai Automobile Sale Co., Ltd.*	Purchase of goods or services	–	–	970	243	1,486
Hulunber Lifeng Vehicle Store Co., Ltd.*	Funds transfer	550	550	73,370	18,343	38,649
Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.*	Funds transfer	–	2,367	38,042	9,511	28,630
Chifeng Lifeng Vehicle Store Co., Ltd.*	Funds transfer	–	–	17,882	4,471	14,302
Arongqi Lifeng Automobile Sale Co., Ltd.*	Funds transfer	–	–	–	–	5,010
Tongliao Tong Hua Investment Holdings Co., Ltd.*	Funds transfer	10,727	36,067	3,472	868	1,892

* *The English name is for identification purpose only*

(b) Financial guarantee given by related parties

Details of the financial guarantee are disclosed in note 23.

31. NON-CONTROLLING INTERESTS

The following table shows information on the non-wholly-owned subsidiaries of the Target Group that have material non-controlling interests ("NCI"):

Name	**Hinggan Lifeng Taiyu Motor Sales Co. Ltd.**			
	As at 31 December			**As at 31 March**
	2015	**2016**	**2017**	**2018**
Principal place of business/country of incorporation	The PRC	The PRC	The PRC	The PRC
% of ownership interests/voting rights held by NCI	45.5%	45.5%	45.5%	45.5%
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	1,831	1,383	1,760	1,559
Current assets	48,367	39,391	28,234	49,194
Non-current liabilities	–	–	–	–
Current liabilities	(32,462)	(22,947)	(12,657)	(33,802)
Net assets	17,736	17,827	17,337	16,951
Accumulated NCI	8,070	8,111	7,887	7,925

	Year ended 31 December			**Three months ended 31 March**	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	128,949	146,757	151,484	26,317	27,545
Profit	2,033	91	(492)	65	(386)
Total Comprehensive income	2,033	91	(492)	65	(386)
Profit allocated to NCI	925	41	(224)	30	(175)
Net cash (used in)/from operating activities	3,661	(16,286)	298	(1,429)	(3,516)
Net cash (used in)/from investing activities	898	448	(377)	429	201
Net cash (used in)/from financing activities	–	–	–	–	–
Net (decrease)/increase in cash and cash equivalents	4,559	(15,838)	(79)	(1,000)	(3,315)

Name	**Ulanhot Lifeng Taidi Automobile Sales & Service Co., Ltd.**			
	As at 31 December			**As at 31 March**
	2015	**2016**	**2017**	**2018**
Principal place of business/country of incorporation	The PRC	The PRC	The PRC	The PRC
% of ownership interests/voting rights held by NCI	45.5%	45.5%	45.5%	45.5%
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	1,975	1,840	1,200	1,491
Current assets	13,315	17,619	10,408	13,900
Non-current liabilities	–	–	–	–
Current liabilities	(10,965)	(14,509)	(6,801)	(10,938)
Net assets	4,325	4,950	4,807	4,453
Accumulated NCI	1,968	2,251	2,185	1,726

	Year ended 31 December			**Three months ended 31 March**	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	51,106	87,608	52,596	18,331	8,924
Profit	49	623	(144)	(179)	(354)
Total Comprehensive income	49	623	(144)	(179)	(354)
Profit allocated to NCI	22	283	(66)	(81)	(161)
Net cash (used in)/from operating activities	1,020	(1,151)	86	987	(466)
Net cash (used in)/from investing activities	(157)	135	640	122	(291)
Net cash (used in)/from financing activities	–	–	–	–	–
Net (decrease)/increase in cash and cash equivalents	863	(1,016)	726	1,109	(757)

Name	**Hinggan Taihong Wuling Motor Sales Co., Ltd.**			
	As at 31 December			**As at 31 March**
	2015	**2016**	**2017**	**2018**
Principal place of business/country of incorporation	The PRC	The PRC	The PRC	The PRC
% of ownership interests/voting rights held by NCI	45.5%	45.5%	45.5%	45.5%
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	395	446	206	92
Current assets	25,560	41,658	38,533	29,042
Non-current liabilities	(3,200)	–	–	–
Current liabilities	(14,291)	(31,190)	(27,141)	(17,913)
Net assets	8,464	10,914	11,598	11,221
Accumulated NCI	3,851	4,966	5,276	3,776

	Year ended 31 December			**Three months ended 31 March**	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	63,141	66,955	75,976	15,328	3,692
Profit	2,113	2,450	682	211	(377)
Total Comprehensive income	2,113	2,450	682	211	(377)
Profit allocated to NCI	961	1,115	310	96	(171)
Net cash (used in)/from operating activities	1,148	3,471	(1,210)	(1,013)	(446)
Net cash (used in)/from investing activities	73	(51)	240	135	114
Net cash (used in)/from financing activities	(1,300)	(3,200)	–	–	–
Net (decrease)/increase in cash and cash equivalents	(79)	220	(970)	(878)	(332)

III. SUBSEQUENT EVENTS

No significant event took place after the Relevant Periods.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group or any of its subsidiaries in respect of any period subsequent to 31 March 2018.

A. UNAUDITED PRO FORMA COMBINED STATEMENT OF FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following are the illustrative unaudited pro forma combined statement of financial position, the illustrative unaudited pro forma combined statement of financial performance and the illustrative unaudited pro forma combined statement of cash flow of the Enlarged Group (collectively, the "**Unaudited Pro Forma Financial Information**"), which have been prepared by the Directors on the basis of notes to the Unaudited Pro Forma Financial Information of the Enlarged Group set out below and in accordance with Rule 4.29(1) of the Listing Rules, for the purpose of illustrating the effects of the Acquisition on the Group for the inclusion in this circular.

The Unaudited Pro Forma Financial Information has been prepared to illustrate the effect of the Acquisition as if the Acquisition had taken place on 31 December 2017 for the unaudited pro forma combined statement of financial position and on 1 January 2017 for the unaudited pro forma combined statement of financial performance and the unaudited pro forma combined statement of cash flow.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed on 1 January 2017 or 31 December 2017, or any future dates.

1. Unaudited pro forma combined statement of financial position

	The Group as at 31 December 2017	Target Group as at 31 March 2018	Pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(Note 1)	*(Note 3)*	*(Note 5)*	*(Note 6(a), (b))*	*(Note 7)*	
Non-current assets						
Property, plant and equipment	206,033	32,476				238,509
Leasehold land and land use rights	29,152	–				29,152
Investment properties	46,398	–				46,398
Goodwill	43,919	–		18,524		62,443
Other intangible assets	49,660	–				49,660
Amounts due from related parties	24,262	–				24,262
Interest in an associate	159	–				159
Deferred tax assets	37,627	6,266				43,893
Other non-current assets	8,636	–				8,636
	445,846	38,742				503,112
Current assets						
Inventories	177,986	391,090				569,076
Tax recoverable	6	2,205				2,211
Trade receivables	161,632	28,937				190,569
Deposits, prepayments and other receivables	442,264	251,514		(244,213)		449,565
Amounts due from related parties	15,006	644,254				659,260
Pledged time deposits	4,500	25,078				29,578
Cash and cash equivalents	132,944	60,006	440,558	(415,787)		217,721
	934,338	1,403,084				2,117,980
Total assets	1,380,184	1,441,826				2,621,092
Current liabilities						
Bank borrowings, secured	157,051	356,111				513,162
Bank borrowings, Unsecured	–	3,990				3,990
Trade and bills payables	242,755	56,429				299,184
Accruals and other payables	428,163	208,606	(188,975)		9,000	456,794
Amounts due to related parties	2,719	147,860				150,579
Tax payable	4,041	4,778				8,819
Convertible bonds	305,260	–				305,260
	1,139,989	777,774				1,737,788
Net current (liabilities)/assets	(205,651)	625,310				380,192
Total assets less current liabilities	240,195	664,052				874,018

	The Group as at 31 December 2017	Target Group as at 31 March 2018	Pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(Note 1)	*(Note 3)*	*(Note 5)*	*(Note 6(a), (b))*	*(Note 7)*	
Liabilities						
Non-current liabilities						
Deferred tax liabilities	22,268	–				22,268
Net assets	217,927	664,052				861,036
Equity						
Share capital	398,481	10,000	155,886	(10,000)		554,367
Reserves	(202,060)	631,476	473,647	(631,476)	(9,000)	262,587
	196,421	641,476				816,954
Non-controlling interests	21,506	22,576				44,082
Total Equity	217,927	664,052				861,036

2. Unaudited pro forma combined statement of financial performance of the Enlarged Group

	The Group for the year ended 31 Dec 2017 *RMB'000* (Audited)	Target Group for the year ended 31 Dec 2017 *RMB'000* (Audited)	Pro forma adjustments *RMB'000* (Unaudited)	The Enlarged Group *RMB'000* (Unaudited)
	(Note 2)	*(Note 3)*	*(Note 7)*	
Revenue	1,267,928	4,102,236		5,370,164
Cost of sales and services	(1,045,573)	(3,739,437)		(4,785,010)
Gross profit	222,355	362,799		585,154
Other revenue and gains and losses	(203,571)	(196)		(203,767)
Distribution costs	(184,082)	(181,105)		(365,187)
Administrative expenses	(152,619)	(21,835)	(9,000)	(183,454)
Impairment loss on goodwill and other intangible assets	(5,302)	–		(5,302)
Finance costs	(47,885)	(21,292)		(69,177)
Share of loss of an associate	(234)	–		(234)
(Loss)/profit before taxation	(371,338)	138,371		(241,967)
Income tax	1,368	(34,522)		(33,154)
(Loss)/profit after taxation	(369,970)	103,849		(275,121)
Other comprehensive income				
Item that will not be reclassified to profit or loss:				
Exchange differences on translation of foreign operations	9,831	–		9,831
Other comprehensive income for the year, net of tax	9,831	–		9,831
Total comprehensive (loss)/income for the year	(360,139)	103,849		(265,290)
(Loss)/profit for the year attributable to:				
– Equity shareholders of the Company	(315,465)	102,923	(9,000)	(221,542)
– Non-controlling interests	(54,505)	926		(53,579)
	(369,970)	103,849		(275,121)
Total comprehensive (loss)/income attributable to:				
– Equity shareholders of the Company	(305,634)	102,923	(9,000)	(211,711)
– Non-controlling interests	(54,505)	926		(53,579)
	(360,139)	103,849		(265,290)

3. Unaudited pro forma combined statement of cash flow of the Enlarged Group

	The Group for the year ended 31 Dec 2017	Target Group for the year ended 31 Dec 2017	Pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(Note 2)	*(Note 3)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	
CASH FLOWS FROM OPERATING ACTIVITIES						
(Loss)/profit before taxation	(371,338)	138,371			(9,000)	(241,967)
Adjustments for:						
Write-down of inventories	2,765	–				2,765
Depreciation and amortisation	39,917	10,119				50,036
Additional allowance for doubtful debts	7,143	–				7,143
Impairment of other intangible assets and goodwill	5,302	–				5,302
Impairment loss on property, plant and equipment	–	3,286				3,286
Equity-settled share-based payments	716	–				716
Interest income	(4,529)	(476)				(5,005)
Interest expenses	47,885	21,292				69,177
Loss/(gain) on disposal of property, plant and equipment	722	(2,806)				(2,084)
Fair value change on investment properties	(2,534)	–				(2,534)
Fair value change of conversion option	208,031	–				208,031
Share of loss of an associate	234	–				234
Operating cash flows before working capital changes	(65,686)	169,786				95,100
(Increase)/decrease in inventories	(2,962)	31,609				28,647
Increase in trade receivables	(6,988)	(4,149)				(11,137)
Decrease/(increase) in deposits, prepayments and other receivables	179	(17,895)				(17,716)
Decrease/(increase) in amounts due from related companies	14,016	(42,835)				(28,819)
Increase/(decrease) in amounts due to related companies	2,719	(9,086)				(6,367)
Increase/(decrease) in trade payables	57,044	(8,878)				48,166
Increase in accruals and other payables	33,238	6,132			9,000	48,370
Withdrawal of pledged bank deposit	–	479,729				479,729
Placement of pledged bank deposit	–	(473,692)				(473,692)
Cash generated from operations	31,560	130,721				162,281
Income tax paid	(4,829)	(28,949)				(33,778)
Net cash generated from operating activities	26,731	101,772				128,503

	The Group for the year ended 31 Dec 2017	Target Group for the year ended 31 Dec 2017	Pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(Note 2)	*(Note 3)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of property, plant and equipment	(74,667)	(30,914)				(105,583)
Proceeds from disposal of property, plant and equipment and investment properties	537	19,972				20,509
Loans repaid by a third party	66,500	–				66,500
Net cash inflow/(outflow) for acquiring of subsidiaries	124	–		(415,787)		(415,663)
Net cash inflow for disposal of subsidiaries	19,500	–				19,500
Loans to a related party	(25,651)	–				(25,651)
Loans to Lifeng Dingsheng	(242,512)	–				(242,512)
Interest received	2,828	476				3,304
Net cash used in investing activities	(253,341)	(10,466)				(679,594)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issue of convertible bonds	230,128	–				230,128
Net proceed from issue of shares	–	7,000	440,558			447,558
Capital received from non-controlling owners of a subsidiary	6,200	–				6,200
Proceeds from investment of a third party	188,975	–				188,975
Proceeds from exercise of share options	4,658	–				4,658
Proceeds from new bank loans	172,051	3,009,340				3,181,391
Repayment of bank loans	(193,475)	(3,083,966)				(3,277,471)
Repayment of convertible bonds	(191,324)	–				(191,324)
Dividend paid to non-controlling owners of subsidiaries	(69)	–				(69)
Interest paid	(18,099)	(21,345)				(39,444)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	199,045	(89,001)				550,602
Net increase/(decrease) in cash and cash equivalents	(27,565)	2,305				(489)
Cash and cash equivalents at the beginning of the year	164,269	55,267				219,536
Effect of foreign exchange rate changes	(3,760)	–				(3,760)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	132,944	57,572				215,287

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The balance is extracted from the audited consolidated statement of financial position of the Group as at 31 December 2017 as set out in the published annual report of the Company for the year ended 31 December 2017.

2. The balances are extracted from the audited consolidated statement of financial performance and consolidated statement of cash flow as set out in the published annual report of the Company for the year ended 31 December 2017.

3. These figures are extracted from the accountants' report of the Target Group as set out in Appendix II to this circular.

4. Pursuant to the loan agreement entered into on 28 December 2017 between the Group and the Target Group, the Group agreed to provide a loan in the principal amount of approximately RMB244,213,000 to the Target Group.

