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

If you have sold or transferred all your shares in **Lisi Group (Holdings) Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or the transferee(s) or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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LISI GROUP (HOLDINGS) LIMITED

利時集團（控股）有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 526)

**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED
SHARE CAPITAL OF MEGA CONVENTION GROUP LIMITED;
(2) ISSUE OF CONSIDERATION SHARES
UNDER SPECIFIC MANDATE;
(3) POSSIBLE CONTINUING CONNECTED TRANSACTION;
(4) PROPOSED APPOINTMENT OF EXECUTIVE DIRECTOR
AND
(5) NOTICE OF SPECIAL GENERAL MEETING**

Financial adviser to the Company

Deloitte.
德勤

Deloitte & Touche Corporate Finance Limited

Financial adviser to the Vendor

 **建银国际**
CIB International

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**

VINCO 城高

Grand Vinco Capital Limited

(A wholly-owned subsidiary of Vinco Financial Group Limited)

Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as defined under the section "Definitions" of this circular.

A letter from the Board is set out on pages 7 to 47 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on page 48 of this circular. A letter from the Vinco Capital containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 49 to 98 of this circular. A notice convening the SGM to be held at Suite 2418, 24/F, Jardine House, 1 Connaught Place, Central, Hong Kong on Tuesday, 18 October 2016 at 3:00 p.m. is set out on pages SGM-1 to SGM-3 of this circular.

Whether or not you are able to attend the SGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event not later than 48 hours before the time designated for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting should you so wish and in such event the relevant form of proxy shall be deemed to be revoked.

30 September 2016

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DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares by the Company from the Vendor pursuant to the Acquisition Agreement
“Acquisition Agreement”	the acquisition agreement dated 9 August 2016 (as amended and supplemented by the Supplemental Acquisition Agreement) entered into between the Company and the Vendor in relation to the Acquisition
“Agreed Exchange Rate”	the mid-point exchange rate applicable for conversion of RMB to HK\$ published by the People’s Bank of China as at the date of SGM, the date when the signed auditors’ report containing the after-tax net profit of the Target Group for the financial year ending 31 December 2016 is being issued and the date when the signed auditors’ report containing the after-tax net profit of the Target Group for the financial year ending 31 December 2017 is being issued for determining the amount of Tranche A Consideration Shares, Tranche B Consideration Shares and Tranche C Consideration Shares, respectively
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Binhai Car City”	天津濱海國際汽車城有限公司 (Tianjin Binhai International Car City Co., Ltd.*), a company established in the PRC
“Board”	the board of Directors
“Business Day(s)”	a day other than a Saturday, Sunday or public holiday on which commercial banks are open for business in Hong Kong, Cayman Islands and the PRC
“Calistar Automobile Sales & Services”	開利星空汽車銷售有限公司 (Calistar Automobile Sales & Services Co. Ltd.*), a limited company established in the PRC, by which Ms. Cheng Weihong is the controlling shareholder at the Latest Practicable Date
“Company”	Lisi Group (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Acquisition
“Completion Date”	the date falling on the fifth Business Day from the satisfaction of all relevant conditions precedent in the Acquisition Agreement, or such later date as may be mutually agreed with the Vendor

DEFINITIONS

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration payable for the Sale Shares under the Acquisition Agreement
“Consideration Share(s)”	the new Shares, including Tranche A Consideration Shares, Tranche B Consideration Shares and Tranche C Consideration Shares, to be allotted and issued by the Company to the Vendor and/or its designated party at the Issue Price of HK\$0.3712 each as the Consideration for the Acquisition
“Continuing Connected Transaction”	the continuing connected transaction as contemplated under the Strategic Cooperative Agreement
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group as enlarged by the acquisition of the Sale Shares immediately upon Completion
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
“General Offer Obligation”	the Vendor’s obligation to make a mandatory offer under Rule 26.1 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by the Vendor and parties acting in concert with it
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Illustrative Exchange Rate”	the exchange rate for conversion of RMB into HK\$ at the rate of HK\$1 = RMB0.71432 in this circular solely for illustration purposes
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors established for the purpose of advising the Independent Shareholders on the Acquisition and the Continuing Connected Transaction

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“Independent Financial Adviser” or “Vinco Capital”	Grand Vinco Capital Limited, a wholly-owned subsidiary of Vinco Financial Group Limited (stock code: 8340) and a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Acquisition and the Continuing Connected Transaction
“Independent Shareholders”	Shareholders who are not interested in or involved in the Acquisition Agreement and the Strategic Cooperative Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any director, chief executive or substantial shareholder (within the meaning of Listing Rules) of the Company, its subsidiaries or any of their respective associates
“Issue Price”	the issue price of HK\$0.3712 per Consideration Share
“Latest Practicable Date”	29 September 2016, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2016 or such later date as the Company and the Vendor may agree in writing
“MOU”	the memorandum of understanding dated 25 September 2015 entered into by and between the Company and the Vendor
“Mr. Cheng Jun”	a PRC citizen and the brother of Ms. Cheng Weihong
“Mr. Cheng Tao”	a PRC citizen and a nephew of Ms. Cheng Weihong
“OPCo”	天津開利星空汽車城運營管理有限公司 (Tianjin Calistar Automall Operation Management Co., Ltd.*), a company established in the PRC and an indirectly wholly-owned subsidiary of the Target Company
“Parallel Import”	the importation of goods bearing a registered trademark or manufactured under license into a different jurisdiction by the owner of the trademark or right, otherwise with the consent of such owner

DEFINITIONS

“Parallel Imported Car(s)”	car(s) imported into the PRC by way of Parallel Import
“Pilot Enterprise(s)”	the pilot enterprise(s) (試點企業) as announced by Tianjin Binhai New Area Commission of Commerce (天津市濱海新區商務委員會) in accordance with the Pilot Implementation Plan from time to time
“Pilot Implementation Plan”	the Pilot Implementation Plan for Parallel Import of Cars in TJFTZ (《中國(天津)自由貿易試驗區開展平行進口汽車試點實施方案》)
“Pilot Platform(s)”	the pilot platform(s) (試點平台) as announced by Tianjin Binhai New Area Commission of Commerce (天津市濱海新區商務委員會) in accordance with the Pilot Implementation Plan from time to time, which as at the Latest Practicable Date, includes Binhai Car City, Tianjin Bohai Car Supply Chain Management Co., Ltd. (天津渤海名車供應鏈管理有限公司), Tianjin Tianyuan Weiye International Trade Co., Ltd. (天津天元偉業國際貿易有限公司), Tianjin Konggang International Car Development Co., Ltd. (天津空港國際汽車園發展有限公司) and Tianjin Haowu Junchi International Trade Co., Ltd. (天津浩物駿馳國際貿易有限公司)
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Reorganisation”	the reorganisation to be completed by the Target Group pursuant to the Acquisition Agreement, pursuant to which, the Target Company will indirectly hold the entire interests of the OPCo, being a company established under the laws of the PRC, through its interests in World Vast, being a company incorporated under the laws of Hong Kong with limited liability and the holding company of the OPCo
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Share(s)”	the entire issued share capital of the Target Company
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting to be convened by the Company at Suite 2418, 24/F, Jardine House, 1 Connaught Place, Central, Hong Kong on Tuesday, 18 October 2016 at 3:00 p.m. for the purpose of considering, and if thought fit, approving (i) the Acquisition Agreement and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares under the Specific Mandate; (ii) the Strategic Cooperative Agreement and the transactions contemplated thereunder; and (iii) the appointment of a personnel nominated by the Vendor as an executive Director subject to Completion and with effect from the Completion Date
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Specific Mandate”	the specific mandate for the allotment and issue of the Consideration Shares, which is subject to the approval by the Independent Shareholders voting by way of poll at the SGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategic Cooperative Agreement”	the strategic cooperative agreement dated 2 June 2016 (as amended and supplemented by the Supplemental Strategic Cooperative Agreement) entered into between the OPCo and Binhai Car City for the purchase of Parallel Imported Cars from Binhai Car City by the OPCo
“Supplemental Acquisition Agreement”	the supplemental acquisition agreement to the Acquisition Agreement dated 29 September 2016 entered into between the Company and the Vendor to supplement the terms of the Acquisition Agreement
“Supplemental Strategic Cooperative Agreement”	the supplemental strategic cooperative agreement dated 29 September 2016 and entered into between the OPCo and Binhai Car City to supplement the terms of the Strategic Cooperative Agreement
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Target Audit Net Profit”	the target audited after-tax net profits derived from the Target Group’s operating business (which, for the avoidance of doubt, shall include only such profits as generated from the Target Group’s operating business and relevant income derived therefrom), prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the Target Group as follows:

