
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Palace Wonder was incorporated for the purpose of the Family Trust and is wholly owned by Regency Valley, which was incorporated with Cheung Tak On as its sole shareholder. On April 3, 2012, Asset Link transferred 60,000 Shares, representing 30% of the then issued share capital of the Company, by way of gift at no consideration to Palace Wonder. On April 5, 2012, Cheung Tak On transferred the entire share capital of Regency Valley to HSBC International Trustee, the trustee of the Family Trust. Immediately upon the Capitalization Issue and completion of the Global Offering, Palace Wonder will directly hold 384,000,000 Shares, representing approximately 24.6% of the issued share capital of our Company, assuming the Over-allotment Option is not exercised. Cheung Tak On, as the sole director of Palace Wonder and Regency Valley as well as the protector of the Family Trust, has the power to control Palace Wonder's exercise of voting rights attached to such Shares directly and indirectly. See "Our History and Reorganization—Establishment of the Employee Pre-IPO Incentive Scheme and the Family Trust—Establishment of the Family Trust" for details of the Family Trust. In addition, immediately upon the Capitalization Issue and completion of the Global Offering, Asset Link, a company wholly owned by Cheung Tak On, will directly hold 282,735,000 Shares, representing approximately 18.1% of the issued share capital of our Company, assuming the Over-allotment Option is not exercised. In light of the above, Cheung Tak On, Asset Link, Regency Valley and Palace Wonder will be together entitled to directly or indirectly exercise or control the exercise of 30% or more of the voting power at the general meetings of our Company immediately upon the Capitalization Issue and completion of the Global Offering, assuming the Over-allotment Option is not exercised. Accordingly, these parties are considered our Controlling Shareholders immediately following the Global Offering.

Save as disclosed in the section entitled "Our History and Reorganization—Onshore Reorganization—Acquisition by Automobile Group of onshore companies that operate 4S dealership and other automobile related business" in this prospectus and save for their respective interests in our Company and its subsidiaries, none of our Controlling Shareholders, our Directors nor any of their respective associates had interests in any other companies as of the Latest Practicable Date that may, directly or indirectly, compete with the business of our Group and would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE OF OUR CONTROLLING SHAREHOLDERS

Operational Independence

We do not rely on our Controlling Shareholders for our supply, business development, staffing or marketing and sales activities. We have our own headcount of employees for our operations and management for human resources.

Our Company has entered into the Properties Leasing Agreement with Yongda Holding and certain of its subsidiaries, pursuant to which Yongda Holding and its relevant subsidiaries agreed to lease certain properties to us. For further information, see "Connected Transactions—Non-exempt Continuing Connected Transactions—Properties Leasing Agreement." Our Directors, including the independent non-executive Directors, consider that the Properties Leasing Agreement was entered into on normal commercial terms that are fair and reasonable and in the interests of our Shareholders as a whole. Our Directors are also of the view that the operational independence of our Group is not affected by these transactions, and we could, if necessary, relocate our operations which are currently conducted at premises leased under the Properties Leasing Agreement to other locations at similar rental rates.

Our Group has also entered into the Trademark and Domain Name License Agreements with Yongda CLS pursuant to which Yongda CLS agreed to license certain trademarks and domain names

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registered under its name for our use in connection with our operations. For more information, see “Connected Transactions—Exempt Continuing Connected Transactions—Trademark and Domain Name License Agreements.” Save for the trademarks and domain names licensed under the Trademark and Domain Name License Agreements, our Group owns all licences and other intellectual property rights which are required for our Group to carry on its business.

Apart from the aforementioned connected transactions, the Group has entered into related party transactions, namely purchase and sales of passenger vehicles, purchase and sales of spare parts and provision of after-sales services during the Track Record Period. Please refer to Note 34 to the Accountants’ Report for details of the related parties transactions and our Directors consider that these transactions were carried out in the ordinary and usual course of business and on normal commercial terms.

Management Independence

Our Board consists of seven members, comprising two executive Directors, two non-executive Directors and three independent non-executive Directors. For more information, see “Directors and Senior Management.” Cheung Tak On, our chairman and an executive Director, is one of our Controlling Shareholders, and Wang Zhigao, one of our non-executive Directors, serves as a director or member of senior management in several companies in which Cheung Tak On is interested. Please refer to the table below for details:

Name of Directors	Company	Position	Responsibility
Cheung Tak On	Yongda Holding ⁽¹⁾	Chairman, Legal Representative and Chief Executive Officer	Participation in decision-making
	Yongda CLS ⁽²⁾ and Shanghai Shoujia ⁽³⁾	Director	Participation in decision-making
	Shanghai Shouchuang ⁽³⁾	Chairman and Legal Representative	Participation in decision-making
Wang Zhigao	Yongda Holding ⁽¹⁾	Deputy Chief Executive Officer and Director	Participation in decision-making
	Yongda CLS ⁽²⁾ , Shanghai Shoujia ⁽³⁾ and Shanghai Shouchuang ⁽³⁾	Director	Participation in decision-making
	Shanghai Yongda Asset Management Company Limited (上海永達資產管理股份有限公司) ⁽⁴⁾ and Shanghai Yongda Investment Management Co., Ltd. (上海永達投資管理有限公司) ⁽⁴⁾	Chairman	Participation in management and decision-making
	Shanghai Yongda Property Development Co., Ltd. (上海永達置業發展有限公司) ⁽⁴⁾⁽⁵⁾	Executive Director	Participation in management and decision-making

Notes:

(1) Following the Reorganization, Yongda Holding and its subsidiaries are primarily engaged in investment holding and real estate businesses. Yongda Holding also holds minority interests in Shanghai Second-Hand Automobile Trading Market Co., Ltd., which will continue to provide second-hand automobile trading services similar to those provided by Shanghai Pudong Used Automobile Trading

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Management Co., Ltd., one of our subsidiaries. The extent of competition between their respective businesses is immaterial given the sites of these two entities are situated in two different areas in Shanghai and they primarily serve two different group of customers in the vicinity of their respective sites.