5. On 19 June 2018, the Company allotted and issued 1,904,761,905 subscription shares amounted to approximately RMB655,826,000 (equivalent to approximately HK$809,661,000 based on the exchange rate of HK$1.00 equal to RMB0.81). The net proceeds in respect from the subscription after deducting all related fees and expenses of approximately RMB26,293,000 (equivalent to HK$32,461,000 based on the exchange rate of HK$1.00 equal to RMB0.81) was approximately RMB629,533,000. The actual net proceeds received was RMB440,558,000 after offsetting the deposit received from the subscriber (of approximately RMB188,975,000) in December 2017. The share capital and the share premium were recognised at approximately RMB155,886,000 and RMB473,647,000, respectively (equivalent to HK$192,452,000 and HK$584,748,000 respectively based on the exchange rate of HK$1.00 to RMB0.81).

6. Upon completion of the Acquisition, the Company will directly hold 100% of the equity interests in Inner Mongolia Chuangying Automobile Co., Ltd.. The consideration of the Acquisition was determined at RMB660,000,000, which consists of i) an amount of approximately RMB244,213,000 to be offsetted; and ii) the remaining balance to be settled in cash of approximately RMB415,787,000. The identifiable assets and liabilities of the Target Group will be accounted for in the Enlarged Group at their fair values using the acquisition accounting method in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

   (a) The recognition of goodwill arising from the Acquisition as if the Acquisition had been completed on 31 December 2017 is as follows:

	RMB'000	*RMB'000*
Consideration		
–Cash *(note 6)*		415,787
–Offset by other borrowing to the Target Group *(note 4)*		244,213
		660,000
Less: Fair value of net assets and liabilities of Target Group acquired as at 31 March 2018	664,052	
Less: Share of non-controlling interest of Target Group	(22,576)	(641,476)
Goodwill		18,524

For the purpose of the Unaudited Pro Forma Financial Information, the Directors considered that there is no impairment in the value of goodwill based on their assessment performed in accordance with HKAS 36 — Impairment of Asset. Upon completion of the Acquisition, the Company will adopt consistent accounting policies and principal assumptions which are consistent with those used in the Unaudited Pro Forma Financial Information to assess the impairment of the Enlarged Group's goodwill when preparing future consolidated financial statements of the Enlarged Group, and the auditors will conduct auditing in accordance with the Hong Kong Standards on Auditing.

The actual amount of goodwill may be differ from the amount described above and would be subject to the carrying amount of the net assets of the Target Group and the accumulated amount of the net assets of the Target Group.

(b) The pro forma adjustment of approximately RMB10,000,000 and RMB631,476,000 represents the elimination of the share capital and pre-acquisition reserve of the Target Group as if the Acquisition had been completed on 31 March, 2018.

7. The pro forma adjustment represents the estimated professional fees and expenses directly attributable to the Subscription amounting to approximately RMB9,000,000.

8. Save as aforesaid, no other adjustments have been made to reflect any trading result or other transactions of the Enlarged Group entered into subsequent to 31 March 2018. Unless otherwise stated, the adjustments above are not expected to have a continuing effect on the Enlarged Group.

The following is the text of a report, prepared for inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.

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Hong Kong

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

To the Directors of New Focus Auto Tech Holdings Limited

Dear Sir,

We have completed our assurance engagement to report on the compilation of unaudited 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 (the "**Unaudited Pro Forma Financial Information**") consists of the unaudited pro forma combined statement of financial position as at 31 December 2017, the unaudited pro forma combined statement of financial performance and the unaudited pro forma combined statement of cash flow for the year ended 31 December 2017 and related notes as set out in Section A of Appendix III to the circular issued by the Company dated 24 August 2018 (the "**Circular**") in connection with the proposed acquisition of the entire equity interests in Inner Mongolia Chuangying Automobile Co., Ltd (the "**Target Company**", together with its subsidiaries hereinafter collectively referred to as the "**Target Group**") by the Company (the "**Proposed Acquisition**"). The applicable criteria on the basis of which the Directors have compiled the Statement are described in Appendix III of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Acquisition on the Group's financial position as at 31 December 2017 and the Group's financial performance and cash flow for the year ended 31 December 2017 as if the Proposed Acquisition had taken place at 31 December 2017 and 1 January 2017, respectively. As part of this process, information about the Group's financial, financial performance and cash flows position has been extracted by the Directors from the Group's audited condensed consolidated statement of financial position as set out in the published annual results announcement for the year ended 31 December 2017, and information about the Target Group's financial position, financial performance and cash flows has been extracted by the Directors from the Target Group's financial information for the three months ended 31 March 2018 and for the year ended 31 December 2017 (on which an accountants' report has been published), as set out in Appendix II to the Circular.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited 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**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited 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 Unaudited 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 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 Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited 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 Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Proposed Acquisition on unadjusted financial information of the Group as if the Proposed Acquisition 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 the Proposed Acquisition would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited 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 Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related Unaudited Pro Forma Adjustments give appropriate effect to those criteria; and

- The Unaudited 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 Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited 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 Unaudited Pro Forma Financial Information has been properly compiled by the Directors 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Shek Lui
Practising Certificate Number: P05895
Hong Kong, 24 August 2018

I. FOR THE YEAR ENDED 31 DECEMBER 2015

Set out below is the management discussion and analysis of the operation results and business review of the Group as extracted from the annual report of the Company for the year ended 31 December 2015. Capitalised terms used hereafter shall have the same meanings as those defined in the annual report of the Company for the year ended 31 December 2015.

Business review

In 2015, the Group focused on the automotive aftermarket chain service in the Greater China region to satisfy the comprehensive needs of numerous automotive users, taking the market-leading position in the industry.

Segment information

Retail service business

The consolidated revenue of the Group's retail service business amounted to approximately RMB481,910,000 (2014: RMB516,898,000), representing a decrease of approximately 6.8%. The decrease was mainly due to the irrational expansion in e-commerce resulting in challenges to the industry. Meanwhile, the revenue from public service cars dropped due to the impact of reform on public service cars.

The gross profit of the Group's retail service business was approximately RMB99,253,000 (2014: RMB122,934,000), representing a decrease of approximately 19.3%, while its gross margin decreased from approximately 23.8% to approximately 20.6%. The decrease of gross profit was mainly attributable to the challenges from e-commerce to the automobile detailing and cleaning business.

Wholesale service business

The consolidated revenue of wholesale service business of the Group was approximately RMB356,062,000 (2014: RMB443,257,000), representing a decrease of approximately 19.7%. The Company disposed of its 51% equity interest in Hubei Autoboom Auto Accessories Supermarket Co., Ltd. in the end of 2014, and the revenue of approximately RMB57,308,000 from Hubei Autoboom Auto Accessories Supermarket Co., Ltd. was consolidated into the Group's financial statements in 2014. Excluding such factor, the consolidated revenue of wholesale service business of the Group recorded a year-on-year decrease of approximately RMB29,887,000. This 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 RMB70,285,000 (2014: RMB98,318,000), representing a decrease of approximately 28.5%, while its gross margin decreased from approximately 22.2% to approximately 19.7%, among which the disposal of 51% equity interest in Hubei

Autoboom Auto Accessories Supermarket Co., Ltd. in the end of 2014 led to a decrease of approximately RMB13,347,000 in gross profit as compared with the corresponding period. Excluding such factor, the gross profit decreased by approximately RMB14,686,000 as compared with the corresponding period. This was mainly attributable to the decrease in income arising from the impact of e-commerce business on the wholesale business of automobile products under the Group's wholesale service business.

Manufacturing business

The consolidated revenue of the manufacturing business of the Group was approximately RMB416,219,000 (2014: RMB437,343,000), representing a decrease of approximately 4.8%. The decrease was mainly attributable to the decrease in orders from overseas customers.

The gross profit of the Group's manufacturing business was approximately RMB85,583,000 (2014: RMB75,867,000), representing an increase of approximately 12.8%, while its gross margin was approximately 20.6% (2014: 17.3%). The increase in gross profit was mainly attributable to an increase in the proportion of sales of products with high gross profit and the appreciation of United States dollar in 2015.

Financial Review

Revenue

For the year ended 31 December 2015, the Group recorded a consolidated revenue of approximately RMB1,254,191,000 (2014: RMB1,397,498,000), representing a decrease of approximately 10.3%. The decrease in the consolidated revenue of the Group for the year ended 31 December 2015 was primarily attributable to (i) the impact of expansion in e-commerce; (ii) the disposal by the Company of its 51% equity interest in Hubei Autoboom Auto Accessories Supermarket Co., Ltd. in 2014 and (iii) the decrease in orders from overseas customers for the manufacturing business of the Group. The expansion in e-commerce posed significant competition to the retail service business and the wholesale service business of the Group, which led to decreases in sales volume and revenue for both the retail service business and the wholesale service business of the Group. In addition, the disposal of 51% equity interest in Hubei Autoboom Auto Accessories Supermarket Co., Ltd. by the Company in 2014 also contributed to the decrease in the consolidated revenue for the year ended 31 December 2015 as compared to the year ended 31 December 2014, as the revenue of approximately RMB57,308,000 from Hubei Autoboom Auto Accessories Supermarket Co., Ltd. was consolidated into the Group's financial statements for the year ended 31 December 2014.

Gross profit and gross margin

The consolidated gross profit of the Group was approximately RMB255,121,000 in 2015 (2014: RMB297,119,000), representing a decrease of approximately 14.1%. Gross margin decreased from approximately 21.3% in 2014 to approximately 20.3% in 2015. The decrease in the consolidated gross profit and gross margin of the Group for the year ended 31 December 2015 was primarily attributable to the decrease in consolidated gross profit and gross margin of the retail service business and the wholesale service business of the Group as a result of increasing challenges of e-commerce posed to the Group. As a result of the competition caused by the expansion in e-commerce, there was a general decrease in sales price and sales volume of the products and services of the retail service business and the wholesale service business of the Group, which led to the decrease in gross profit as well as gross margin of the Group for the year ended 31 December 2015.

Other revenue and gains and losses

Other revenue and gains and losses for the year ended 31 December 2015 were approximately RMB55,124,000 (2014: RMB49,078,000), representing an increase of approximately RMB6,046,000. It was mainly attributable to the gain on fair value change in embedded derivative financial instruments in relation to the convertible bonds in the principal amount of US$25,000,000 which was issued to Haitong International Financial Products Limited by the Company on 13 July 2015 ("**Haitong CBs**") and the increase in interest income during the year ended 31 December 2015.

Expenses

Sales and marketing expenses for the year ended 31 December 2015 were approximately RMB198,621,000 (2014: RMB225,042,000), representing a decrease of approximately 11.7%, among which the disposal of 51% equity interest in Hubei Autoboom Auto Accessories Supermarket Co., Ltd. led to a decrease of approximately RMB8,056,000 in sales and marketing expenses. Excluding such factor, sales and marketing expenses decreased by approximately RMB18,365,000. It was mainly due to tightened expenses and the decrease in sales commission of manufacturing business.

The administrative expenses for the year ended 31 December 2015 were approximately RMB143,331,000 (2014: RMB121,268,000), representing an increase of approximately 18.2%, among which the disposal of 51% equity interest in Hubei Autoboom Auto Accessories Supermarket Co., Ltd. led to a decrease of approximately of RMB5,256,000 in administrative expense. Excluding such factor, administrative expense increased by approximately RMB27,319,000, among which the intermediary expenses in relation to the proposed subscription for 50% equity interest in Shenzhen Jiahong Trading Development Co., Ltd. were approximately RMB11,800,000, while the amortization of share options expenses increased by approximately RMB7,000,000. The remaining increase of approximately RMB8,519,000 was mainly due to administrative expenses arising from the expansion of the Group's retail service business.

Operating loss

The operating loss of the Group was approximately RMB65,589,000 (2014: operating loss of RMB113,000). The operating loss increased by approximately RMB65,476,000, of which approximately RMB28,003,000 arose from the impairment loss on goodwill allocated to Changchun Guangda Automobile Trading Co., Ltd., a subsidiary of the Company due to its failure to meet anticipated business performance for the year ended 31 December 2015, while the remaining approximately RMB37,473,000 was attributable to the initial loss from newly established stores and the impact on the Group's retail service business and wholesale service business arising from the irrational expansion of e-commerce.

Finance costs

Net finance costs amounted to approximately RMB37,713,000 (2014: RMB26,266,000), representing an increase of approximately 43.6%. It was mainly attributable to the issue of the Haitong CBs, leading to an increase of finance costs during the year ended 31 December 2015.

Taxation

Income tax expenses were approximately RMB645,000 (2014: RMB9,422,000). The decrease of income tax expenses was mainly attributable to the decrease of profit before tax of certain profitable subsidiaries of the Group.

Loss attributable to owners of the Company

Loss attributable to owners of the Company was approximately RMB90,967,000 (2014: share of loss of RMB43,223,000). Compared with 2014, the loss attributable to the owners of the Company increased by RMB47,744,000. After deducting an amount of approximately RMB28,003,000 of impairment loss on goodwill of the Company accounted for loss attributable to owners of the Company, the loss attributable to owners of the Company increased by RMB19,741,000. It was mainly attributable to the decrease in income from retail service business and wholesale service business as well as increase in administrative expenses and finance costs. Loss per share was approximately RMB2.41 cents (2014: loss per share of RMB1.27 cents).

Capital structure, financial position and liquidity

Capital structure

On 5 July 2015, the Company entered into a subscription agreement with Haitong International Financial Products Limited pursuant to which the Company has conditionally agreed to issue, and Haitong International Financial Products Limited has conditionally agreed to subscribe for the Haitong CBs in an aggregate principal amount of US$25,000,000 (equivalent to HK$194,500,000) due in 2017. Assuming full conversion of the Haitong CBs at the initial conversion price of

HK$3.00 per share, the Haitong CBs will be converted into approximately 64,833,333 conversion shares. The net proceeds from the issue of the Haitong CBs, after deducting all related fees and expenses are approximately HK$192,500,000. The issue of Haitong CBs to Haitong International Financial Products Limited was completed on 13 July 2015. Details of the transaction above are set out in the announcements of the Company dated 6 July 2015, 7 July 2015 and 13 July 2015.

Upon the receipt of a conversion notice on 25 December 2015 from CDH Fast Two Limited for conversion of all remaining convertible bonds in the principal amount of US$24,342,500 issued to it by the Company, the Company allotted and issued a total of 813,507,947 conversion shares to CDH Fast Two Limited at the conversion price of HK$0.2328 per conversion share on 28 December 2015.

As at 31 December 2015, the Group's total assets were RMB1,319,032,000 (31 December 2014: RMB1,188,415,000), comprising: (1) share capital of RMB376,133,000 (31 December 2014: RMB307,931,000), (2) reserves of RMB208,580,000 (31 December 2014: RMB232,366,000), and (3) debts of RMB734,319,000 (31 December 2014: RMB648,118,000).

Financial position and liquidity

For the year ended 31 December 2015, the Group continued to maintain a stable financial position and the liquidity of assets of the Group remained healthy. The Group had a net cash outflow from operating activities of approximately RMB6,160,000 (2014: inflow of RMB64,321,000).