DEFINITIONS

	For the financial year ending 31 December 2016: no less than RMB30,000,000
	For the financial year ending 31 December 2017: no less than RMB80,000,000
“Target Company”	Mega Convention Group Limited, a company incorporated in the British Virgin Islands with limited liability and is the legal and beneficial owner of the entire equity interest in the OPCo
“Target Group”	the Target Company and its subsidiaries
“TJFTZ”	the China (Tianjin) Pilot Free Zone
“Tianjin Calistar Industrial”	天津開利星空實業有限公司 (Tianjin Calistar Industrial Co. Ltd.*), a limited company established in the PRC, by which Ms. Cheng Weihong is the controlling shareholder as at the Latest Practicable Date
“Tranche A Consideration Shares”	the first tranche Consideration Shares to be allotted and issued for satisfaction of the first tranche of the Consideration
“Tranche B Consideration Shares”	the second tranche Consideration Shares to be allotted and issued for satisfaction of the second tranche of the Consideration
“Tranche C Consideration Shares”	the third tranche Consideration Shares to be issued and allotted for satisfaction of the third tranche of the Consideration
“Vendor”	Mighty Mark Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is ultimately beneficially owned by Ms. Cheng Weihong, an Independent Third Party as at the Latest Practicable Date
“World Vast”	World Vast International Enterprise Limited (世浩國際企業有限公司), a company incorporated in Hong Kong with limited liability and the holding company of OPCo
“%”	per cent.

* *The English translation of the Chinese name is for identification purposes only, and should not be regarded as the official English translation of the same name.*

LETTER FROM THE BOARD



LISI GROUP (HOLDINGS) LIMITED

利時集團(控股)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 526)

Executive Directors:

Mr. Li Lixin (*Chairman*)

Mr. Cheng Jianhe

Ms. Jin Yaxue

Non-executive Director:

Mr. Lau Kin Hon

Independent non-executive Directors:

Mr. He Chengying

Mr. Cheung Kiu Cho Vincent

Mr. Shin Yick Fabian

Registered Office:

Clarendon House

Church Street

Hamilton HM 11

Bermuda

Principal place of business in Hong Kong:

Workshop 06 & 07, 36th Floor

King Palace Plaza

No. 52A Sha Tsui Road

Tsuen Wan, New Territories

Hong Kong

30 September 2016

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED
SHARE CAPITAL OF MEGA CONVENTION GROUP LIMITED;
(2) ISSUE OF CONSIDERATION SHARES
UNDER SPECIFIC MANDATE;
(3) POSSIBLE CONTINUING CONNECTED TRANSACTION;
(4) PROPOSED APPOINTMENT OF EXECUTIVE DIRECTOR
AND
(5) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcements of the Company dated 25 September 2015, 9 August 2016 and 29 September 2016 in relation to, among other things, the Acquisition Agreement, the Supplemental Acquisition Agreement, the allotment and issue of the Consideration Shares pursuant to the Specific Mandate, and the Continuing Connected Transaction.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, further details of (i) the Acquisition Agreement, the Supplemental Acquisition Agreement and the Acquisition contemplated thereunder; (ii) the allotment and issue of the Consideration Shares pursuant to the Specific Mandate; (iii) the Continuing Connected Transaction; (iv) the appointment of a personnel nominated by the Vendor as an executive Director subject to Completion and with effect from the Completion Date; (v) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Acquisition and Continuing Connected Transaction; (vi) a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Continuing Connected Transaction; and (vii) the notice of the SGM.

THE ACQUISITION

Further to the entering of the MOU, on 9 August 2016 (after trading hours of the Stock Exchange), the Company and the Vendor entered into the Acquisition Agreement, which was further amended and supplemented by the Supplemental Acquisition Agreement. The principal terms of the Acquisition Agreement (as amended and supplemented by the Supplemental Acquisition Agreement) are set out below:

Date

9 August 2016 (after trading hours of the Stock Exchange)

Parties

- (i) the Company; and
- (ii) the Vendor

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons. To their best knowledge, the Vendor and its ultimate beneficial owners have no relationship (in terms of shareholding, business or otherwise) with the Company and its connected persons except for the transactions contemplated under the Acquisition Agreement.

Assets to be acquired

Pursuant to the Acquisition Agreement, the Company conditionally agreed to purchase, and the Vendor conditionally agreed to sell, the Sale Shares. The Sale Shares represent the entire issued share capital of the Target Company as at the date of the Acquisition Agreement.

Consideration

Subject to the satisfaction of the Target Audited Net Profit, the Consideration for the Sale Shares shall be up to RMB916,000,000, and will be settled by the Company by the allotment and issue of Consideration Shares to the Vendor and/or its designated party credited as fully paid in three tranches at the Issue Price of HK\$0.3712 per Consideration Share in the following manner:

LETTER FROM THE BOARD

- (i) the first tranche of the Consideration shall be paid by the Company by the allotment and issue of Tranche A Consideration Shares to the Vendor and/or its designated party on the Completion Date, which shall comprise of the number of Consideration Shares equal to the sum of (a) RMB100,000,000; and (b) RMB20,000,000 multiplied by 8.5, and be converted into equivalent amount in Hong Kong dollars at the then Agreed Exchange Rate and divided by the Issue Price. For illustrative purposes only, the number of Tranche A Consideration Shares determined with reference to the Illustrative Exchange Rate will be 1,018,270,089 Shares, equivalent to approximately 22.23% of the total Shares in issue as at the date of the Acquisition Agreement and as at the Latest Practicable Date. For the avoidance of doubt, the actual number of Tranche A Consideration Shares will be determined with reference to the then Agreed Exchange Rate as aforementioned;
- (ii) subject to the satisfaction of the Target Audited Net Profit by the Target Group for the financial year ending 31 December 2016 (i.e. no less than RMB30,000,000), the second tranche of the Consideration shall be paid by the Company by the allotment and issue of Tranche B Consideration Shares to the Vendor and/or its designated party within 10 Business Days immediately upon the release of the signed auditors' report of the Target Group for the financial year ending 31 December 2016, which shall comprise of the number of Consideration Shares equal to the amount of RMB10,000,000 multiplied by 8.5, and be converted into equivalent amount in Hong Kong dollars at the then Agreed Exchange Rate and divided by the Issue Price. For illustration purposes only, the number of Tranche B Consideration Shares determined with reference to the Illustrative Exchange Rate will be 320,566,510 Shares, equivalent to approximately 7.00% of the total Shares in issue as at the date of the Acquisition Agreement and as at the Latest Practicable Date. For the avoidance of doubt, the actual number of Tranche B Consideration Shares, if any, will be determined with reference to the then Agreed Exchange Rate as aforementioned; and
- (iii) subject to the satisfaction of the Target Audited Net Profit by the Target Group for the financial year ending 31 December 2017 (i.e. no less than RMB80,000,000), the third tranche of the Consideration shall be paid by the Company by the allotment and issue of Tranche C Consideration Shares to the Vendor and/or its designated party within 10 Business Days immediately upon the release of the signed auditors' report of the Target Group for the financial year ending 31 December 2017, which shall comprise of the number of Consideration Shares equal to the amount of the difference between (a) the actual audited after-tax net profit of the Target Group for the year ending 31 December 2017; and (b) RMB30,000,000 multiplied by 8.5, and be converted into equivalent amount in Hong Kong dollars at the then Agreed Exchange Rate and divided by the Issue Price, subject to a maximum amount being RMB66,000,000 multiplied by 8.5, and be converted into equivalent amount in Hong Kong dollars at the then Agreed Exchange Rate and divided by the Issue Price (the "**Maximum Tranche C Consideration Shares**"). For the avoidance of doubt, even if the actual audited after-tax net profit of the Target Group for the year ending 31 December 2017 exceeds RMB96,000,000, the amount of Tranche C Consideration Shares to be allotted and issued shall only equal to the Maximum Tranche C Consideration Shares.

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For illustrative purposes only, the amount of Tranche C Consideration Shares determined with reference to the Illustrative Exchange Rate on the assumption that the actual audited after-tax net profit of the Target Group for the financial year ending 31 December 2017 exceeds RMB96,000,000 will be 2,115,738,962 Shares, equivalent to approximately 46.18% of the total Shares in issue as at the date of the Acquisition Agreement and as at the Latest Practicable Date. However, the actual number of Tranche C Consideration Shares, if any, will be determined with reference to the then Agreed Exchange Rate and the actual audited after-tax net profit of the Target Group for the year ending 31 December 2017 as aforementioned. For the avoidance of doubt, in the event that the Vendor is required to (a) reduce its shareholdings in the Company to avoid the triggering of the General Offer Obligation; or (b) obtain a whitewash waiver from the Executive waiving the General Offer Obligation pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code, the time limit to which the Company shall allot and issue the Tranche C Consideration Shares to the Vendor and/or its designated party shall be 10 Business Days upon completion of (a) or (b) above.

According to the Acquisition Agreement, the allotment and issue of the Tranche C Consideration Shares shall be conditional upon the following, namely, the Vendor having reduced its shareholding in the Company if the General Offer Obligation has been triggered as a result of the allotment and issue of Tranche C Consideration Shares, or the Vendor having obtained a whitewash waiver from the Executive waiving the General Offer Obligation pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code. Such condition precedent to the allotment and issue of the Tranche C Consideration Shares cannot be waived. As such, the Company is not obliged to issue the Tranche C Consideration Shares if the General Offer Obligation will be triggered upon the allotment and issue of the Tranche C Consideration Shares, or the Vendor fails to obtain a whitewash waiver from the Executive waiving the General Offer Obligation pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code.

To avoid the triggering of the General Offer Obligation upon the allotment and issue of the Tranche C Consideration Shares, it is the intention of the Vendor to apply to the Executive for a whitewash waiver waiving the General Offer Obligation pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code and failing which, the Vendor intends to dispose of the Shares held by the Vendor and the parties acting in concert with it via placing to independent third parties.

The Company undertakes that, so long as permitted under relevant laws, during the period from the date of the Acquisition Agreement up till the allotment and issue of the Tranche C Consideration Shares to the Vendor, the Company will not increase its share capital or undertake any other changes which affect its issued share capital (including but not limited to share issue, consolidation or split), unless otherwise consented by the Vendor in writing and corresponding adjustments having been made to the Consideration Shares to be allotted and issued to the Vendor so as to maintain the relevant shareholding percentage of the Vendor as described above. Provided that if after any of the Consideration Shares have been allotted and issued to the Vendor, and the Vendor decreases its shareholdings in the Company (a) upon consent being obtained from the Company as set forth in the paragraph headed "Lock-up Undertakings by the Vendor" below or (b) for the avoidance of the triggering of the General Offer

LETTER FROM THE BOARD

Obligation, the Company has no obligation to adjust the amount of Consideration Shares to be allotted and issued to the Vendor in relation to the portion of Consideration Shares disposed by the Vendor pursuant to (a) or (b) above.

For the avoidance of doubt, the respective tranches of the Consideration Shares will only be allotted and issued to the Vendor if and when the Target Audited Net Profit for the two financial years ending 31 December 2016 and 2017 can be achieved by the Target Group in accordance with the terms of the Acquisition Agreement. Further, the Company will only allot and issue the Tranche C Consideration Shares if the General Offer Obligation (assuming that a whitewash waiver from the Executive waiving the General Offer Obligation pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code has not been obtained) is not triggered, and the percentage of the public float of the Company does not fall below 25%.

The Issue Price

The Issue Price of HK\$0.3712 per Consideration Share represents:

- (i) a discount of approximately 43.76% to the closing price of HK\$0.66 per Share as quoted on the Stock Exchange on 9 August 2016, being the date of the Acquisition Agreement;
- (ii) a discount of approximately 43.93% to the average closing price of approximately HK\$0.662 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the Acquisition Agreement;
- (iii) a discount of approximately 43.41% to the average closing price of approximately HK\$0.656 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the date of the Acquisition Agreement; and
- (iv) a discount of approximately 50.51% to the closing price of HK\$0.75 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares represent approximately:

- (i) 75.41% of the existing issued share capital of the Company as at the date of the Acquisition Agreement and as at the Latest Practicable Date;
- (ii) 42.99% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming (i) there will be no change in the issued share capital of the Company between the date of the Acquisition Agreement and the issue date of the Tranche C Consideration Shares save for the issue of the Consideration Shares; and (ii) the audited after-tax net profit of the Target Group for the financial year ending 31 December 2017 exceeds RMB96,000,000).

LETTER FROM THE BOARD

The Consideration (including the Issue Price) was arrived upon arm's length negotiations between the Company and the Vendor with reference to (1) the net asset value of the Target Company as of 31 December 2015 according to the combined financial statements of the Target Group prepared in accordance with Hong Kong Financial Reporting Standards; (2) the undertaking from the Vendor in relation to the Target Audited Net Profit; (3) the business prospects of the Target Group; and (4) the price-to-earnings ratio of the companies whose principal activity is similar to that of the Target Group.