- (2) Following the Reorganization, Yongda CLS and its subsidiaries are primarily engaged in investment holding, real estate businesses and the provision of driving training services.
- (3) Investment holding companies.
- (4) Subsidiaries of Yongda Holding.
- (5) A subsidiary of Yongda CLS.

Save as disclosed above, none of our Directors or senior management members holds any position in any of the companies in which our Controlling Shareholders are interested other than those within our Group. Even though Mr. Cheung and Mr. Wang have overlapping directorships and/or management roles in companies in which Mr. Cheung is interested which are not within our Group, our Directors believe our Board and senior management members will function independently from our Controlling Shareholders. Mr. Cheung is primarily responsible for formulating the overall development, corporate and business strategies of the relevant non-Group companies mentioned above and is not involved in their day-to-day management and operations. Similarly, Mr. Cheung is not expected to manage the Group on a daily basis and he will primarily be responsible for setting the strategic vision, direction and goals of the Group. As for Mr. Wang, he will serve as one of the non-executive Directors. Both Mr. Cheung and Mr. Wang confirmed that their respective involvement in companies set forth above will not affect the discharge of their respective duties to our Group.

In addition, the three independent non-executive Directors have extensive experience in different areas and have been appointed in accordance with the requirements under the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions. Each of our Directors is aware of his fiduciary duties as a Director of our Company, which require, among other things, that he acts for the benefit and in the best interests of our Company and not to allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising from any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. Our Company has also established internal control mechanisms to identify related party transactions to ensure that our Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions. In addition, we have a senior management team to carry out the business decisions of our Group independently.

In order to allow the non-conflicting members of the Board to function properly with the necessary professional advice, our Company will engage a third party professional advisor to advise the Board where necessary, depending on the nature and significance of any proposed transactions to be entered into between our Group and our Directors or their respective associates.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently and manage the business of the Group independently from our Controlling Shareholders after the Listing.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. During the Track Record Period, the Group has certain outstanding balances due from/to associates of our Controlling Shareholders, details of which are set forth in

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Note 34 “Related Party Disclosures” to the Accountants’ Report. Our Directors confirmed that the outstanding non-trade balances due from/to associates of our Controlling Shareholders will be settled prior to the Listing.

Our Directors confirmed that as of the Latest Practicable Date, none of our Controlling Shareholders or their respective associates had provided any guarantees or pledge to our Group except for the guarantees or pledge set forth in Note 34 “Related Party Disclosures” to the Accountants’ Report. The Directors further confirmed that such guarantee and pledge will be released prior to the Listing and will be substituted by guarantee provided by members within our Group and pledge over our Group’s properties and assets.

Based on the above reasons, our Company considered there is no financial dependence on our Controlling Shareholders.

Non-Competition Undertaking

In order to ensure that competition does not develop between us and other business activities of Mr. Cheung and Asset Link, Mr. Cheung and Asset Link have entered into the Deed of Non-competition in favor of our Company, pursuant to which they have undertaken to our Company (for itself and for the benefit of its subsidiaries) that they would not and would use their best endeavors to procure that their associates (except any members of our Group) would not, directly or indirectly, or as principal or agent either on their own account or in conjunction with or on behalf of any person, firm, company or entity, among other things, carry on, invest in or hold any right or have any financial interests in or otherwise be involved in, any business which is in competition with the business of any member of our Group from time to time (the “Restricted Business”), or any company or entity (except any members of our Group) which owns a Restricted Business.

The above undertaking does not apply where:

- (a) the interest in the total number of shares held by Mr. Cheung and Asset Link and/or their respective associates (except any members of our Group) does not exceed 5% of the issued shares of the company which is or whose holding company is listed on a recognized stock exchange; or
- (b) the Restricted Business accounts for less than 5% of that company’s consolidated turnover or consolidated assets, as shown in that company’s latest audited accounts; provided that there must be another shareholder of that company whose shareholding in that company is larger than the aggregate shareholding held by Mr. Cheung and Asset Link and their respective associates (except any members of our Group) and that Mr. Cheung and Asset Link and/or their respective associates (except any members of our Group) do not have the right to appoint a majority of the directors of that company; or
- (c) an opportunity relating to the Restricted Business has first been offered or made available by Mr. Cheung and Asset Link to us, and either we do not respond to the offer by the due date, or after decision by our independent non-executive Directors we decline in writing to accept such an opportunity.

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Pursuant to the Deed of Non-competition, the above restrictions would only cease to have effect upon the earlier of:

- (1) Mr. Cheung and Asset Link and/or their respective associates (except any members of our Group) ceasing to hold, directly or indirectly, an aggregate of 30% of the issued share capital (or ceasing the control to exercise the voting rights of such shareholding) of our Company;
- (2) Mr. Cheung and Asset Link and/or their respective associates (except any members of our Group) ceasing to be a controlling shareholder (as defined under the Listing Rules);
- (3) Mr. Cheung and Asset Link and/or their respective associates (except any members of our Group) ceasing to be the largest single Shareholder; or
- (4) our Shares ceasing to be listed on the Hong Kong Stock Exchange.

The following measures will be adopted in relation to the Deed of Non-competition:

- (i) the independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertaking by Mr. Cheung and Asset Link under the Deed of Non-competition;
- (ii) Mr. Cheung and Asset Link undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition; and
- (iii) our Company will disclose decisions and related basis on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-competition undertaking by Mr. Cheung and Asset Link under the Deed of Non-competition in the annual reports of our Company.