The non-current assets were approximately RMB451,928,000 as at 31 December 2015 (31 December 2014: RMB469,881,000).

The net current assets were approximately RMB160,653,000 as at 31 December 2015 (31 December 2014: RMB234,232,000), with a current ratio of approximately 1.23 (31 December 2014: 1.48).

Gearing ratio calculated by dividing total liabilities by total assets was approximately 55.67% as at 31 December 2015 (31 December 2014: 54.54%). As at 31 December 2015, the total bank borrowings of the Group were approximately RMB224,245,000 (31 December 2014: RMB161,829,000).

The Group maintained 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.

Exchange risk

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$. The Group reduced the exposure of US$ assets by US$ borrowings to minimize exchange risk.

Material acquisitions and disposals and material investments

Material acquisitions, proposed placing and increase in authorized share capital

Acquisitions, proposed placing and increase in authorized share capital

On 27 March 2015, Perfect Progress Investments Limited, a wholly-owned subsidiary of the Company, Shenzhen Jiahong Trading Development Co., Ltd., Mr. Zhou Jian Ming and Ms. Qiu Ping (collectively, the "**Existing Shareholders**") entered into a subscription agreement, pursuant to which Shenzhen Jiahong Trading Development Co., Ltd. and the Existing Shareholders have agreed to conduct the capital increase, such that the registered capital of Shenzhen Jiahong Trading Development Co., Ltd. will be increased from RMB300,000,000 to RMB600,000,000, and Perfect Progress Investments Limited has conditionally agreed to subscribe for the additional registered capital of RMB300,000,000 at a consideration of RMB300,000,000 (the "**2015 Subscription**").

In light of the 2015 Subscription, the Company intended to place not more than 1,500,000,000 new Shares (the "**Proposed Placing**") prior to the completion of the 2015 Subscription and the proceeds from the Proposed Placing would be primarily used to settle the consideration for the 2015 Subscription and the remaining balance would be used as financial assistance to Shenzhen Jiahong Trading Development Co., Ltd. and its subsidiaries, the commission for the placing agent and/or any other expenses in relation to the Proposed Placing.

In order to accommodate the Proposed Placing and the future expansion and growth of the Company, the Company proposed to increase its 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 (the "**Increase in Authorized Share Capital**").

The resolutions regarding the 2015 Subscription, Proposed Placing and Increase in Authorized Share Capital were officially passed by the Shareholders by way of poll at the extraordinary general meeting held on 21 July 2015.

Details regarding the 2015 Subscription, Proposed Placing and Increase in Authorized Share Capital were set out in the announcements of the Company dated 29 December 2014, 26 March 2015, 30 March 2015, 17 April 2015, 22 April 2015, 22 May 2015, 8 June 2015 and 22 June 2015, as well as the circular dated 30 June 2015 and the announcement dated 21 July 2015.

Performance of Supplemental Agreement to Equity Transfer Agreement regarding acquisition of 51% equity interest in Changchun Guangda Automobile Trading Co., Ltd.

Pursuant to the supplemental agreement to equity transfer agreement regarding acquisition of 51% equity interest in Changchun Guangda Automobile Trading Co., Ltd., as the audited net profit after taxation of Changchun Guangda Automobile Trading Co., Ltd. for 2015 was less than RMB26,000,000, the Company was not required to pay the consideration of RMB4,780,000 and obtained the additional 10% equity interest in Changchun Guangda Automobile Trading Co., Ltd. held by the vendor in the acquisition of 51% of equity interest in Changchun Guangda Automobile Trading Co., Ltd. by the Company as collateral at no consideration. As a result, the Company held 61% equity interest in Changchun Guangda Automobile Trading Co., Ltd.. Please refer to the announcement of the Company dated 29 January 2014 for more details.

Significant investments

For the year ended 31 December 2015, 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 2015, 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 RMB128,528,000 (31 December 2014: RMB130,971,000).

Contingent liabilities

As at 31 December 2015, the Group had no significant contingent liabilities.

Outlook and future prospects

In 2016, increasing the number of automotive service stores and improving the Group's operation model remained to be the main focus of the Group, thus the Group continued to adopt the following operational strategies:

(i) continue to carry out the urban strategies, further increase the number of terminal stores in central cities, adhere to the expansion model of setting up new stores by a combined portfolio of large comprehensive stores or maintenance and sheet metal painting centers supported by small community stores, and speed up the progress of setting up new stores in order to dominate the community portal channel of the automotive after-sales services. The Group will fully facilitate the joint entrepreneurship plans to attract outstanding key staff and aspiring teams to participate;

(ii) expand the scope of cooperation with Sinopec. Leveraging the demonstrative effects of retail service stores established at the gas stations within the Sinopec Hubei network, the Group will promote the cooperation model of the Group and Sinopec in the markets of other regions in order to strive for a breakthrough in mega cities, and expand the scope of cooperation to the nationwide gas station network of Sinopec eventually. The Group will also further implement the cooperation agreement with PetroChina Gansu by duplicating its partnership store set-up model with Sinopec in order to further expand and improve the retail service chain network of the Group;

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

(iv) to meet the rapid development needs of the terminal stores and enhance management efficiency, the Group will comprehensively upgrade its ERP management system and go for a mobile extension;

(v) actively adjust the product structure of wholesale business, focus on automotive repair and maintenance products with rigid demand and improve logistics efficiency and service quality, enhance the proportion of e-commerce sales, and continue to improve its unified e-commerce platform, enabling the Group to become an indispensable comprehensive supplier that provides integrated repair and maintenance products for automotive after-sales service stores in target markets;

(vi) continue to actively search for and negotiate with potential targets the acquisition of which will help achieve the strategic objectives of the Group, consider acquisition in due course and explore opportunities to introduce new business scopes in the automotive after-sales services market, such as professional automotive repair, automotive insurance and automotive finance, so as to provide vehicle owners with more comprehensive automotive after-sales services and to improve the Group's competitive advantages.

The Group's manufacturing business continued to put efforts into its marketing strategies based on product orientation and driven by innovation; enhance research and development investment, such as the investment in power management of new energy vehicle; raise the core competitiveness and advancement of the products, and effectively expand its domestic market share. Meanwhile, the Group would conduct market expansion on its self-owned brands in the Asia-Pacific market, especially the PRC market, and boost the continuing innovation of its business model and products.

Employees and remuneration policies

As at 31 December 2015, the Group employed a total of 3,815 (31 December 2014: 4,135) full-time employees, of which 543 (31 December 2014: 573) were managerial staff. 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 2015, the Group did not declare or pay any dividend.

II. FOR THE YEAR ENDED 31 DECEMBER 2016

Set out below is the management discussion and analysis of the operation results and business review of the Group as extracted from the annual report of the Company for the year ended 31 December 2016. Capitalised terms used hereafter shall have the same meanings as those defined in the annual report of the Company for the year ended 31 December 2016.

Business review

In 2016, the Group focused on the automotive after-sales chain service in China to satisfy the comprehensive needs of numerous automotive users, taking the market-leading position in the industry.

Segment information

Retail service business

The consolidated revenue of the Group's retail service business amounted to approximately RMB469,143,000 (2015: RMB481,910,000), representing a decrease of approximately 2.65%. The decrease was mainly due to the disposal of 100% of equity interest in each of the subsidiaries of the Company, New Focus Richahaus Corporation Limited and Taiwan New Focus Auto Service Corporation Limited in July 2016 (the "**Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus**"). The contribution of New Focus Richahaus Corporation Limited and Taiwan New Focus Auto Service Corporation Limited to the revenue of the Group's retail service business for the year ended 31 December 2015 was approximately RMB131,503,000 and in light of the Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus in July 2016, the contribution of New Focus Richahaus Corporation Limited and Taiwan New Focus Auto Service Corporation Limited to the revenue of the Group's retail service business for the year ended 31 December 2016 decreased to approximately RMB78,473,000. Accordingly, the Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus resulted in a decrease in consolidated revenue of approximately RMB53,030,000 as compared with 2015. Excluding such factor, the consolidated revenue of retail service business of the Group recorded an increase of approximately RMB40,263,000 as compared to that of 2015, which was mainly attributable to the expansion of the Group's stores.

The gross profit of the Group's retail service business was approximately RMB100,177,000 (2015: RMB99,253,000), representing an increase of approximately 0.93%, and its gross margin increased from approximately 20.60% to approximately 21.35%. The increase in gross margin was mainly attributable to the increase in sales of products with high gross profit during the year ended 31 December 2016 compared with 2015. The contribution of New Focus Richahaus Corporation Limited and Taiwan New Focus Auto Service Corporation Limited to the gross profit of the Group for the year ended 31 December 2015 was approximately RMB17,502,000 and in light of the Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus in July 2016, the contribution of New Focus Richahaus Corporation Limited and Taiwan New Focus Auto Service Corporation Limited to the gross profit of the Group for the year ended 31 December 2016 decreased to approximately RMB10,256,000. Accordingly, the Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus resulted in the decrease in gross profit of approximately RMB7,246,000 as compared with 2015. Excluding such factor, the gross profit increased by approximately RMB8,170,000 as compared with 2015, which was mainly attributable to the expansion of the stores of the retail service business of the Group.

Wholesale service business

The consolidated revenue of the wholesale service business of the Group was RMB401,541,000 (2015: RMB356,062,000), representing an increase of approximately 12.77%. The increase was mainly attributable to the rapid development in e-commerce platform business conducted by subsidiaries of the Company, namely, Liaoning Xin Tian Cheng Industrial Co., Ltd. and Zhejiang Autoboom Industrial Co., Limited, since May 2015 and July 2016 respectively.

The gross profit of the Group's wholesale service business was approximately RMB81,010,000 (2015: RMB70,285,000), representing an increase of approximately 15.26%, and its gross margin increased from approximately 19.74% to approximately 20.17%, which was mainly attributable to the optimization of inventory cost management of the Company's subsidiary Zhejiang Autoboom Industrial Co., Limited.

Manufacturing business

The consolidated revenue of the manufacturing business of the Group was RMB421,981,000 (2015: RMB416,219,000), representing an increase of approximately 1.38%, which was mainly attributable to the sales of new products developed.

The gross profit of the Group's manufacturing business was RMB93,615,000 (2015: RMB85,583,000), representing an increase of approximately 9.39%, and its gross margin was approximately 22.18% (2015: 20.6%). The increase of gross margin was mainly attributable to the optimization of product portfolio in the Group's manufacturing business, leading to an increase in the proportion of sales of products with high gross margin.

Financial Review

Revenue

For the year ended 31 December 2016, the Group recorded a consolidated revenue of approximately RMB1,292,665,000 (2015: RMB1,254,191,000), representing an increase of approximately 3.07%. The increase in the consolidated revenue of the Group for the year ended 31 December 2016 was primarily attributable to (i) the expansion of the retail service stores of the Group; and (ii) the Groups' expansion in e-commerce through the rapid development of the e-commerce platform business conducted by Liaoning Xin Tian Cheng Industrial Co., Ltd. and Zhejiang Autoboom Industrial Co., Limited (subsidiaries of the Company) since May 2015 and July 2016, respectively. The expansion of the retail service stores of the Group and the development of the e-commerce platform business of the Group broadened the sales channels of the retail service business and the wholesale service business of the Group, thereby leading to the increase in the sales volume of the retail service business and the wholesale service business of the Group and consequentially, the increase in consolidated revenue of the Group for the year ended 31 December 2016.

Gross profit and gross margin

The consolidated gross profit of the Group for the year ended 31 December 2016 was approximately RMB274,803,000 (2015: RMB255,121,000), representing an increase of approximately 7.71%. Gross margin increased from approximately 20.34% in 2015 to approximately 21.26% in 2016. The increase in the consolidated gross profit of the Group for the year ended 31 December 2016 was primarily attributable to (i) increase in the consolidated gross profit of the wholesale service business of the Group as a result of the Group's expansion in e-commerce through developing the e-commerce platform business conducted by Liaoning Xin Tian Cheng Industrial Co., Ltd. and Zhejiang Autoboom Industrial Co., Limited; and (ii) increase in the consolidated gross profit of the manufacturing business of the Group as a result of sales of new products developed and optimization of product portfolio, leading to an increase in the proportion of sales of products with high gross margin. The increase in the gross margin of the Group for the year ended 31 December 2016 was primarily attributable to (i) the optimization of inventory cost management of Zhejiang Autoboom Industrial Co., Limited, which led to a general decrease in the costs of sales and services of the wholesale service business of the Group and (ii) the optimization of product portfolio in the Group's manufacturing business, which led to an increase in the proportion of sales of products with high gross margin.

Other revenue and gains and losses

Other revenue and gains and losses for the year ended 31 December 2016 were approximately RMB59,934,000 (2015: RMB55,124,000), representing an increase of approximately 8.73%. It was mainly attributable to the investment income of RMB18,840,000 received from the Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus, the disposal of 51% of equity interest in Shanghai Astrace Trade Development Co., Ltd., the disposal of 100% equity interest in Shanghai New Focus Auto Repair Service Co., Ltd. and the disposal of 100% equity interest in Shenzhen Yonglonghang Auto Service Ltd., and a decrease of RMB15,080,000 in gain on fair value change in embedded derivative financial instruments in relation to the Haitong CBs.

Expenses

Sales and marketing expenses for the year ended 31 December 2016 were approximately RMB213,738,000 (2015: RMB198,621,000), representing an increase of approximately 7.61%. Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus resulted in the decrease of sales and marketing expenses of RMB8,773,000. Excluding such factor, sales and marketing expenses increased by approximately RMB23,890,000. It was due to the increase in expenses of RMB15,700,000 arising from the expansion of the store network of the Group's retail service business and the increase in marketing and promotional expenses of RMB6,058,000 arising from the increased marketing efforts by the wholesale service business to promote sales.

The administrative expenses for the year ended 31 December 2016 were approximately RMB149,492,000 (2015: RMB143,331,000), representing an increase of approximately 4.30%. Compared with 2015, the administrative expenses decreased by approximately RMB5,624,000 due to the Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus. Excluding such factor, administrative expense increased by approximately RMB11,785,000, which was mainly attributable to the expansion of the stores of retail service business of the Group.

Operating loss

The operating loss of the Group was approximately RMB104,926,000 (2015: operating loss of RMB65,589,000), of which approximately RMB74,334,000 arose from the impairment loss on goodwill allocated to Changchun Guangda Automobile Trading Co., Ltd., a subsidiary of the Company due to its failure to meet anticipated business performance for the year ended 31 December 2016, while the remaining balance of approximately RMB30,592,000 was attributable to the initial loss from newly established stores of the retail service business of the Group and the impact on the Group's retail service business and wholesale service business arising from irrational expansion of e-commerce competitors.