In assessing the price-to-earnings ratio ("**P/E Ratio**") of the Target Group, the Company has identified a list of companies listed on the Stock Exchange and engaged in business comparable to that of the Target Group ("**Comparable Companies**") by conducting research on Bloomberg on a best efforts basis. The Comparable Companies being identified are: (i) principally engaged in the wholesale and/or retail of automobiles in the PRC and (ii) its revenue generated from sales of automobiles represented over 70% of the total revenue for their respective latest financial year. From the research conducted by the Company, there are no individual entities that are identical to the OPCo and engaged solely in the sales of automobiles. Having considered that the majority of the Comparable Companies (9 out of 10 companies) generated over 80% of their respective total revenue from the sales of automobile, the Directors are of the view that the principal activities of the Comparable Companies are highly comparable to that of the Target Group. As such, the Directors consider that the Comparable Companies are the best comparable companies available from the Company's research and are fair and representative samples in assessing the P/E Ratio of the Target Group.

The details of the Comparable Companies, including their principal business activities, revenue contribution from sales of automobiles and P/E Ratio as of 8 August 2016, being the last trading day prior to the date of the Acquisition Agreement ("**Historical P/E Ratio**"), are set out as below:

Stock code	Company name	Principal activities	Revenue contribution from sales of automobiles ¹	Historical P/E Ratio
881	Zhongsheng Group Holdings Ltd.	Sale and service of motor vehicles.	87.7%	21.84
1828	Dah Chong Hong Holdings Ltd.	Sales of motor vehicle and related business and services, sales of food and consumer products and provision of logistics services.	76.0%	10.75
3669	China Yongda Automobiles Services Holdings Ltd.	Sale of automobiles and provision of after-sales services, provision of automobile rental services, automobile finance leasing service and distribution of automobile insurance products; and automobile financial products in the PRC.	98.8%	9.68

LETTER FROM THE BOARD

Stock code	Company name	Principal activities	Revenue contribution from sales of automobiles ¹	Historical P/E Ratio
1728	China ZhengTong Auto Services Holdings Ltd.	4S dealership business, motor-related logistics business, lubricant oil trading business and financial services in the PRC.	97.7%	9.92
1365	China Greenland Rundong Auto Group Ltd.	Sale and service of motor vehicles in Mainland China.	86.9%	14.05
3836	China Harmony New Energy Auto Holding Ltd.	Sale of exclusively in luxury and ultra-luxury passenger vehicles.	84.1%	10.37
1771	Sunfonda Group Holdings Ltd.	Sale of automobiles; provision of after-sales services; provision of automobile insurance agency services, automobile financing services, automobile licensing services and automobile survey services.	89.3%	48.10
1268	China MeiDong Auto Holdings Ltd.	Engaged in automobile dealership business authorized by the respective automobile manufacturers of a particular brand in the PRC including the sale of new passenger cars, spare parts, service and survey.	89.2%	8.54
970	Sparkle Roll Group Ltd.	Trading of luxury automobiles, watches, jewellery and trading of fine wines in the PRC.	91.7%	N/A ²
720	Auto Italia Holdings Ltd.	Import, marketing and distribution of luxury and ultra-luxury cars.	98.2%	29.15

¹ Revenue contribution from sales of automobiles were calculated with reference to the relevant financial information disclosed in the respective latest annual reports of the Comparable Companies.

² Historical P/E Ratio is not applicable to the respective company as it was loss-making in its latest financial year.

Source: Bloomberg, website of the Stock Exchange and respective latest annual reports of the Comparable Companies

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The Historical P/E Ratio of the Comparable Companies ranges from approximately 8.54 times to approximately 48.10 times, with an average of 18.04 times and a median of 10.75 times (without taking into account the company which was loss-making in its latest financial year).

The number of the Consideration Shares will be determined with reference to the future profit of the Target Group and the P/E multiple of 8.5. In this regard, the Company further looked into the estimated P/E Ratio of the Comparable Companies for the year ending 31 December 2016 (“**Future P/E Ratio**”) with reference to information available on Bloomberg. The list of companies among the Comparable Companies, of which the Future P/E Ratio are available (“**Shortlisted Comparable Companies**”), are set out as below:

Stock code	Company name	Historical P/E Ratio	Future P/E Ratio ¹	% change in P/E Ratio
881	Zhongsheng Group Holdings Ltd.	21.84	10.02	-54.11%
1828	Dah Chong Hong Holdings Ltd.	10.75	11.09	+3.11%
3669	China Yongda Automobiles Services Holdings Ltd.	9.68	7.10	-26.63%
1728	China ZhengTong Auto Services Holdings Ltd.	9.92	9.91	-0.05%
1365	China Greenland Rundong Auto Group Ltd.	14.05	21.55	+53.43%
3836	China Harmony New Energy Auto Holding Ltd.	10.37	8.54	-17.62%

¹ Future P/E Ratio were calculated based on (i) the respective earnings per share estimates of the Shortlisted Comparable Companies available on Bloomberg and (ii) their respective closing share prices on 8 August 2016.

Source: Bloomberg and latest annual reports of the comparable Companies

The Future P/E Ratio of the Shortlisted Comparable Companies ranges from approximately 8.54 times to approximately 21.55 times, with an average of 11.37 times and a median of 9.97 times. The average percentage change in P/E Ratio is approximately -6.98%.

The multiple of 8.5, which is (i) below the average Future P/E Ratio of the Shortlisted Comparable Companies, (ii) an approximate of the lower boundary of the range of Future P/E Ratio of the Shortlisted Comparable Companies and (iii) below the product of average Historical P/E Ratio of the Comparable Companies and the average percentage change in P/E Ratio, was arrived after taking into account (i) the operations model and prospects of the Target Group are not identical as that of the Comparable Companies; (ii) the revenue of some of the Comparable Companies are significantly higher than that of the Target Group; and (iii) the Target Group is not in identical stage of business life cycle as those of the Comparable Companies. Therefore, the Directors are of the view that the P/E Ratio as adopted for the purpose of determining the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

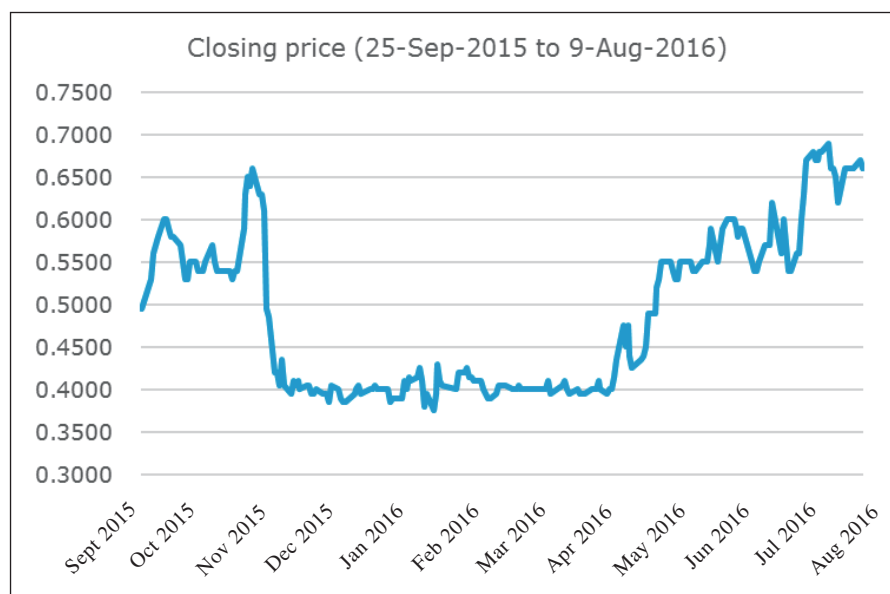
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When arriving at the Issue Price of HK\$0.3712, the Directors mainly took into account of the following: (i) total equity attributable to equity shareholders of the Company as at 31 March 2015 amounted to approximately RMB1,644 million; (ii) special dividend amounted to approximately RMB183 million distributed to the Shareholders on 10 June 2015; (iii) special dividend of HK\$0.11 per share declared by the Board on 26 July 2016 (i.e. in total of approximately RMB399 million); (iv) the conversion of convertible bonds amounted to approximately RMB134 million; and (v) the net effect of reversal of over-provision of tax in prior years (i.e. in total of approximately RMB150 million) during the year ended 31 March 2016.

The Issue Price represents a discount of 44% to the closing price of the Shares on 9 August 2016 (being the date of the Acquisition Agreement). It was announced on 25 September 2015 that the Company and the Vendor entered into the MOU on the same day, where both parties agreed to further negotiate the number of Consideration Shares upon completion of the due diligence by the Company. Since then, the price of the Shares moved in a moderate upward trend and peaked at HK\$0.66 on 13 November 2015. On 18 November 2015, the Company announced that the amount of compensation to be received by the Group in relation to a very substantial disposal would be adjusted downwards by RMB50 million. Coupled with the profit warning announcement published by the Company on 23 November 2015, the price of Shares plunged to HK\$0.395 on 30 November 2015 and maintained relatively stable afterwards. As illustrated from the chart below showing the share price performance for the Company over the period from 25 September 2015 to 9 August 2016, the price of the Shares was mildly oscillating during the period from December 2015 to mid-April 2016, during which the Company had received preliminary due diligence reports from its auditors and PRC legal adviser on the Target Group and the negotiation of Issue Price between the Company and the Vendor had taken place. From May 2016 to the date of the Acquisition Agreement, the closing price of the Shares had shown positive momentum and had been in line with the performance of the overall market (Hang Seng Index was at 20,676.94 on 3 May 2016 and rose to 22,465.61 on 9 August 2016). Further, the Company announced that a Board meeting would be held to consider recommendation for a special dividend after trading hours on 14 July 2016. The price of the Shares reached a recent high to HK\$0.67 on the following trading day and maintained a mild increasing trend and rose to its highest at HK\$0.69 on 25 July 2016. The price of the Shares fluctuated within narrow range and reached HK\$0.66 on 9 August 2016. The Directors is of the view that the recent increase in the Share price was mainly attributable to (a) the special dividend of HK\$0.11 per share declared by the Board on 26 July 2016; and (b) the high volatility of the price of the Shares due to its low liquidity. The Directors consider that such increase in price of the Shares do not reflect an organic growth of the Group's business and shall not be contemplated in the Issue Price. For the period from the entering of the MOU up till the execution of the Acquisition Agreement, the price of the Shares fluctuated within a span from HK\$0.375 to HK\$0.69, approximately half of the period of which (i.e. from December 2015 to mid-April 2016) the price of the Shares fluctuated within a relatively narrow range of HK\$0.375 to HK\$0.43. The Directors mainly considered the company-specific factors impacting the price of the Shares as elaborated above when determining the Issue Price and are of the view that the Issue Price largely accord with the price performance of the Shares in the relevant period and is therefore reasonable. The Directors also note that the Consideration Shares will be issued in separate tranches in future dates as stipulated in the Acquisition Agreement. However, there is no reasonable ground or basis for the Directors to predict the future performance of the Company's share price and any comparison of such estimates with the Issue Price will not procure meaningful information for the Shareholders to appraise the terms of the Acquisition. Further, the Directors are of the view that future performance of the Company's share price will be effectively influenced by the business

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performance and profitability of the Target Group and therefore it may not be fair to account for the future share prices of the Company when determining the Issue Price.



Conditions precedent of the Acquisition

Completion is conditional upon the following conditions being fulfilled on or before the Long Stop Date:

- (i) the Target Group having completed the Reorganisation pursuant to the Acquisition Agreement, all government approvals, filings and licenses relevant to the Reorganisation having been obtained and/or completed, and the transfer price with respect to the relevant share transfers involved in the Reorganisation having been fully paid and settled in accordance with applicable laws and regulations, and without any outstanding payment;
- (ii) the passing of the following resolution(s) by the Independent Shareholders at the SGM approving:
 - (a) the Acquisition Agreement and the transactions contemplated thereunder;
 - (b) the allotment and issue of Consideration Shares by the Company to the Vendor (or its designated party) pursuant to the Specific Mandate;
 - (c) the Continuing Connected Transaction; and
 - (d) the appointment of a personnel nominated by the Vendor as an executive Director subject to Completion and with effect from the Completion Date;

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- (iii) the listing committee of the Stock Exchange having approved the listing of, and permission to deal in, the Consideration Shares;
- (iv) the warranties set out in the Acquisition Agreement given by the Vendor remaining true, accurate and not misleading in all material respects;
- (v) since the date of the Acquisition Agreement and up till the Completion Date, there being no material adverse effect in respect of the business, assets or operation of the Target Group having been discovered;
- (vi) the Vendor having obtained all necessary approvals, consents, notices required under applicable laws and regulations and other agreements or contracts in relation to the Acquisition Agreement;
- (vii) all third party consents, approvals and notices which is required to be obtained by the Vendor pursuant to any applicable laws or agreements involving the Vendor or any company of the Target Group, and in connection with the transactions contemplated under the Acquisition Agreement having been obtained;
- (viii) the Vendor having fully performed and complied with all the covenants and undertakings required to be performed or complied by it under the Acquisition Agreement on or before the Completion Date in all material respects;
- (ix) the Target Company having obtained all necessary consents and approval, including the approvals from its board of directors and shareholders which are necessary to be obtained for any of the transactions contemplated under the Acquisition Agreement and the execution of any relevant documents; and
- (x) the Vendor having provided to the Company (i) the Strategic Cooperative Agreement in relation to the Continuing Connected Transaction; and (ii) the financial statements of the Target Group for the financial year ended 31 December 2015 (which indicates that the audited after-tax net profit amounted to RMB20,000,000 or above).

None of the conditions precedent under the Acquisition Agreement can be waived by either the Company or the Vendor.

In the event that any of the above conditions precedent have not been fulfilled on or before the Long Stop Date, the Acquisition Agreement shall cease and terminate immediately. Upon which, parties to the Acquisition Agreement shall be released and discharged from their respective obligations under the Acquisition Agreement, save for obligations with continuing effect under the Acquisition Agreement.

Based on information available to the Company, conditions (x) has been satisfied as at the Latest Practicable Date.

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Completion of the Acquisition

Completion shall take place on the Completion Date.

According to the Acquisition Agreement, the Vendor undertakes to the Company that it will procure Ms. Cheng Weihong, the beneficial owner of World Vast, to fund World Vast by way of capital contribution before Completion, in order for World Vast to settle the outstanding acquisition consideration in the amount of RMB100 million in cash, being the amount currently due from World Vast to the then shareholder of OPCo.

In the event that either the Company or the Vendor is unable to perform their respective completion obligations on the Completion Date as set out in the Acquisition Agreement, the non-defaulting party may, by written notice to the defaulting party, determine to:

- (i) proceed with the Completion so far as practicable; or
- (ii) delay the Completion to a later date, but no later than the Long Stop Date; or
- (iii) terminate the Acquisition Agreement.