Finance costs

Net finance costs amounted to approximately RMB40,885,000 (2015: RMB37,713,000), representing an increase of approximately 8.41%. It was mainly attributable to the increased interest expenses during the year ended 31 December 2016 from the issuance of Haitong CBs in the principal amount of US$25,000,000 to Haitong International Financial Products Limited.

Taxation

Income tax expenses were approximately RMB2,507,000 (2015: RMB645,000). The increase in income tax expenses was mainly attributable to the increase in profit before tax of certain profitable subsidiaries of the Company.

Loss attributable to owners of the Company

Loss attributable to owners of the Company was approximately RMB123,459,000 (2015: RMB90,967,000). Excluding the increase in the provision for goodwill impairment for Changchun Guangda Automobile Trading Co., Ltd. of approximately RMB46,331,000 as compared with 2015, the loss attributable to owners of the Company decreased by RMB13,839,000 as compared with 2015, which was mainly attributable to the Investment Income during the year ended 31 December 2016. Loss per share was approximately RMB2.70 cents (2015: RMB2.41 cents).

Capital structure, financial position and liquidity

Capital structure

On 5 July 2015, the Company entered into a subscription agreement with Haitong International Financial Products Limited pursuant to which the Company has conditionally agreed to issue, and Haitong International Financial Products Limited has conditionally agreed to subscribe for the Haitong CBs in an aggregate principal amount of US$25,000,000 (equivalent to approximately HK$194,500,000) due in 2017. Assuming full conversion of the Haitong CBs at the initial conversion price of HK$3.00 per share, the Haitong CBs will be converted into approximately 64,833,333 conversion shares. The net proceeds from the issue of the Haitong CBs, after deducting all related fees and expenses are approximately HK$192,500,000. The issue of Haitong CBs to Haitong International Financial Products Limited was completed on 13 July 2015. Details of the transaction above were set out in the announcements of the Company dated 6 July 2015, 7 July 2015 and 13 July 2015.

As at 31 December 2016, the Group's total assets were RMB1,212,834,000 (31 December 2015: RMB1,319,032,000), comprising: (1) share capital of RMB376,184,000 (31 December 2015: RMB376,133,000), (2) reserves of RMB52,983,000 (31 December 2015: RMB208,580,000), and (3) debts of RMB783,667,000 (31 December 2015: RMB734,319,000).

Financial position and liquidity

The Group continued to maintain a stable financial position during the year ended 31 December 2016 and the liquidity of assets of the Group remained healthy. The Group had a net cash outflow from operating activities of approximately RMB33,078,000 (2015: net cash outflow of RMB6,160,000).

The non-current assets were approximately RMB388,051,000 as at 31 December 2016 (31 December 2015: RMB451,928,000).

The net current assets were approximately RMB63,748,000 as at 31 December 2016 (31 December 2015: RMB160,653,000), with a current ratio of approximately 1.08 (31 December 2015: 1.23).

Gearing ratio calculated by dividing total liabilities by total assets was approximately 64.61% as at 31 December 2016 (31 December 2015: 55.67%).

As at 31 December 2016, the total bank borrowings of the Group were approximately RMB178,475,000 (31 December 2015: RMB224,245,000), approximately 23.40% of which were made in US$ and approximately 76.60% were made in RMB. All of the bank borrowings are repayable within one year and at fixed interest rates. The Group's need for borrowings was generally steady during the year ended 31 December 2016. The Group repaid or renewed the bank borrowings during the year ended 31 December 2016 when they became due. Committed borrowing facilities available to the Group but not drawn as at 31 December 2016 amounted to RMB43,245,000. The Group maintained strong and sufficient operating cash flow, bank deposits and banking facilities to finance its daily operation and capital expenditure.

Exchange risk

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. As approximately 80% of the revenue of the Group's manufacturing business was generated from the export of its products which was settled in US$ and most of the materials used to produce those exports were purchased in RMB, normally, the depreciation of US$ against RMB would adversely affect the profitability of the Group's manufacturing business. The Group managed its exposure to US$ foreign currency risk by making US$ borrowings to minimize exchange risk. As at 31 December 2016, the amount of the Group's US$ borrowings was approximately US$6,000,000.

Material disposals and material investments

Material disposal of subsidiaries

Disposal of 51% of equity interest in Shanghai Astrace Trade Development Co., Ltd.

New Focus Lighting & Power Technology (Shanghai) Company Limited, a wholly-owned subsidiary of the Company which indirectly held 51% of equity interest in Shanghai Astrace Trade Development Co., Ltd. (the "**SA Interest**"), entered into an equity transfer agreement (the "**SA Equity Transfer Agreement**") with Ms. Liu Fengxi, with effect from 28 December 2016. Pursuant to the SA Equity Transfer Agreement, Ms. Liu Fengxi has agreed to acquire, and New Focus Lighting & Power Technology (Shanghai) Company Limited has agreed to sell, the SA Interest at the consideration of RMB20,000,000 to be satisfied in cash (the "**SA Disposal**"). Upon completion of the SA Disposal on 29 December 2016, Shanghai Astrace Trade Development Co., Ltd. ceased to be a subsidiary of the Company. For further details, please refer to the announcement of the Company dated 28 December 2016.

Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus

Perfect Progress Investments Limited, a wholly-owned subsidiary of the Company which indirectly held 100% of equity interest in each of New Focus Richahaus Corporation Limited and Taiwan New Focus Auto Service Corporation Limited (collectively as the "**Target Interests**"), entered into an equity transfer agreement (the "**Equity Transfer Agreement**") with Asia Centre Auto Service Holdings Limited, with effect from 19 July 2016. Asia Centre Auto Service Holdings Limited is wholly-owned by Ms. Hung Ying-Lien (洪瑛蓮), vice president of the Group and director of New Focus Richahaus Corporation Limited and Taiwan New Focus Auto Service Corporation Limited. Pursuant to the Equity Transfer Agreement, Asia Centre Auto Service Holdings Limited has agreed to acquire, and Perfect Progress Investments Limited has agreed to sell, the Target Interests at the nominal consideration of NTD1 to be satisfied in cash. Upon completion of the Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus on 29 July 2016, New Focus Richahaus Corporation Limited and Taiwan New Focus Auto Service Corporation Limited ceased to be subsidiaries of the Company. For further details, please refer to the announcement of the Company dated 19 July 2016.

Significant investments

The Group had no significant investments during the year ended 31 December 2016. The Group has no specific future plans for material investments or acquisition of business.

Charge of assets on the Group

As at 31 December 2016, 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 RMB107,516,000 (31 December 2015: RMB128,528,000).

Other material risks and uncertainties

The Group operates its major business in Mainland China and faces other material risks and uncertainties, mainly including the future prospect of Mainland China's economy. Should Mainland China's economy suffer from downturn, the consumption sentiment of car owners will be affected which in turn will decrease the revenue of the Group. The Group has adopted a development path of establishing stores within gas stations with strategic partners to reduce its costs. It will pay close attention to the economic trend of Mainland China and deal with those risks and uncertainties in a timely manner.

Contingent liabilities

As at 31 December 2016, the Group had no significant contingent liabilities.

Outlook and future prospects

The Group continued to adopt the following operational strategies for its service business:

(i) expand the scope of cooperation with Sinopec and PetroChina. Leveraging on the demonstrative effects of retail service stores established at the gas stations within the Sinopec Hubei network, the Group will promote the cooperation model of the Group and Sinopec in the markets of other regions, and expand the scope of cooperation to the nationwide gas station network of Sinopec eventually. The Group will also further implement the cooperation agreements with PetroChina Gansu and PetroChina Beijing by replicating its partnership store set-up model with Sinopec in order to further expand and improve the retail service chain network of the Group;

(ii) actively adjust the product portfolio of the Group's wholesale business; focus on automotive repair and maintenance products with rigid demand; improve logistics efficiency and service quality; enhance the proportion of e-commerce sales; and continue to improve its unified e-commerce platform "Auto Make", thereby enabling the Group to become an indispensable comprehensive supplier that provides integrated repair and maintenance products for automotive after-sales service stores in target markets;

(iii) continue to actively search for and negotiate with potential acquisition targets and cooperation partners which will help achieve the strategic objectives of the Group.

Employees and remuneration policies

As at 31 December 2016, the Group employed a total of 4,339 (31 December 2015: 3,815) full-time employees, of which 627 (31 December 2015: 543) were managerial staff. 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, and formulates and implements share option schemes as a long-term incentive scheme of the Group. The total employee benefit expenses of the Group for the year ended

31 December 2016 was approximately RMB320,496,000 (2015: RMB280,261,000). Details of the share options scheme are disclosed in the "Report of the Directors" of the annual report of the Company for the year ended 31 December 2016. The Group stresses the importance of staff development and provides training programmes on an ongoing basis with reference to its strategic objectives and performance of its staff.

III. FOR THE YEAR ENDED 31 DECEMBER 2017

Set out below is the management discussion and analysis of the operation results and business review of the Group as extracted from the annual report of the Company for the year ended 31 December 2017. Capitalised terms used hereafter shall have the same meanings as those defined in the annual report of the Company for the year ended 31 December 2017.

Business review

In 2017, the Group focused on the automotive after-sales chain service in China to satisfy the comprehensive needs of numerous automotive users, taking the market-leading position in the industry.

Segment information

Retail service business

The consolidated revenue of the Group's retail service business amounted to approximately RMB364,310,000 (2016: RMB469,143,000), representing a decrease of approximately 22.35%. The aggregate contribution of New Focus Richahaus Corporation Limited, Taiwan New Focus Auto Service Corporation Limited, Shanghai New Focus Auto Repair Service Co., Ltd. and Shenzhen Yonglonghang Auto Service Ltd. to the revenue of the Group's retail service business for the year ended 31 December 2016 was approximately RMB127,874,000 and as a result of the disposal of 100% of equity interest in each of New Focus Richahaus Corporation Limited, Taiwan New Focus Auto Service Corporation Limited, Shanghai New Focus Auto Repair Service Co., Ltd. and Shenzhen Yonglonghang Auto Service Ltd. in 2016 (the "**Disposal of Equity Interest in Certain Subsidiaries in Retail Service Business**"), there ceased to be any such contribution to the revenue of the Group's retail service business for the year ended 31 December 2017 and accordingly, the consolidated revenue decreased by approximately RMB127,874,000 as compared with 2016 due to the Disposal of Equity Interest in Certain Subsidiaries in Retail Service Business. Excluding such factor, the consolidated revenue of retail service business of the Group recorded an increase of approximately RMB23,041,000 or approximately 6.75% as compared with 2016, which was mainly attributable to the expansion of stores.

The gross profit of the Group's retail service business was approximately RMB73,664,000 (2016: RMB100,177,000), representing a decrease of approximately 26.47%, and its gross margin decreased from approximately 21.35% to approximately 20.22%. The aggregate contribution of New Focus Richahaus Corporation Limited, Taiwan New Focus Auto Service Corporation Limited, Shanghai New Focus Auto Repair Service Co., Ltd. and Shenzhen Yonglonghang Auto Service Ltd. to the gross profit of the Group's retail service business for the year ended 31 December 2016 was approximately RMB9,438,000 and as a result of the Disposal of Equity Interest in Certain Subsidiaries in Retail Service Business, there ceased to be any such contribution to the gross profit of the Group's retail service business for the year ended 31 December 2017 and accordingly, the gross profit recorded a decrease of approximately RMB9,438,000 as compared with 2016. Excluding such factor, the gross profit decreased by approximately RMB17,075,000 and gross margin decreased from approximately 26.59% to approximately 20.22% as compared with 2016, mainly due to the fact that certain newly-established stores of the Group's retail service business were still at the growth stage.

Wholesale service business

The consolidated revenue of the wholesale service business of the Group was RMB320,936,000 (2016: RMB401,541,000), representing a decrease of approximately 20.07%. The contribution of Shanghai Astrace Trade Development Co., Limited, a subsidiary of the Company, to the revenue of the wholesale service business of the Group was approximately RMB76,627,000 for the year ended 31 December 2016 and as a result of the Company's disposal of 51% equity interest in Shanghai Astrace Trade Development Co., Limited in December 2016 (the "**Disposal of Equity Interest in Shanghai Astrace**", together with the Disposal of Equity Interest in Certain Subsidiaries in Retail Service Business, the "**Disposal of Equity Interest in Subsidiaries in 2016**"), there ceased to be any such contribution to the revenue of the wholesale service business of the Group for the year ended 31 December 2017 and accordingly, the consolidated revenue decreased by approximately RMB76,627,000 as compared with 2016 due to the Disposal of Equity Interest in Shanghai Astrace. Excluding such factor, the consolidated revenue of the wholesale service business of the Group recorded a decrease of approximately RMB3,978,000 or 1.22% as compared with 2016, which was mainly due to the strict selection of online and offline target partners of wholesale service business.

The gross profit of the Group's wholesale service business was approximately RMB30,529,000 (2016: RMB81,010,000), representing a decrease of approximately 62.31%, and its gross margin decreased from approximately 20.17% to approximately 9.51%. The contribution of Shanghai Astrace Trade Development Co., Limited, a subsidiary of the Company, to the gross profit of the wholesale service business of the Group was approximately RMB42,661,000 for the year ended 31 December 2016 and as a result of the Disposal of Equity Interest in Shanghai Astrace, there ceased to be any such contribution to the gross profit of the wholesale service business of the Group for the year ended 31 December 2017 and accordingly, the gross profit decreased by approximately RMB42,661,000 as compared with 2016. Excluding such factor, the gross profit decreased by approximately RMB7,820,000 and gross margin decreased from approximately 11.80% to approximately 9.51% as compared with 2016, mainly due to the promotion of online malls and decrease in the proportion of sales of products with high gross margin.

Manufacturing business

The consolidated revenue of the manufacturing business of the Group was approximately RMB582,682,000 (2016: RMB421,981,000), representing an increase of approximately 38.08%, which was mainly attributable to the sales of newly developed products and revenue generated from new customers brought by expansion of the domestic and foreign markets.

The gross profit of the Group's manufacturing business was approximately RMB118,162,000 (2016: RMB93,615,000), representing an increase of approximately 26.22%, and its gross margin was approximately 20.28% (2016: 22.18%). The decrease of gross margin was mainly attributable to the increase in raw material cost and labour cost and RMB appreciation.

Financial Review

Revenue

For the year ended 31 December 2017, the Group recorded a consolidated revenue of approximatelyRMB1,267,928,000 (2016: RMB1,292,665,000), representing a decrease of approximately 1.91%. Excluding the effect of a decrease of RMB204,501,000 in the consolidated revenue arising from the Company's disposal of equity interest in certain subsidiaries in 2016, the consolidated revenue of the Group recorded an increase of approximately RMB179,764,000 or approximately 16.52% as compared with 2016.