Target Audited Net Profit

Pursuant to the Acquisition Agreement, if the Target Audited Net Profit for the financial years ending 31 December 2016 and 31 December 2017 (i.e. RMB30 million and RMB80 million, respectively) have been achieved by the Target Group, Tranche B Consideration Shares and Tranche C Consideration Shares will be allotted and issued to the Vendor and/or its designated party. Please refer to the section headed “Letter from the Board – Consideration” above for details of the impact on the Consideration with regard to the Target Audited Net Profit.

The Directors are of the view that the Target Audited Net Profit (i.e. RMB30 million for the year ending 31 December 2016 and RMB80 million for the year ending 31 December 2017) are fair and reasonable estimates due to the following reasons:

- (i) the directors of the Target Group have prepared a business plan for the year ending 31 December 2016 and 2017 (the “**Business Plan**”), in which the accounting policies adopted are consistent with those used in the Accountants’ Report of the Target Group as set out in Appendix II to the Circular;
- (ii) the Directors are of the view that the Business Plan has been prepared after due and careful enquiry based on their discussion with the management of the Target Group in relation to the reasonableness of the major basis and assumptions adopted in the Business Plan as below:
 - (1) There will be no material changes in the law or legislation or regulations or rules in the PRC or other countries where the Target Group and its suppliers operate, which will adversely affect the business of the Target Group during the year ending 31 December 2016 and 2017.

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- (2) There will be no material changes in the bases or applicable tax rates in relation to the business of the Target Group during the year ending 31 December 2016 and 2017.
 - (3) There will be no material changes in the interest rates, exchange rates and inflation rates in the PRC or other countries where the Target Group and its suppliers operate during the year ending 31 December 2016 and 2017.
 - (4) The Target Group's business and operation will not be severely interrupted by any unforeseeable factors or unforeseen reasons that are beyond the control of the Target Group, including but not limited to the occurrence of natural disasters, catastrophes (such as flood or typhoons), serious accidents and labour disputes during the year ending 31 December 2016 and 2017.
 - (5) There will be no material change in the business environment/industry outlook in relation to the Target Group's principal business activity during the year ending 31 December 2016 and 2017.
- (iii) for substantiating the estimated revenue in the Business Plan, the Directors noted that around 80.1% and 74.6% of the estimated revenue for the year ending 31 December 2016 and 2017 were supported by non-legally binding confirmation signed by OPCo's customers on their respective intended purchases. The OPCo has collected 28 signed non-legally binding confirmations for each of the years ending 31 December 2016 and 2017 and all customers which signed such confirmations have no prior relationship with the Target Group's ultimate beneficial owner, Ms. Cheng Weihong, and are independent third parties to the Target Group and its connected persons. In this connection, the Directors have obtained the aforementioned signed confirmations and selected three samples on a random basis for each of the years ending 31 December 2016 and 2017 and conducted phone interviews with the respective customers to validate that (1) they are all independent third parties to the Target Group; (2) the signed confirmation reflected their purchase intention including the quantity, model and price of the Parallel Imported Cars as of the date of confirmation; and (3) as of the date of the phone interview, there had been no material change in their intended purchases as indicated in the signed confirmation;
- (iv) the management of the OPCo has issued a pricing policy which specifies the benchmark gross profit margins required to be attained by the sales personnel for different types of transactions. The directors of the Target Group have estimated the gross profit of the Target Group for the years ending 31 December 2016 and 2017 based on such pricing policy;
- (v) the directors of the OPCo have estimated the sales expenses and administrative expenses of the Target Group for the years ending 31 December 2016 and 2017 based on (1) the relevant historical financial information for the year ended 31 December 2015; (2) the expected fluctuation of the relevant expenses to render the expected business growth; and (3) the budgeted headcount of sales staff and administrative staff and their respective average remunerations;
- (vi) the directors of the OPCo have estimated the finance costs of the Target Group for the years ending 31 December 2016 and 2017 based on the forecasted amount of banking facilities to be obtained and the maximum utilization rate set by the board of directors of the OPCo;

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- (vii) the directors of the OPCo have estimated the income tax of the Target Group for the years ending 31 December 2016 and 2017 with reference to the effective income tax rate of the Target Group for the year ended 31 December 2015 and adjusted for items that are not expected to be incurred during the years ending 31 December 2016 and 2017; and
- (viii) the Directors have discussed with the directors of the OPCo, performed a reasonableness test on the forecasted finance costs by reference to the latest benchmark one-year lending rate as published by the People's Bank of China, carried out sample phone interviews with independent third party customers of the Target Group and checked to the various relevant supporting documents regarding the basis and assumptions adopted by the board of directors of the OPCo. The Directors are of the view that, after taking into consideration of the estimated gross profit margin, sales expenses, administrative expenses and finance costs, the Target Audited Net Profit for the years ending 31 December 2016 and 2017 are fair and reasonable estimates.

The Target Audited Net Profit shall be audited by the auditors of the Company and the parties to the Acquisition Agreement shall procure that the relevant auditors' report on the financial statements of the Target Group for the relevant financial year be available to all the parties within three (3) months upon the end of the respective financial year.

Undertakings by the Company

Pursuant to the Acquisition Agreement, among others, the Company undertakes to the Vendor that for so long as it is permitted under applicable laws (including but not limited to the Listing Rules and the Takeovers Code), in the event that Target Audited Net Profit for the two years ending 31 December 2016 and 31 December 2017 are satisfied by the Target Group and upon the allotment and issue of Tranche C Consideration Shares, the Vendor shall have the right to nominate two personnel to be a non-executive Director and an independent non-executive Director by issuing a nomination notice to the Company, and the Company shall within 30 days upon receipt of such notice of nomination, procure a board meeting of the Company to be convened to consider and approve the resolutions for the appointment of such personnel nominated by the Vendor as non-executive Director and independent non-executive Director and put forward such resolutions at the next annual general meeting or any special general meeting (whichever is earlier) of the Company for the appointment or re-election (as the case may be) of such personnel nominated by the Vendor as non-executive Director and independent non-executive Director, respectively.

Pursuant to Bye-law 88 of the Bye-laws of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven

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(7) days prior to the date of such general meeting. Accordingly, the Vendor, being a Shareholder of the Company following the Completion, shall have the right to nominate persons for election as Directors of the Company. The nomination rights granted to the Vendor as aforesaid are in compliance with the By-laws of the Company.

Upon receipt of the nomination notice from the Vendor to propose such person for election as a non-executive Director or an independent non-executive Director, the Company shall issue an announcement or a supplementary circular disclosing the particulars of the nominated Director pursuant to Rule 13.51(2) of the Listing Rules.

Further announcement will be made in respect of such appointments as and when appropriate in accordance with the Listing Rules.

Undertakings by the Vendor

Pursuant to the Acquisition Agreement, among others, the Vendor undertakes to the Company that:

- (i) upon Completion, the Vendor shall procure that each of the companies of the Target Group to increase such necessary number(s) of directors to complement the need for the business development of the Target Group, on the principle that the number of directors for each of the companies of the Target Group shall be an odd number in the range of 3 to 7. Further, upon Completion, the Vendor shall procure the appointment of such personnel as nominated by the Company to be appointed as a financial controller to the OPCo (if the Company considers necessary);
- (ii) the Vendor shall with its reasonable efforts provide all necessary information to the Company for the purpose of obtaining the Shareholders' approval as required by the Listing Rules and the Takeovers Code;
- (iii) the Vendor shall not, under any circumstances, be entitled to receive any special dividend to be approved by the Shareholders at the 2016 annual general meeting of the Company, regardless of whether the Vendor has become a shareholder of the Company at the time when the special dividend is declared; and
- (iv) the Vendor undertook to the Company that the Vendor will procure the OPCo to proceed with the application procedure to become a Pilot Enterprise in accordance with applicable laws and regulations of the PRC as soon as possible, which is expected to be the time when the application of the list of second batch of Pilot Platforms and Pilot Enterprises is initiated by the competent authorities. In the event that the OPCo is penalized by the competent authorities for conducting relevant businesses while it is not on the list of Pilot Platforms or Pilot Enterprises, the Vendor should assume full responsibility. If the Company and/or any member of the Target Group suffers any loss because the Vendor fails to assume the responsibility according to the above term, the Vendor shall fully indemnify the Company and/or those members of the Target Group for any direct loss incurred.

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Lock-up Undertakings by the Vendor

The Vendor further undertakes to the Company that (except with the prior written consent from the Company or for the purpose to avoid the General Offer Obligation and save for any pledge of the Consideration Shares for the purpose of financing operational needs of the Target Group given that the outstanding balance of such financing as at 30 June 2017 and 30 June 2018 shall not exceed the HK\$ equivalent of RMB50,000,000 and RMB100,000,000, respectively), from the date of the Acquisition Agreement up till 31 March 2019 (or such earlier date as may otherwise be agreed between the Company and the Vendor in writing), it will not and will procure that its associates (if any) will not:

- (i) offer, lend, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of (or enter into any agreement to transfer or dispose of or otherwise create any options, interests or encumbrances) (either conditionally or unconditionally, or directly or indirectly, or otherwise) any of such Consideration Shares or any interests therein; or
- (ii) enter into any swap or other arrangement that transfers, in whole or in part, the economic effect of ownership of such Consideration Shares or any interests therein; or
- (iii) enter into any such transaction, the economic effect of which is the same as described in (i) or (ii) above; or
- (iv) propose or agree or enter into or announce any intention to enter into or effect any such transaction described in (i) or (ii) or (iii) above.

Maintenance of minimum public float requirement

In the event that the Company fails to meet the minimum public float requirement under Rule 8.08 of the Listing Rules as a result of the allotment and issue of Tranche C Consideration Shares to the Vendor, in relation to the number of Tranche C Consideration Shares to be allotted and issued to the Vendor which exceeds the minimum public float requirement, the Vendor is obligated to dispose of its corresponding shareholding prior to the relevant Tranche C Consideration Shares is being allotted and issued to the Vendor, to ensure the minimum public float requirement of 25% for the Company is maintained at all times.

Maximum number of the Consideration Shares

Notwithstanding any other terms under the Acquisition Agreement, the maximum amount of the Consideration Shares is 3.455 billion and in the event that the actual number of Consideration Shares to be issued by the Company as determined with the actual Agreed Exchange Rate exceeds 3.455 billion Consideration Shares, the Company will only be obligated to allot and issue such number of Consideration Shares not exceeding 3.455 billion to the Vendor or its designated party.

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Ranking of the Consideration Shares

The Consideration Shares, when allotted, issued and fully paid, will rank pari passu in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Consideration Shares.

MANDATE TO ISSUE THE CONSIDERATION SHARES

The Consideration Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the SGM.

APPLICATION FOR LISTING

An application will be made by the Company to the listing committee of the Stock Exchange for the grant of the approval for the listing of, and permission to deal in, the Consideration Shares.

EFFECT ON THE SHAREHOLDING STRUCTURE

The following table sets out the effect of the issue of the Consideration Shares on the shareholding structure of the Company based on the issued share capital and shareholding structure of the Company as at the Latest Practicable Date and assuming Completion having taken place, without taking into account the issue of any other new Shares, if any, after the date of the Acquisition Agreement and prior to the allotment and issue of the Tranche C Consideration Shares and on the assumptions as set forth in the paragraph headed “Consideration” above:

	As at the Latest Practicable Date		Immediately upon the allotment and issue of the Tranche A Consideration Shares		Immediately upon the allotment and issue of the Tranche A Consideration Shares and Tranche B Consideration Shares		Immediately upon the allotment and issue of all the Consideration Shares (disregarding maintenance of minimum public float requirement as provided in the Supplemental Acquisition Agreement) (Note 2)		Immediately upon the allotment and issue of all the Consideration Shares (on the assumption that a whitewash waiver has been obtained pursuant to the Takeovers Code and taking into account maintenance of minimum public float requirement as provided in the Supplemental Acquisition Agreement) (Note 3)		Immediately upon the allotment and issue of all the Consideration Shares (on the assumption that a whitewash waiver has not been obtained pursuant to the Takeovers Code and taking into account maintenance of minimum public float requirement as provided in the Supplemental Acquisition Agreement) (Note 3)	
	Number of Shares	Approximately %	Number of Shares	Approximately %	Number of Shares	Approximately %	Number of Shares	Approximately %	Number of Shares	Approximately %	Number of Shares	Approximately %
Mr. Li Lixin and his associates (Note 1)	2,843,631,680	62.07%	2,843,631,680	50.78%	2,843,631,680	48.03%	2,843,631,680	35.39%	2,843,631,680	35.39%	2,843,631,680	43.45%
The Vendor	-	-	1,018,270,089	18.18%	1,338,836,599	22.61%	3,454,575,561	42.99%	3,183,523,942	39.61%	1,962,382,718	29.99%
Public Shareholders	1,738,000,255	37.93%	1,738,000,255	31.04%	1,738,000,255	29.36%	1,738,000,255	21.63%	2,009,051,874	25.00%	1,738,000,255	26.56%
	<u>4,581,631,935</u>	<u>100%</u>	<u>5,599,902,024</u>	<u>100%</u>	<u>5,920,468,534</u>	<u>100%</u>	<u>8,036,207,496</u>	<u>100%</u>	<u>8,036,207,496</u>	<u>100%</u>	<u>6,544,014,653</u>	<u>100%</u>

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Note 1: Mr. Li Lixin's interests in 2,843,631,680 Shares is held as to 9,822,000 Shares personally, 19,258,000 Shares through his spouse Ms. Jin Yaer, 1,332,139,014 Shares through Big-Max Manufacturing Co., Limited and 1,482,412,666 Shares through Shi Hui Holdings Limited, which is wholly-owned by Big-Max Manufacturing Co., Limited. The issued share capital of Big-Max Manufacturing Co., Limited is beneficially owned as to 90% by Mr. Li Lixin and as to 10% by his spouse, Ms. Jin Yaer.

Note 2: For illustrative purposes only, the amount of Tranche C Consideration Shares was determined with reference to the Illustrative Exchange Rate on the assumption that the actual audited after-tax net profit of the Target Group for the financial year ending 31 December 2017 exceeds RMB96,000,000.

Note 3: As there exists relevant provision in the Supplemental Acquisition Agreement (please refer to the paragraph headed "Maintenance of minimum public float requirement" above), the Vendor is obligated to dispose of its relevant shareholding prior to the allotment and issue of Tranche C Consideration Shares in the event that such allotment and issue of Tranche C Consideration Shares may result in the public float of the Company falling below 25%. Further, the Company is also not obligated to allot and issue the Tranche C Consideration Shares if the General Offer Obligation will be triggered upon the allotment and issue of the Tranche C Consideration Shares, or the Vendor fails to obtain a whitewash waiver from the Executive waiving the General Offer Obligation pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code.