Gross profit and gross margin

The consolidated gross profit for the year ended 31 December 2017 was approximately RMB222,355,000 (2016: RMB274,803,000), representing a decrease of approximately 19.09%. Excluding the effect of the decrease of RMB52,099,000 in the consolidated gross profit resulted from the Disposal of Equity Interest in Subsidiaries in 2016, the consolidated gross profit of the Group recorded a decrease of approximately 0.16% as compared with 2016, and the gross margin decreased from approximately 20.47% in 2016 to approximately 17.54% in 2017.

Expenses

Sales and marketing expenses for the year ended 31 December 2017 were approximately RMB184,082,000 (2016: RMB213,738,000), representing a decrease of approximately 13.87%. The Disposal of Equity Interest in Subsidiaries in 2016 resulted in a decrease of sales and marketing expenses of approximately RMB54,562,000. Excluding such factor, sales and marketing expenses increased by approximately RMB24,906,000. It was mainly due to the increase in expenses of RMB16,037,000 arising from the expansion of the store network of the Group's retail service business and the increase in commission and delivery expense of RMB7,195,000 in aggregate arising from the revenue growth of the manufacturing business.

The administrative expenses for the year ended 31 December 2017 were approximately RMB152,619,000 (2016: RMB149,492,000), representing an increase of approximately 2.09%. The Disposal of Equity Interest in Subsidiaries in 2016 resulted in the decrease in the administrative expenses of RMB25,267,000 for the year ended 31 December 2017. Excluding such factor, the administrative expenses increased by RMB28,394,000, mainly attributable to the expansion of the stores of retail service business of the Group which resulted in an increase of administrative expenses of RMB14,366,000 and the increased investment in the research and development of manufacturing business resulted in an increase of administrative expenses of RMB4,528,000.

Operating loss

The operating loss of the Group for the year ended 31 December 2017 was approximately RMB323,453,000 (2016: operating loss of RMB104,926,000), of which RMB208,031,000 was the loss due to the fair value change in relation to the convertible notes in the principal amount of US$35,000,000 due in 2019 (the "**CCBC Convertible Bonds**") issued to High Inspiring Limited ("**High Inspriring**") on 1 September 2017 (the "**Loss Due to Fair Value Change in Derivative Financial Instruments for the Year**") and RMB5,302,000 was the impairment provision for intangible assets allocated to Changchun Guangda Automobile Trading Co., Ltd., a subsidiary of the Company, due to its failure to meet the anticipated operating results for the year ended 31 December 2017. The remaining operating losses of approximately RMB110,120,000 were mainly attributable to the growth-stage loss from newly-established stores of the Group's retail service business and the impact on the Group's retail service business and wholesale service business arising from irrational expansion of e-commerce competitors.

Finance costs

Net finance costs for the year ended 31 December 2017 amounted to approximately RMB47,885,000 (2016: RMB40,885,000), representing an increase of approximately 17.12%. It was mainly attributable to the increased interest expenses relating to convertible notes for the Year as compared with 2016.

Taxation

Income tax expenses for the year ended 31 December 2017 were approximately RMB(1,368,000) (2016: RMB2,507,000). The decrease in income tax expenses was mainly attributable to the impairment of the intangible assets of Changchun Guangda Automobile Trading Co., Ltd., which resulted in the reversal of deferred income tax liabilities in the year ended 31 December 2017 and offsetting of the income tax expenses in the amount of RMB1,325,000.

Loss attributable to owners of the Company

Loss attributable to equity shareholders of the Company for the year ended 31 December 2017 was approximately RMB315,465,000 (2016: RMB123,459,000).

Excluding the following factors: difference in fair value change for the year ended 31 December 2017 as compared with that for the year ended 31 December 2016 in the amount of RMB212,281,000; the decrease of RMB71,100,000 in impairment provision for goodwill and intangible assets as compared with 2016 due to the failure of Changchun Guangda Automobile Trading Co., Ltd. to meet anticipated operating results for the year ended 31 December 2017; and the Company's investment income of RMB18,840,000 in 2016, the loss attributable to equity shareholders of the Company increased by RMB31,985,000, which was mainly attributable to the growth-stage loss from newly-established stores of the Group's retail service business and the impact on the Group's retail service business and wholesale service business arising from irrational expansion of e-commerce competitors. Loss per share for the year ended 31 December 2017 was approximately RMB6.79 cents (2016: RMB2.70 cents).

Capital structure, financial position and liquidity

Financial position and liquidity

The Group continued to maintain a stable financial position during the year ended 31 December 2017 and the liquidity of assets of the Group remained healthy. The Group had a net cash inflow from operating activities of approximately RMB26,731,000 (2016: net cash outflow of RMB33,078,000).

The non-current assets were approximately RMB445,846,000 as at 31 December 2017 (31 December 2016: RMB388,051,000).

The net current liabilities were approximately RMB205,651,000 as at 31 December 2017 (31 December 2016: net current assets RMB63,748,000). If the fair value change in conversion option of RMB132,200,000 included in the convertible bonds and the receipt in advance from customers of RMB125,370,000 are not included, which should not be settled by cash, the net current assets are approximately RMB51,919,000 as at 31 December 2017.

Gearing ratio calculated by dividing total liabilities by total assets was approximately 84.21% as at 31 December 2017 (31 December 2016: 64.61%). The rise in gearing ratio was mainly attributable to the Loss Due to Fair Value Change in Derivative Financial Instruments for the Year.

As at 31 December 2017, the total bank borrowings of the Group were approximately RMB157,051,000 (31 December 2016: RMB178,475,000), approximately 16.59% of which were made in US$ and approximately 83.41% were made in RMB. All of the bank borrowings are repayable within one year and at fixed interest rates. The Group's need for borrowings was generally steady during the year ended 31 December 2017. The Group repaid or renewed the bank borrowings during the year ended 31 December 2017 when they became due. As at 31 December 2017, committed borrowing facilities available to the Group but not drawn amounted to RMB77,000,000. The Group maintains strong and sufficient operating cash flow, bank deposits and banking facilities to finance its daily operation and capital expenditure.

Capital structure

On 21 August 2017, the Company entered into a convertible note purchase agreement with High Inspiring Limited, pursuant to which the Company conditionally agreed to issue and High Inspiring Limited conditionally agreed to purchase the CCBC Convertible Notes. Assuming full conversion of the CCBC Convertible Notes at the initial conversion price of HK$0.306085 per share, the CCBC Convertible Notes will be convertible into approximately 886,191,744 shares of the Company. The net proceeds from the issue of CCBC Convertible Notes, after deducting all related fees and expenses, are approximately US$34,916,000. The issue of CCBC Convertible Notes was completed on 1 September 2017. Details of the aforementioned transaction are set out in the announcements of the Company dated 21 August 2017 and 8 September 2017.

Upon the receipt of two conversion notices dated 12 September 2017 and 28 September 2017, respectively, from High Inspiring Limited, each for conversion of part of the CCBC Convertible Notes in the principal amount of US$5,000,000, the Company allotted and issued 126,598,820 conversion shares, respectively, to High Inspiring Limited at the conversion price of HK$0.306085 per conversion share on 14 September 2017 and 3 October 2017, respectively.

On 21 December 2017, the Company entered into two separate subscription agreements with two subscribers (including Fame Mountain), pursuant to which the Company conditionally agreed to allot and issue, and the subscribers conditionally agreed to subscribe for, an aggregate of 2,380,952,382 shares at the subscription price of HK$0.42 per share. The net proceeds from the subscriptions, after deducting all related fees and expenses, were expected to be approximately HK$965,000,000. On 25 April 2018, the Company and one of the two subscribers entered into a deed of termination to terminate the relevant subscription agreement. Pursuant to the remaining subscription agreement (the "**Fame Mountain Subscription Agreement**"), the Company conditionally agreed to allot and issue, and Fame Mountain conditionally agreed to subscribe for, 1,904,761,905 shares at the subscription price of HK$0.42 per share. The net proceeds from the Subscription, after deducting all related fees and expenses, are expected to be HK$765,000,000. On 14 June 2018, an extraordinary general meeting of the Company was convened and held in which the Shareholders approved the Fame Mountain Subscription Agreement and the transactions contemplated thereunder. Completion of the Subscription has taken place on 19 June 2018. Please refer to the announcements of the Company dated 21 December 2017, 25 April 2018, 14 June 2018 and 19 June 2018 and the circular of the Company dated 28 May 2018 for further details of the Subscription.

As at 31 December 2017, the Group's total assets were RMB1,380,184,000 (31 December 2016: RMB1,212,834,000), comprising: (1) share capital of RMB398,481,000 (31 December 2016: RMB376,184,000), (2) reserves of RMB(180,554,000) (31 December 2016: RMB52,983,000), and (3) debts of RMB1,162,257,000 (31 December 2016: RMB783,667,000).

Exchange risk

The Group's retail and wholesale service businesses were mainly conducted in the PRC and their settlement currency was RMB, so there was no exchange risk. As approximately 80% of the revenue of the Group's manufacturing business was generated from the export of its products which was settled in US$ and most of the materials used to produce those exports were purchased in RMB, the depreciation of US$ against RMB would normally adversely affect the profitability of the Group's manufacturing business. The Group managed its exposure to US$ foreign currency risk by making US$ borrowings to minimize exchange risk. As at 31 December 2017, the amount of the Group's US$ borrowings was approximately US$4,000,000.

In addition, the interests payable under the CCBC Convertible Notes, which are estimated to be US$1,796,000 and US$1,750,000 for the years of 2018 and 2019, respectively, will be paid out of the revenue generated from the export of the Group's manufacturing business. This will help hedge against the exchange risk faced by the Group's manufacturing business.

Material acquisitions and disposals and material investments

Material acquisition and disposal of subsidiaries

The Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2017.

Significant investments

The Group had no significant investments during the year ended 31 December 2017. Please refer to the section "Events After the Reporting Period" of the annual report of the Company for the year ended 31 December 2017 for the Group's plans for material investments or acquisition of business.

Events after reporting period

Acquisition of 100% equity interest in Inner Mongolia Chuangying Automobile Co., Ltd.

On 2 March 2018, Ningbo Meishan Bonded Port Area Chifeng Investment Management Co., Ltd* (寧波梅山保税港區馳豐投資管理有限公司) as the purchaser, a wholly-owned subsidiary of the Company, and Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (內蒙古利豐鼎盛汽車有限公司) as the vendor, entered into an equity transfer agreement for the acquisition of 100% of the equity interests in Inner Mongolia Chuangying Automobile Co., Ltd.* (內蒙古創贏汽車有限公司) which is wholly-owned by the vendor, at the consideration of RMB660,000,000, subject to the terms and conditions of the equity transfer agreement. Please refer to the announcement of the Company dated 2 March 2018 for more details about the acquisition.

Charge of assets on the Group

As at 31 December 2017, 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 RMB111,226,000 (31 December 2016: RMB107,516,000).

Other material risks and uncertainties

The Group operates its major business in the PRC and faces other material risks and uncertainties, mainly including the future prospect of the PRC's economy. Should the PRC's economy suffer from downturn, the consumption sentiment of car owners will be affected, which will in turn reduce the revenue of the Group. The Group has adopted a development plan of establishing stores within gas stations with strategic partners to reduce its costs. It will pay close attention to the economic trend of the PRC and deal with those risks and uncertainties in a timely manner.

Contingent liabilities

As at 31 December 2017, the Group had no significant contingent liabilities.

Outlook and future prospects

The Group continued to adopt the following operational strategies for its business:

(i) continue to maintain our position of developing reasonably priced products, our operations of branded chains and our principles of standardized and customized servicing, to gradually increase the number of our individual after-sales service chain stores and branding influence of the Group;

(ii) provide one-stop parts and accessories wholesale and delivery service to those small-scale individual stores, through ordering via computers and mobile devices on the "Auto Make" e-commerce platform. At present, the e-commerce platform provides service for the three provinces in Northeast China, eastern Inner Mongolia, Zhejiang Province and Jiangsu Province, and it is expected to further expand to Beijing, Shanghai and Guangdong;

(iii) conduct adaption towards the research and development of new energy vehicles for more manufacturers, and it is expected to continuously supply relevant accessories for more manufacturers' new energy vehicles in the coming years, and seize the significant opportunities brought about by the market changes and strive to become a key supplier of new energy vehicle battery charging and inverter modules;

(iv) continue to actively search for and negotiate with potential acquisition targets and cooperation partners, which will help achieve the strategic objectives of the Group.

Employees and remuneration policies

As at 31 December 2017, the Group employed a total of 3,928 full-time employees (31 December 2016: 4,339), of which 552 (31 December 2016: 627) were managerial staff. 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, and formulates and implements share option schemes as a long-term incentive scheme of the Group. Details of the share options scheme will be disclosed in the "Report of the Directors" of the Company's 2017 annual report to be published and despatched in accordance with the requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") in due course. The Group emphasises the importance of staff development and provides training programmes on an ongoing basis with reference to its strategic objectives and performance of its staff.

Environmental Policies and Performance

The Group has been continuously promoting the establishment and improvement of environmentally friendly management mechanism and system. Those systems require all the employees of the Group to comply with the applicable environmental laws and regulations in their daily work. The relevant retail and service stores of the Group had obtained the approval from environmental protection authority prior to commencement of operation and strictly comply with applicable environmental laws and regulations in the subsequent operation to minimize the damages to the environment. The manufacturing business of the Group proactively incorporates the concept of environmental protection into the design and production process of the products, aiming at providing energy saving and environmentally friendly products to our customers. The Group encourages its employees to save energy and treasure resources.

Compliance with Laws and Regulations

During the year ended 31 December 2017, the Group has in all material respects complied with the relevant laws and regulations that have a significant impact on the operation of the Group which cover various aspects such as labor, fire prevention and environmental protection.

Relationship with Employees, Customers and Suppliers

The Group attaches great importance to its relationships with its employees, customers, suppliers and other relevant parties since such relationships are the core element for the Group's sustainable development. The Group adheres to the principle of legality, fairness, reasonableness and mutual benefit in its daily operation and duly handles its relationships with its employees, customers, suppliers and other relevant parties.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis of the operation results and business review of the Target Group for (i) the three years ended 31 December 2015, 2016 and 2017 and (ii) the three months ended 31 March 2018.

Business review

The Target Group comprises the Target Company, the Operating Companies and the Operating Subsidiary. The Target Group is principally engaged in the operation of 4S dealership stores and related businesses in Inner Mongolia.

The 4S dealership stores and related businesses of the Target Group primarily comprise two segments: (i) sales of automobile and provision of after-sales services, including primarily repair and maintenance services; and (ii) distribution of automobile insurance products and automobile financial products, including primarily motor insurance for financial protection against damage to vehicles and liabilities to third parties for property damage, injury or death and financing for purchase of first-hand automobiles at the 4S dealership stores of the Target Group. The two segments of the Target Group complement and promote each other in providing a one-stop solution for automobile consumers. The major brands currently distributed by the Target Group include Buick, Cadillac, Changan Mazda, Changan Suzuki, Chevrolet, Dongfeng Honda, Dongfeng Peugeot, Nissan, FAW-Toyota, FAW-Volkswagen, Changan Ford, SAIC-Volkswagen, Tianjin FAW, SGMW, Trumpchi and Venucia. Since 2015, the Target Group has been seeking to improve its product mix for the sale of automobile and provision of after-sales services segment by introducing relatively higher-end model automobiles and more notable brands such as Buick, Cadillac and FAW-Volkswagen, which generally have higher selling price and gross profit margin as compared to the lower-end models and brands. The product mix improvement of the Target Group generally had a positive impact on the revenue and profitability of the Target Group for the three years ended 31 December 2017, as further detailed below.

According to the statistics from the China Association of Automobile Manufacturers, the sales volume of passenger vehicles in the PRC maintained a steady growth for the three years ended 31 December 2015, 2016 and 2017. Further, according to the China Auto Internet Finance Development Report 2017 (《中國汽車互聯網金融發展報告2017》) published by 01 Think Tank (零壹智庫), during the period from 2014 to 2016, the overall scale of the automobile finance market in the PRC grew from RMB700 billion to over RMB1 trillion at a growth rate of over 20% per annum, with the penetration rate increasing from 20% in 2014 to 38% in 2016. The Target Group generally benefited from the steady increase in the number of sales of new automobiles and the rapid growth of the automobile finance market in the PRC.

Revenue

The Target Group generates its revenue from the sales of automobiles, provision of after-sales services, and services charges from distribution of automobile insurance products and automobile financial product in the PRC. For the three years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2018, no single customer accounted for 10% or more of the revenue of the Target Group.

For the three years ended 31 December 2015, 2016 and 2017 and the two three-months periods ended 31 March 2017 and 2018, the revenue of the Target Group was approximately RMB3,376,409,000, RMB3,805,539,000, RMB4,102,236,000, RMB842,227,000 and RMB714,016,000, respectively, of which approximately 97.20%, 97.01%, 95.97%, 95.92% and 95.98% were primarily attributable to the sale of automobile and provision of after sale services and approximately 2.80%, 2.99%, 4.03%, 4.08% and 4.02% were attributable to the distribution of automobile insurance products and automobile financial products.

As a result of the aforementioned product mix improvement of the Target Group through introducing relatively higher-end model automobiles and more notable brands for the sale of automobile and provision of after-sales services segment, the revenue of the Target Group for the year ended 31 December 2016 increased by approximately 12.71% compared to the year ended 31 December 2015 and the revenue of the Target Group for the year ended 31 December 2017 increased by approximately 7.80% compared to the year ended 31 December 2016.

As the Target Group continued to focus on largely similar product mix for the sale of automobile and provision of after-sales services segment following completion of the product mix improvement in 2017, the positive impact of the product mix improvement on the revenue of the Target Group became less significant in 2017 as compared to previous years. As a result, the revenue growth rate decreased between the year ended 31 December 2016 and the year ended 31 December 2017.

The decrease in revenue of approximately 15.22% for the three months ended 31 March 2018 compared to the three months ended 31 March 2017 was primarily attributable to the decrease in sales volume of automobiles of the Target Group for the three months ended 31 March 2018 compared to the three months ended 31 March 2017. The aforementioned decrease in sales volume of automobiles of the Target Group was primarily attributable to (i) the decrease in the sales volume of automobiles of lower-end brands such as SGMW and Tianjin FAW; and (ii) the decrease in the sales volume of Changan Ford automobiles.

In particular, the total number of SGMW and Tianjin FAW automobiles sold by the Target Group, which accounted for approximately 24.25% of the total sales volume of automobiles of the Target Group for the year ended 31 December 2017, decreased by approximately 58.19% from 1,753 units for the three months ended 31 March 2017 to 733 units for the three months ended 31 March 2018. The decrease in sales volume of automobiles of lower-end brands of the Target Group was primarily attributable to the aforementioned product mix improvement of the Target Group as well as the general decrease in market demand for lower-end models and brands in Inner Monoglia. The number of Changan Ford automobiles sold by the Target Group, which accounted for approximately 9.85% of the total sales volume of automobiles of the Target Group for the year ended 31 December 2017, decreased by approximately 28.02% from 728 units for the three months ended 31 March 2017 to 524 units for the three months ended 31 March 2018. The decrease in sales volume of Changan Ford of the Target Group was primarily attributable to the general decrease in market demand for Changan Ford automobiles on a national level, which was reflected by the decrease in sales volume of Changan Ford automobiles in the PRC of approximately 34.99% for the three months ended 31 March 2018 compared to the three months ended 31 March 2017 as further set out in the announcement of Chongqing Changan Automobile Co., Ltd.* (重慶長安汽車股份有限公司) (the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 000625)) dated 10 April 2018.

The Target Group will continue to review and improve its product mix by introducing higher-end model automobiles and more notable brands with high quality to respond to the market demand in the future. Such product mix improvement for the sale of automobiles of the Target Group is also expected to bring positive impact to the provision of after-sales and distribution of automobile insurance products and automobile financial products businesses of the Target Group.

In light of the peculiar circumstances, the Board does not consider the decrease in sales volume of automobiles and revenue of the Target Group for the three months ended 31 March 2018 compared to the three months ended 31 March 2017 as a fair and reasonable reflection of the business and financial performance of the Target Group. Despite the decrease in sales volume of automobiles and revenue, the gross profit margin of the Target Group increased from 7.83% for the three months ended 31 March 2017 to 8.93% for the three months ended 31 March 2018 as a result of the aforementioned profit mix improvement, resulting in only a slight decrease in gross profit of approximately 3.26% for the three months ended 31 March 2018 compared to the three months ended 31 March 2017.

In addition, sales in the first quarter of the year are normally affected by the Chinese New Year holiday and the peak season for auto sales usually occurs in the second half of the year. The Board is of the view that the financial performance of the Target Group for the three months ended 31 March 2018 will unlikely be reflective of the financial performance of the Target Group for the year ending 31 December 2018 and does not affect the assessment of the Acquisition of the Board.

The following table sets forth a breakdown of the Target Group's revenue for the relevant periods:

	For the year ended 31 December			For the three months ended 31 March	
	2015	2016	2017	2017	2018
	(audited)	(audited)	(audited)	(unaudited)	(audited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sale of automobile and provision of after-sales services	3,281,772	3,691,607	3,937,117	807,827	685,332
Distribution of automobile insurance products and automobile financial products	94,637	113,932	165,119	34,400	28,684
Total	3,376,409	3,805,539	4,102,236	842,227	714,016

Cost of sales and services

The cost of sales and services of the Target Group consists of, among other things, procurement costs of automobiles, automobile spare parts and accessories and other automobile merchandises.

For the three years ended 31 December 2015, 2016 and 2017 and the two three-month periods ended 31 March 2017 and 2018, the cost of sales and services of the Target Group was approximately RMB3,145,713,000, RMB3,504,926,000, RMB3,739,437,000, RMB776,298,000 and RMB650,234,000, respectively.

The increase in cost of sales and services of approximately 11.42% for the year ended 31 December 2016 compared to that of 31 December 2015 was primarily attributable to the increase in the sales volume of automobiles, resulting in a corresponding increase in the cost of sales and services in 2016. The increase in cost of sales and services of approximately 6.69% for the year ended 31 December 2017 compared to the year ended 31 December 2016 was primarily attributable to the increase in the sales volume of automobile, resulting in a corresponding increase in the cost of sales and service in 2017. The decrease in cost of sales and services of approximately 16.24% for the three months ended 31 March 2018 compared to the three months ended 31 March 2017 was primarily attributable to the decrease in sales volume of automobiles, resulting in a corresponding decrease in the cost of sales and services for the three months ended 31 March 2018 compared to the three months ended 31 March 2017.

Gross profit

For the three years ended 31 December 2015, 2016 and 2017 and the two three-month periods ended 31 March 2017 and 2018, the gross profit of the Target Group was approximately RMB230,696,000, RMB300,613,000, RMB362,799,000, RMB65,929,000 and RMB63,782,000, respectively.

The increase in gross profit of approximately 30.31% for the year ended 31 December 2016 compared to that of 31 December 2015 was primarily attributable to (i) the increase in revenue from distribution of automobile insurance products and automobile financial products, whose gross profit margin is generally higher than the sale of automobile and provision of after-sales services; and (ii) the increase in the gross profit margin in respect of the sale of automobile and provision of after-sales services, resulting from the relative increase in the average selling price (as compared to average costs) of automobiles sold by the Target Group due to the aforementioned product mix improvement of the Target Group. As a result, the gross profit margin of the Target Group increased from 6.83% in 2015 to 7.90% in 2016, which led to the increase in gross profit for the year ended 31 December 2016.

The increase in gross profit of approximately 20.69% for the year ended 31 December 2017 compared to the year ended 31 December 2016 was attributable to (i) the increase in the revenue from distribution of automobile insurance products and automobile financial products, whose gross profit margin is generally higher than the sale of automobile and provision of after-sales services; and (ii) the increase in the gross profit margin in respect of the sale of automobile and provision of after-sales services, resulting from the relative increase in the average selling price (as compared to average cost) of automobiles sold by the Target Group due to the aforementioned product mix improvement of the Target Group. As a result, the gross profit margin of the Target Group increased from 7.90% in 2016 to 8.84% in 2017, which led to the increase in gross profit for the year ended 31 December 2017.

The decrease in gross profit of approximately 3.26% for the three months ended 31 March 2018 compared to the three months ended 31 March 2017 was primarily attributable to decrease in sales volume of automobiles. Despite the decrease in the gross profit, the gross profit margin of the Target Group increased from 7.83% to 8.93%, which was primarily attributable to the relative increase in the average selling price (as compared to average cost) of automobiles sold by the Target Group due to the aforementioned product mix improvement of the Target Group in respect of the sale of automobile and provision of after-sales services segment.

Other income and other gains and losses

The other income and other gains and losses of the Target Group consist of, among other things, gain from interest income from related parties and bank deposit and guarantee, gain on disposal of properties, plant and equipment, loss from impairment on trade receivables and written-off of inventories.

For the three years ended 31 December 2015, 2016 and 2017, other income and other gains of approximately RMB7,351,000, RMB9,645,000 and other expenses and other loss of approximately RMB196,000 were recorded, respectively. For the two three-month periods ended 31 March 2017 and 2018, other income and other gains of approximately RMB772,000 and RMB699,000 were recorded, respectively.

The increase in other income and other gains of approximately 31.21% for the year ended 31 December 2016 compared to the 31 December 2015 was primarily attributable to the increase in the gain on disposal of property, plant and equipment. The decrease in other income and other gains of approximately 102.03% for the year ended 31 December 2017 compared to the year ended 31 December 2016 was primarily attributable to the decrease in interest income from related parties and the impairment loss recognised on property, plant and equipment for the year ended 31 December 2017. The decrease in other income and other gains of approximately 9.46% for the three months ended 31 March 2018 compared to the three months ended 31 March 2017 was primarily attributable to the decrease in the gain of disposal of property, plant and equipment.

Selling and distribution expenses

The selling and distribution expenses of the Target Group consist of, among other things, commission payable to salespersons and marketing and advertising expenses. For the three years ended 31 December 2015, 2016 and 2017 and the two three-month periods ended 31 March 2017 and 2018, the selling and distribution expenses of the Target Group was approximately RMB146,120,000, RMB173,491,000, RMB181,105,000, RMB50,212,000 andRMB40,726,000, respectively.

The increase in selling and distribution expenses of approximately 18.73% for the year ended 31 December 2016 compared to the year ended 31 December 2015 was primarily attributable to the increase in marketing and advertising expenses and commission payable to salespersons. The selling and distribution expenses remained stable for the year ended 31 December 2017 compared to the year ended 31 December 2016. The decrease in selling and distribution expenses of approximately 18.89% for the three months ended 31 March 2018 compared to the three months ended 31 March 2017 was primarily attributable to the decrease in commission payable to salespersons (which is based on sales performance) as a result of the decrease in the sales volume of automobiles during the same period.

Administrative expenses

The administrative expenses of the Target Group consist of, among other things, salaries and wages of employees, office rental expenses and other administrative expenses. For the three years ended 31 December 2015, 2016 and 2017 and the two three-month periods ended 31 March 2017 and 2018, the administrative expenses of the Target Group were approximately RMB13,613,000, RMB19,226,000, RMB21,835,000, RMB4,639,000 andRMB5,706,000, respectively.

The increase in administrative expenses of approximately 41.23% for the year ended 31 December 2016 compared to the 31 December 2015 was primarily attributable to the office renovation expenses incurred in 2016. The increase in administrative expenses of approximately 13.57% for the year ended 31 December 2017 compared to the year ended 31 December 2016 was primarily attributable to the increase in emolument to directors and the increase in office rental expenses as a result of the increase in the market rate of office rental. The increase in administrative expenses of approximately 23.00% for the three months ended 31 March 2018 compared to the three months ended 31 March 2017 was primarily attributable to the increase in salaries and wages of administrative staff.

Finance costs

The finance costs of the Target Group consist of, among other things, (i) interest on bank and other borrowings, (ii) interest on borrowings from entities controlled by suppliers, (iii) interest on the loan from related parties and (iv) interest and bank charge on bills payables. The interest rates per annum of the bank loans ranged from 4.85% to 8.00%, 4.85% to 10.80%, 5.00% to 14.40% and 5.00% to 15.60% for the respective balances as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 March 2018, respectively. The interest rates per annum of other loans ranged from 5.07% to 10.22%, 4.95% to 9.46%, 5.45% to 15.6% and 5.45% to 15.60% for the respective balances as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 March 2018, respectively. The increase in the range of interest rates per annum of bank loans and of other loans for the year ended 31 December 2017 compared to the year ended 31 December 2016 was primarily attributable to the increase in the use of borrowings from supplier as replacement for bank loans.

For the three years ended 31 December 2015, 2016 and 2017 and the two three-month periods ended 31 March 2017 and 2018, the finance costs of the Target Group were approximately RMB26,468,000, RMB22,918,000, RMB21,292,000, RMB5,323,000 and RMB8,387,000, respectively.

The decrease in finance costs of approximately 13.41% for the year ended 31 December 2016 compared to the 31 December 2015 was primarily attributable to the decrease in interest on bank borrowings. The decrease in finance costs of approximately 7.09% for the year ended 31 December 2017 compared to the year ended 31 December 2016 was primarily attributable to the decrease in the interest on loan from related parties and interest on borrowings from entities controlled by suppliers. The increase in finance costs of approximately 57.56% for the three months ended 31 March 2018 compared to the three months ended 31 March 2017 was primarily attributable to the increase in finance cost resulting from the increase in related party interest-bearing loan.

Profit before taxation and profit for the year/period

As a result of the factors above, for the three years ended 31 December 2015, 2016 and 2017 and the two three-month periods ended 31 March 2017 and 2018, the profit before taxation of the Target Group was approximately RMB51,846,000, RMB94,623,000, RMB138,371,000, RMB6,527,000 and RMB9,662,000, respectively and the profit of the Target Group was approximately RMB34,217,000, RMB71,512,000, RMB103,849,000, RMB3,896,000 and RMB3,553,000, respectively.

The following table sets forth a breakdown of the reportable segment results of the Target Group for relevant periods:

	For the year ended 31 December			For the three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**	**(audited)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sale of automobile and provision of after-sale services	(13,582)	22,576	64,493	3,042	1,212
Distribution of automobile insurance products and automobile financial products	65,428	72,047	73,878	3,485	8,450
Total	51,846	94,623	138,371	6,527	9,662

The increase in profit of the Target Group of approximately 82.51% for the year ended 31 December 2016 compared to the 31 December 2015 was primarily attributable to the overall increase in operating profit generated from the reportable segments, in particular the operating profit generated from sales of automobiles. The increase in profit of the Target Group of approximately 46.23% for the year ended 31 December 2017 compared to the year ended 31 December 2016 was primarily attributable to the overall increase in operating profit generated from the reportable segments, in particular the increase in operating profit generated from sales of automobiles. The increase in profit of the Target Group of approximately 48.03% for the three months ended 31 March 2018 compared to the three months ended 31 March 2017 was primarily attributable to the increase in operating profit generated from the distribution of automobile insurance products and automobile financial products segment of the Target Group.

For the three years ended 31 December 2015, 2016 and 2017, the profit to sales ratio in relation to the segment results for (i) the sale of automobile and provision of after-sale services was approximately (0.41)%, 0.61% and 1.64%; and (ii) the distribution of automobile insurance products and automobile financial products was approximately 69.14%, 63.24% and 44.74%.

The increase in the profit to sales ratio in relation to the segment results for the sale of automobile and provision of after-sale services was primarily attributable to the increase in sales volume and average selling price of automobiles as a result of the aforementioned product mix improvement of the Target Group.

The distribution of automobile insurance products and automobile financial products segment was in the initial growth stage and had comparatively insignificant operation in terms of revenue generated from the segment as compared to the sale of automobile and provision of after-sale services segment during 2015 and 2016. As such, the administrative expenses and selling and distribution expenses incurred by the Target Group was not allocated to the distribution of automobile insurance products and automobile financial products segment, which resulted in high profit to sales ratio of the segment for the two years ended 31 December 2016. Despite the comparatively low revenue generated from the segment, owing to the nature of the business, direct costs of sales and services attributable to distribution of automobile insurance products and automobile financial products are generally insignificant and therefore, the segment generally has high gross profit margin. As a result, the results of the distribution of automobile insurance products and automobile financial products segment primarily contributed to the increase in gross profit of the Target Group for the two years ended 31 December 2015 and 2016 notwithstanding the comparatively low revenue generated from the segment.

In light of the increasingly positive performance and growing scale of operation of the distribution of automobile insurance products and automobile financial products segment, the Target Group was able to identify relevant administrative expenses and selling and distribution expenses incurred by the Target Group for the segment and therefore relevant allocation of administrative expenses and selling and distribution expenses was made starting from the year ended 31 December 2017. As administrative expenses and selling and distribution expenses of the Target Group are accounted for as indirect costs in the consolidated financial statements of the Target Group, the allocation of such expenses does not affect the gross profit generated from the segment, which only accounts for direct cost of sales and services, but affects the operating profit generated from the segment, which accounts for direct cost of sales and services as well as indirect costs. As a result of such allocation of expenses, there was only an increase in operating profit generated from the distribution of automobile insurance products and automobile financial products segment of approximately 2.54% for the year ended 31 December 2017 compared to the year ended 31 December 2016, despite the increase in revenue of the segment of approximately 44.93% for the year ended 31 December 2017 compared to the year ended 31 December 2016, therefore resulting in the decrease in the profit to sales ratio in relation to the segment results for the distribution of automobile insurance products and automobile financial products for the year ended 31 December 2017 as compared to the previous years.

Liquidity, financial resources and capital structure

The following table sets forth a summary of the Target Group's financial position as at the dates indicated below:

	As at 31 December 2015 (audited) *RMB'000*	As at 31 December 2016 (audited) *RMB'000*	As at 31 December 2017 (audited) *RMB'000*	As at 31 March 2018 (audited) *RMB'000*
Non-current assets	45,853	45,936	43,771	38,742
Current assets	1,296,832	1,404,997	1,393,323	1,403,084
Total assets	1,342,685	1,450,933	1,437,094	1,441,826
Non-current liabilities	62,700	22,500	–	–
Current liabilities	773,146	838,783	776,595	777,774
Total liabilities	835,846	861,283	776,595	777,774
Net current assets	523,686	566,214	616,728	625,310
Net assets	506,839	589,650	660,499	664,052

Treasury policies

The Target Group primarily finances its working capital primarily through funds generated from operations and bank and other borrowings. The Target Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

Bank balances and cash

As at 31 December 2015, 31 December 2016 and 31 December 2017 and 31 March 2018, the cash and cash equivalents of the Target Group were approximately RMB69,457,000, RMB55,267,000, RMB57,572,000 and RMB60,006,000, respectively.

As at 31 December 2015, 31 December 2016 and 31 December 2017 and 31 March 2018, the Target Group pledged (i) certain of its bank deposits with carrying amounts of approximately RMB32,420,000, RMB11,380,000, RMB13,175,000 and RMB10,601,000 to banks as security for the bank and other borrowing of the Target Group, and (ii) certain of its bank deposits with carrying amounts of approximately RMB93,847,000, RMB28,550,000, RMB20,717,000 and RMB14,477,000, respectively, to banks as security for bills payable of the Target Group. The decrease in the amount of pledged bank deposits as security for bills payable over the period from 31 December 2015 to 31 March

2018 was primarily attributable to the Target Group's increased use of borrowings from supplier as replacement for bills payable.

Accordingly, bank balances and cash of the Target Group as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 March 2018 were approximately RMB195,724,000, RMB95,197,000, RMB91,465,000 and RMB85,084,000, respectively. The decrease in the bank balances and cash of the Target Group from 31 December 2015 to 31 December 2016, from 31 December 2016 to 31 December 2017 and from 31 December 2017 to 31 March 2018 were primarily attributable to the corresponding decrease in margin deposits as a result of the reduction in the balance of bank acceptance notes.

The bank balances and cash of the Target Group were all denominated in RMB.

Cash flow

The following table sets forth a summary of the Target Group's cash flow data from the combined statements of cash flow of the Target Group for the relevant periods indicated below:

	For the year ended 31 December			For the three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**	**(audited)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net cash generated from/ (used in) operating activities	37,239	(24,373)	101,772	(19,927)	11,437
Net cash generated from/ (used in) investing activities	9,036	101	(10,466)	727	904
Net cash generated from/ (used in) financing activities	(32,885)	10,284	(89,001)	6,480	(9,907)
Net increase (decrease) in cash and cash equivalents	13,390	(14,190)	(2,305)	12,720	2,434
Cash and cash equivalents at the end of the years/ period, represented by bank balances and cash	69,457	55,267	57,572	42,547	60,006

Bank and other borrowings

All of the bank and other borrowings of the Target Group are at fixed interest rates. The bank and other borrowings of the Target Group were all denominated in RMB.

As at 31 December 2015, the bank and other borrowings of the Target Group were approximately RMB413,123,000, of which approximately RMB350,423,000 were repayable within one year, approximately RMB50,100,000 were repayable within two years but more than one year and approximately RMB12,600,000 were repayable within five years but more than two years. As at 31 December 2016, the bank and other borrowings of the Target Group was approximately RMB436,293,000, of which approximately RMB413,793,000 were repayable within one year and approximately RMB22,500,000 were repayable within two years but more than one year. As at 31 December 2017, the bank and other borrowings of the Target Group was approximately RMB361,637,000, which were repayable within one year. As at 31 March 2018, the bank and other borrowings of the Target Group was approximately RMB360,101,000 which were repayable within one year.

As at 31 December 2015, 31 December 2016, 31 December 2017 and 31 March 2018, certain bank and other borrowings in the amount of approximately RMB405,230,000, RMB429,841,000, RMB356,637,000 and RMB356,111,000 were primarily secured by pledged bank deposits, being margin deposits for bank acceptances, and pledged inventories, being primarily motor vehicles, as further disclosed in the section headed "Charges on assets" below.

Gearing ratio

As at 31 December 2015, 31 December 2016, 31 December 2017 and 31 March 2018, the gearing ratio of the Target Group (calculated as a percentage of the total borrowings to total equity of the Target Group) was approximately 98.6%, 102.4% and 78.7% and 76.5%, respectively.

Capital commitments

As at 31 December 2015, 31 December 2016, 31 December 2017 and 31 March 2018, the Target Group did not have any outstanding capital commitments.

Hedging

The Target Group (i) did not enter into any financial instruments for hedging purposes and (ii) did not have any currency borrowings or other hedging instruments for foreign currency net investments for the three years ended 31 December 2015, 2016, 2017 and the three months ended 31 March 2018.

Significant investments held

The Target Group did not hold any significant investment for the three years ended 31 December 2015, 2016, 2017 and the three months ended 31 March 2018.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

In May 2016, the Vendor through Chifeng Lifeng Vehicle Store Co., Ltd.* (赤峰市利豐汽車行有限公司) acquired 94.917% of the equity interests in Chifeng Lifeng Toyota Automobile Sales & Service Co., Ltd.* (赤峰利豐豐田汽車銷售服務有限公司), which is one of the Operating Companies, from an independent third party at the consideration of RMB5,470,000. The aforementioned acquisition was completed on 30 May 2016. Save as aforementioned, the Target Group did not have other material acquisitions and disposals of subsidiaries, associates and joint ventures for the three years ended 31 December 2015, 2016, 2017 and the three months ended 31 March 2018.

The Target Group has no specific future plans for material investments or capital assets.

Employees and remuneration policies

As at 31 December 2015, 31 December 2016, 31 December 2017 and 31 March 2018, the total number of employees of the Target Group was 1,215, 1,338, 1,476 and 1,347, respectively.

For three years ended 31 December 2015, 2016, 2017 and the three months ended 31 March 2018, the total employee remuneration expenses of the Target Group were approximately RMB70,543,000, RMB96,499,000, RMB109,366,000 and RMB25,713,000 respectively.

The Target Group provides pension scheme to its employees in accordance with the relevant laws and regulations in the PRC. In accordance with the rules and regulations in the PRC, the PRC based employees of the Target Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Target Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees of the Target Group payable under the aforementioned retirement benefit plans.

The salespersons of the Target Group are entitled to commission based on their sales performance. Save as disclosed above, there are no other remuneration policies, bonus and share option schemes for the employees of the Target Group. The Target Group provides periodic training to its employees primarily in relation to the sales and after-sales services of automobiles such as product specifications and operations of vehicles. The Target Group also provides on-board training for new employees and management training for management personnel to enhance their management skills.

Charges on assets

As at 31 December 2015, 31 December 2016, 31 December 2017 and 31 March 2018, certain bank deposit and inventories, being primarily motor vehicles, of the Target Group were pledged in favour of banks to secure the bank borrowings and bills payables of the Target Group.

	As at 31 December 2015 (audited) *RMB'000*	As at 31 December 2016 (audited) *RMB'000*	As at 31 December 2017 (audited) *RMB'000*	As at 31 March 2018 (audited) *RMB'000*
Pledged bank deposit	126,267	39,930	33,893	25,078
Inventories	227,471	219,606	236,313	272,749
Total	353,738	259,536	270,206	297,827

Exposure to fluctuations in exchange rates and any related hedges

The Target Group operates mainly in PRC and all of transactions are denominated in RMB and all of the assets and liabilities of the Target Group are denominated in RMB, as such, the Target Group is not exposed to foreign exchange risk and the Target Group did not use any derivative financial instruments to hedge its exposure to such risk. However, the management of the Target Group would monitor its foreign currency exposure closely and would consider hedging significant foreign currency exposure should the need arise.

Contingent liabilities

As at 31 December 2015, 31 December 2016, 31 December 2017 and 31 March 2018, the Target Group had no material contingent liabilities.

Outlook and future prospects

The Target Group is principally engaged in the operation of 4S dealership stores and related businesses in Inner Mongolia.

According to the "Statistical Communique on the 2017 National Economic and Social Development" (《2017年國民經濟和社會發展統計報告》) issued by the National Bureau of Statistics of China, in 2017, the gross domestic product and the national per capita disposable income increased by 6.9% and 9%, respectively, as compared with 2016.

According to the statistics available from the Inner Mongolia Autonomous Region Bureau of Statistics, during the period from 2013 to 2017, the growth rates of the gross domestic product in Inner Mongolia range from approximately 4% to 8% per annum and the growth rates of per capita disposable income in Inner Mongolia exceeds 8% per annum.

In light of the stable economic development on both regional and national levels over the past few years, together with the generally favourable state policy for the automobile industry, it is expected that there will be a stable growth in the automobile market in Inner Mongolia for the next few years. It is also estimated that sales volume of passenger vehicles in the PRC will continue to grow in 2018. As set out above, according to the China Auto Internet Finance Development Report 2017 (《中國汽車互聯網金融發展報告2017》) published by 01 Think Tank (零壹智庫), during the period from 2014 to 2016, the overall scale of the automobile finance market in the PRC grew from RMB700 billion to over RMB1 trillion at a growth rate of over 20% per annum, with the penetration rate increasing from 20% in 2014 to 38% in 2016. It is expected that there is still a notable room for development of the PRC automobile finance market in light of the relatively low penetration rate of the PRC as compared with that of over 50% in other developed countries.

Taking into account the peculiar circumstances of the Inner Mongolia market and the rising consumption level of customers, the average unit price of passenger vehicles in Inner Mongolia is expected to increase. In light of the positive outlook of the automobile industry on both the regional as well as national level, it is expected that the Target Group will maintain its momentum in growing its 4S dealership stores and related businesses.

In light of the abovementioned circumstances, the Target Group aims to maintain a growth rate on par with the market and focuses on improving the profit margin in respect of sale of automobiles. The segment of distribution of automobile insurance products and automobile financial products is expected to become the main profit driver of the Target Group in the next few years. At present, the automobile insurance and financial products market in Inner Mongolia is at an early stage of development. As such, the Target Group considers that there will be a notable room for development for its distribution of automobile insurance products and automobile financial products business in the near future.

I. 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 aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

II. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at the Latest Practicable Date, the interests and short positions of each of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be recorded in the register maintained by the Company under Section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, were as follows:

Name	**Capacity/Nature of interest**	**Total number of shares/ underlying shares under equity derivatives** *(Note 1)*	**Percentage of issued shares**
Mr. Lin Ming	Beneficial owner	16,666,668(L)	0.25%

Note:

1. The letter "L" denotes a long position in the shares.

Save as disclosed above, as at the Latest Practicable Date, 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.

III. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

As at the Latest Practicable Date, so far as is known to the Directors and chief executives of the Company, 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 *(Note 1)*	Total number of shares and underlying shares under equity derivatives *(Note 1)*	Percentage of issued shares
High Inspiring Limited	Person having a security interest in shares *(Note 2)*	2,889,580,226(L)	–	2,889,580,226(L)	42.84%
	Beneficial owner *(Note 3)*	244,797,640(L)	476,703,895(L)	721,501,535(L)	10.70%
CCBI Investments Limited *(Note 4)*	Person having a security interest in shares	2,889,580,226(L)	–	2,889,580,226(L)	42.84%
	Interest in a controlled corporation	244,797,640(L)	476,703,895(L)	721,501,535(L)	10.70%
CCB International (Holdings) Limited *(Note 4)*	Person having a security interest in shares	2,889,580,226(L)	–	2,889,580,226(L)	42.84%
	Interest in a controlled corporation	244,797,640(L)	476,703,895(L)	721,501,535(L)	10.70%
CCB Financial Holdings Limited *(Note 4)*	Person having a security interest in shares	2,889,580,226(L)	–	2,889,580,226(L)	42.84%
	Interest in a controlled corporation	244,797,640(L)	476,703,895(L)	721,501,535(L)	10.70%

Name	Capacity/ Nature of interest	Number of shares interested (other than under equity derivatives) *(Note 1)*	Number of shares interested under equity derivatives *(Note 1)*	Total number of shares and underlying shares under equity derivatives *(Note 1)*	Percentage of issued shares
CCB International Group Holdings Limited *(Note 4)*	Person having a security interest in shares	2,889,580,226(L)	–	2,889,580,226(L)	42.84%
	Interest in a controlled corporation	244,797,640(L)	476,703,895(L)	721,501,535(L)	10.70%
China Construction Bank Corporation *(Note 4)*	Person having a security interest in shares	2,889,580,226(L)	–	2,889,580,226(L)	42.84%
	Interest in a controlled corporation	244,797,640(L)	476,703,895(L)	721,501,535(L)	10.70%
Central Huijin Investment Ltd. *(Note 4)*	Person having a security interest in shares	2,889,580,226(L)	–	2,889,580,226(L)	42.84%
	Interest in a controlled corporation	244,797,640(L)	476,703,895 (L)	721,501,535(L)	10.70%
CDH Fast Two Limited *(Note 5)*	Beneficial owner	2,889,580,226(L)	–	2,889,580,226(L)	42.84%
CDH Fast One Limited *(Note 6)*	Interest in a controlled corporation	2,889,580,226(L)	–	2,889,580,226(L)	42.84%
CDH Fund IV, L.P. *(Note 6)*	Interest in a controlled corporation	2,889,580,226(L)	–	2,889,580,226(L)	42.84%
CDV IV Holdings Company Limited *(Note 6)*	Interest in a controlled corporation	2,889,580,226(L)	–	2,889,580,226(L)	42.84%
China Diamond Holdings IV, L.P. *(Note 6)*	Interest in a controlled corporation	2,889,580,226(L)	–	2,889,580,226(L)	42.84%

Name	Capacity/ Nature of interest	Number of shares interested (other than under equity derivatives) *(Note 1)*	Number of shares interested under equity derivatives *(Note 1)*	Total number of shares and underlying shares under equity derivatives *(Note 1)*	Percentage of issued shares
China Diamond Holdings Company Limited *(Note 6)*	Interest in a controlled corporation	2,889,580,226(L)	–	2,889,580,226(L)	42.84%
Fame Mountain Limited *(Note 7)*	Beneficial owner	1,904,761,905(L)	–	1,904,761,905(L)	28.24%
Mo Keung *(Note 7)*	Interest in a controlled corporation	1,904,761,905(L)	–	1,904,761,905(L)	28.24%

Notes:

1. The letter "L" denotes a long position in the shares.

2. As disclosed in the announcement of the Company dated 21 August 2017, the Company entered into a convertible note purchase agreement (the "**Convertible Note Purchase Agreement**") with High Inspiring Limited, pursuant to which the Company has conditionally agreed to issue and High Inspiring Limited has conditionally agreed to purchase the convertible notes in an aggregate principal amount of US$35,000,000 due in 2019 (the "**Convertible Notes**"). As a condition of the Convertible Note Purchase Agreement, CDH Fast Two Limited entered into a share charge with High Inspiring Limited pursuant to which CDH Fast Two Limited, being the controlling shareholder of the Company, charged 2,889,580,226 Shares held by it to High Inspiring Limited.

3. Pursuant to the Convertible Note Purchase Agreement, the Convertible Notes are fully convertible at the initial Conversion Price of HK$0.306085 per Share (subject to adjustment) and will be convertible into approximately 886,191,744 Shares. Pursuant to a partial conversion of the Convertible Notes in an aggregate principal amount of US$10,000,000 at the conversion price of HK$0.306085 per Share, the Company allotted and issued a total of 253,197,640 Shares, of which 8,400,000 Shares were subsequently disposed by High Inspiring Limited. As disclosed in the announcement of the Company dated 19 June 2018, as a result of completion of the Subscription, the conversion price of the Convertible Notes has been adjusted from HK$0.306085 per Share to HK$0.280511 per Share pursuant to the terms and conditions of the Convertible Notes (the "**Terms and Conditions**") on 19 June 2018. Following the partial conversion of the Convertible Notes and assuming that the remaining amount of the Convertible Notes will be fully converted at the adjusted conversion price of HK$0.280511 per Share, subject to the amendments to the Terms and Conditions in relation to the exercise of the conversion rights attached to the Convertible Notes pursuant to the deed of waiver and amendments dated 25 April 2018 entered into between the Company, High Inspiring Limited and CDH Fast Two Limited (further details of which are set out in the announcement of the Company dated 25 April 2018), an additional 476,703,895 Shares will be issued to High Inspiring Limited.

4. Each of CCBI Investments Limited (as the sole shareholder of High Inspiring Limited); CCB International (Holdings) Limited (as the sole shareholder of CCBI Investments Limited); CCB Financial Holdings Limited (as the sole shareholder of CCB International (Holdings) Limited; CCB International Group Holdings Limited (as the sole shareholder of CCB Financial Holdings Limited); China Construction Bank Corporation (as the sole shareholder of CCB International Group Holdings Limited); and Central Huijin Investment Ltd (as the controlling shareholder of China Construction bank Corporation) is deemed to be indirectly interested in the Company under the SFO.

5. CDH Fast Two Limited entered into 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 issued by the Company. Transactions contemplated under the Investment Agreement were completed on 28 August 2013. On 12 June 2014, pursuant to a 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 Shares to CDH Fast Two Limited at the conversion price of HK$0.2328 per Share. On 28 December 2015, pursuant to the full conversion of the remaining Convertible Bonds, the Company allotted and issued 813,507,947 Shares at the conversion price of HK$0.2328 per Share to CDH Fast Two Limited.

6. 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 indirectly interested in the Company under the SFO.

7. As at the Latest Practicable Date, Fame Mountain Limited was wholly-owned by Mo Keung, who was deemed to be interested in all the Shares held by Fame Mountain Limited.

IV. DIRECTORS' INTERESTS IN ASSETS OF THE ENLARGED GROUP

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group since 31 December 2017, being the date to which the latest published audited accounts of the Group were made up.

V. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors was materially interested in any contracts or arrangements subsisting as at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group.

VI. DIRECTORS' SERVICE CONTRACTS

Mr. Zhang Jianxing has entered into a service agreement with the Company for a term of three years commencing from 15 September 2017, subject to retirement by rotation in accordance with the Articles.

Each of 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 2016, 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 2016, 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 2018, subject to retirement by rotation in accordance with the Articles.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into service contracts with the Company which are not determinable by the Company within one year without payment of compensation (other than statutory compensation).

VII. 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 Enlarged Group.

VIII. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up.

IX. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group 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 any members of the Enlarged Group.

X. 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 within the two years immediately preceding the Latest Practicable Date:

(i) the deed of waiver and amendments dated 25 April 2018 entered into between the Company, High Inspiring Limited and CDH Fast Two Limited in relation to, among other things, the amendments to the terms and conditions of the convertible notes in an aggregate principal amount of US$25,000,000 due in 2019 (please refer to the announcement of the Company dated 25 April 2018 for further details);

(ii) the Equity Transfer Agreement;

(iii) the Loan Agreement;

(iv) the subscription agreement dated 21 December 2017 entered into between the Company and Fame Mountain, pursuant to which the Company has conditionally agreed to allot and issue, and Fame Mountain has conditionally agreed to subscribe for, an aggregate of 1,904,761,905 subscription shares at the subscription price of HK$0.42 per subscription share (please refer to the circular of the Company dated 28 May 2018 for further details);

(v) the subscription agreement dated 21 December 2017 entered into between the Company and Ms. Wang Na, pursuant to which the Company has conditionally agreed to allot and issue, and Ms. Wang Na has conditionally agreed to subscribe for, an aggregate of 476,190,477 subscription shares at the subscription price of HK$0.42 per subscription share and the deed of termination dated 25 April 2018 entered into between the Company and Ms. Wang Na in relation to the aforementioned subscription agreement (please refer to the announcements of the Company dated 21 December 2017 and 25 April 2018 for further details);

(vi) the convertible note purchase agreement dated 21 August 2017 entered into between the Company and High Inspiring Limited, pursuant to which the Company has conditionally agreed to issue and High Inspiring Limited has conditionally agreed to purchaser the convertible notes in an aggregate principal amount of US$25,000,000 due in 2019 (please refer to the announcement of the Company dated 21 August 2017 for further details);

(vii) the equity transfer agreement dated 28 December 2016 entered into between New Focus Lighting & Power Technology (Shanghai) Company Limited* (紐福克斯光電科技(上海)有限公司) (a wholly-owned subsidiary of the Company) with Ms. Liu Fengxi, pursuant to which Ms. Liu Fengxi has agreed to acquire, and New Focus Lighting & Power Technology (Shanghai) Company Limited has agreed to sell, 51% equity interest in Shanghai Astrace Trade Development Company Limited* (上海追得貿易發展有限公司) at the consideration of RMB20,000,000 to be satisfied in cash (please refer to the announcement of the Company dated 28 December 2016 for further details); and

(viii) the equity transfer agreement dated 19 July 2016 entered into between Perfect Progress Investments Limited (a wholly-owned subsidiary of the Company) and Asia Centre Auto Service Holdings Limited, pursuant to which Asia Centre Auto Service Holdings Limited has agreed to acquired, and Perfect Progress Investments Limited has agreed to sell, 100% equity interest in New Focus Richahaus Corporation Limited* (新焦點麗車坊股份有限公司) and Taiwan New Focus Auto Service Corporation Limited* (台灣新焦點汽車服務股份有限公司), respectively, at the nominal consideration of NTD1 to be satisfied in case (please refer to the announcement of the Company dated 19 July 2016 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 Latest Practicable Date.

XI. QUALIFICATIONS OF EXPERTS AND CONSENTS

The following are the qualification of experts who have given opinions or advice which are contained in this circular:

Name	**Qualifications**
HLB Hodgson Impey Cheng Limited	Certified Public Accountants
Commerce & Finance Law Offices	PRC legal adviser of the Company
First Shanghai Capital Limited	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, each of the above experts 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 the above experts had given and had 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 the above experts did not have any direct or indirect interest in any assets 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 2017, the date to which the latest published audited financial statements of the Group were made up.

XII. 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 the date of the EGM:

(i) the Equity Transfer Agreement;

(ii) the Articles;

(iii) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(iv) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed Letter from the Independent Board Committee" in this circular;

(v) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular;

(vi) the annual reports of the Company for the years ended 31 December 2015, 2016 and 2017;

(vii) the accountant's report on the Target Group, the text of which is set out in Appendix II to this circular;

(viii) 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;

(ix) the service contracts set out in the section "Directors' Service Contracts" in this appendix;

(x) the material contracts set out in the section headed "Material Contracts" in this appendix;

(xi) a copy of this circular; and

(xii) the written letters of consent referred to in the section headed "Qualifications of Experts and Consents" in this appendix.

XIII. GENERAL

(i) 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 and a practicing lawyer in California, the United States of America. 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.

(ii) 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.

(iii) The share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(iv) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of inconsistency.

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 EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting (the "**EGM**") of New Focus Auto Tech Holdings Limited (the "**Company**") will be held at Room 2501, 25/F, Fortune Financial Centre, 5 Dong San Huan Central Road, Chaoyang District, Beijing, the PRC on Friday, 14 September 2018 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution. Unless otherwise defined, capitalised terms defined in the circular dated 24 August 2018 shall have the same meanings when used in this notice.

ORDINARY RESOLUTION

1. **"THAT**

   (a) the Equity Transfer Agreement and the transactions contemplated thereunder be and hereby approved, confirmed and ratified; and

   (b) any one Director be and is hereby authorised on behalf of the Company to do all such acts and things and execute all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his or her sole opinion and absolute direction may consider necessary, appropriate or desirable to implement or give effect to the Equity Transfer Agreement and the transactions contemplated thereunder."

By order of the Board
New Focus Auto Tech Holdings Limited
Du Jinglei
Chairman

Hong Kong, 24 August 2018

Registered Office:
Cricket Square
Hutchins Square
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 holding two or more Shares of the Company is entitled to appoint more than one proxies to attend and vote in his stead. If more than one proxies are appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the Company's Hong Kong branch share registrar and transfer office, 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 adjourned meeting thereof. Completion and return of the form of proxy will not preclude any member from attending the meeting or any adjournment thereof and voting in person if he or she so wishes and in such event, the form of proxy will be deemed to be revoked.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorized.

4. Where there are joint holders of any share, any one of such joint holders may vote at the EGM, either personally or by proxy, in respect of such share as if he or she were solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, then the one of such joint holders so present whose name stands first on the register of members of the Company shall, in respect of such share, be entitled alone to vote in respect thereof.

5. The resolution at the EGM will be taken by poll pursuant to the Listing Rules and the results of the poll will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules.

6. The register of members of the Company will be closed from Tuesday, 11 September 2018 to Friday, 14 September 2018 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration by 4:30 p.m. on Monday, 10 September 2018.

As at the date of this notice, the Directors of the Company are: executive Director - DU Jinglei; non-executive Directors - WANG Zhenyu and ZHANG Jianxing; and independent non-executive Directors - HU Yuming, LIN Lei and ZHANG Xiaoya.

* *For identification purpose only*