FINANCIAL EFFECT OF THE ACQUISITION

Revenue

Upon the Completion, the Target Company will become a wholly-owned subsidiary of the Group and the financial results of the Target Company will be consolidated into the consolidated financial statements of the Group. It is expected that the Company will be able to record additional revenue stream from the Target Group upon the Completion.

Assets and liabilities

Based on the consolidated financial statements of the Group for the year ended 31 March 2016, the net asset value of the Group as at 31 March 2016 was approximately RMB1,739.79 million. Based on the unaudited pro forma financial information of the Enlarged Group as if the Acquisition had been completed on 31 March 2016 as set out in Appendix IV to this circular, the total assets of the Enlarged Group would be increased by approximately RMB996.28 million to approximately RMB4,558.04 million and total liabilities of the Enlarged Group would be increased by approximately RMB711.33 million to approximately RMB2,533.30 million. Accordingly, the net asset value of the Enlarged Group would be increased by approximately RMB284.95 million to approximately RMB2,024.73 million.

The unaudited pro forma financial information on the Enlarged Group, illustrating the financial effects as if the Acquisition and the transactions contemplated under the Acquisition Agreement had been completed, is set out in Appendix IV headed "Unaudited Pro Forma Financial Information of the Enlarged Group" of this circular.

LETTER FROM THE BOARD

RISK FACTORS

The Acquisition of the Target Group is subject to a number of risks which include but is not limited to those set out below:

The Target Group's reliance on supplier and customers may impact adversely on the business, financial condition and results of operations of the Target Group

The business of the Target Group is significantly affected by the availability, cost and quality of Parallel Imported Cars supplied by Binhai Car City and requires the continued support of Binhai Car City in order to maintain its businesses and to meet its expected growth in business scale and sales capacity. If the Company is unable to procure Parallel Imported Cars in a timely manner, or if the cost of these cars exceed the budgeted cost of the Target Group, there may be an adverse effect on the business, financial condition and results of operations of the Target Group and hence, the Company.

Sales to the Target Group's five largest customers accounted for approximately 62.83% and 56.02% of its total revenue for the year ended 31 December 2015 and the three months ended 31 March 2016, respectively. For the year ended 31 December 2015 and the three months ended 31 March 2016, the aggregated sales to connected persons of the Target Group accounted for approximately 63.07% and 4.25% of the total revenue respectively. Since April 2016, the Target Group has ceased its sales to connected persons.

Although the Target Group will continue to endeavor to diversify and expand its customer base, the Target Group expect that its present key customers will continue to account for a relatively large percentage of its sales in the coming years. There can be no assurance that any of Target Group's major customers will continue to place orders with us in the future nor that the income generated therefrom will be maintained or increase in the future. Any unexpected cessation of, or substantial reduction in, the volume of business from any of the major customers could adversely affect our business and financial performance.

The Target Group does not enter into long term supplier and customer agreements which increases volatility of its business

The Target Group sources and sells Parallel Imported Cars pursuant to agreements entered into between the Target Group and its suppliers/customers. The Target Group's customers only place purchase orders as and when they require instead of long-term sales contracts with the Target Group. On receiving such purchase order from its customers, the Target Group will then enter into purchase contract with its suppliers. It is uncommon for the Target Group to enter into any long-term contractual agreements with the suppliers or customers, whereby agreements with suppliers/customers are mainly one-off during the Reporting Period. As such, the Target Group is able to optimize its product offering and pricing closely in line with the latest market trend and customer preference.

LETTER FROM THE BOARD

Accordingly, the Target Group cannot assure that the existing suppliers or customers will continue to sell to the Target Group or purchase products on commercially reasonable terms, or at all. The Target Group also cannot assure that they will be able to maintain or extend relationships with the existing suppliers or customers when the agreements with them expire and these suppliers or customers may cease to supply or purchase Parallel Imported Cars to/from the Target Group at any time as they wish in the future. Hence, the business of Parallel Imported Cars may be disrupted due to reasons beyond the control of the Target Group, and its results of operations may vary from period to period and may fluctuate significantly from time to time, which may adversely affect its profitability, and the results of its operations and financial performance. As a result, the Company's financial performance and positions may be materially and adversely affected.

Decline in turnover and sales volume of the Target Group for the 6 months ended 30 June 2016 may have a material adverse effect on its results of operations

For the six months ended 30 June 2016, there has been a decline in turnover and sale volume of the Target Group. The said decrease was mainly due to the fact that the Target Group has reduced its sales proportion to distributors, and instead making more sales to individual customers for improving its gross profit margin. If customer reduces their orders with the Target Group, the Target Group cannot assure that they would be able to obtain orders from other customers to timely replace the lost of sales on comparable terms, or at all, in which case, the business, results of operations, financial conditions and prospects of the Target Group, and hence the Company, may be materially and adversely affected.

The Target Group is not on the list of first batch of Pilot Platforms / Pilot Enterprises

The principal regulation governing Parallel Import of cars in TJFTZ is the Pilot Implementation Plan. Failure to obtain or maintain itself on the list of Pilot Platforms and Pilot Enterprises could delay the implementation of business expansion plans and could materially and adversely affect the market competitiveness, profitability and prospects of the businesses of the Target Group. Even if the Target Group may still engage in the business of Parallel Import of cars given that it is able to enter into cooperation contracts with Pilot Platforms or become a member enterprise of the Pilot Platforms, the costs of compliance is still significantly increased to the detriment of its business.

According to the opinion of the OPCo's PRC legal adviser, OPCo met all the relevant requirements as stipulated under the Pilot Implementation Plan and there will be no material legal impediment for the OPCo to become a Pilot Enterprise. The OPCo has made the application of the second batch of Pilot Enterprises when such application was initiated in September 2016.

The expected direct overseas purchase of Parallel Imported Cars by OPCo from overseas suppliers will be accounted for approximately 16.7% and 23.9% of its total purchase during the year ending 31 December 2017 and 2018. In the event that the OPCo is not able to obtain the Pilot Enterprise status in January 2017 (i.e. not able to directly purchase for Parallel Imported Cars from overseas suppliers), the OPCo may not be able to purchase sufficient Parallel Imported Cars for its business expansion during the year ending 31 December 2017 and 2018 in the case of failing to purchase Parallel Imported Cars from the other Pilot Platforms in the TJFTZ (i.e. apart from Binhai Car City and Tianjin Bohai Car Supply). There can be no assurance that apart from Binhai Car City and Tianjin Bohai Supply, the other remaining Pilot Platforms will be willing to supply sufficient Parallel Imported Cars to the OPCo in the future. Any shortage of supply of overseas Parallel Imported Cars from the Pilot Platforms in the TJFTZ could adversely affect Target Group business and financial performance. As a result, the Company's financial performance and positions may be materially and adversely affected.

LETTER FROM THE BOARD

The Target Group relies on the Strategic Cooperative Agreement with Binhai Car City in order to fulfill the Pilot Implementation Plan

In order for the OPCo to engage in the business of Parallel Import of cars, it must enter into a cooperative agreement with Binhai Car City which is in the list of the Pilot Platforms. The operational reliance on Binhai Car City exposes the Target Group to potential violation of the Pilot Implementation Plan and other related laws, regulations and other legal documents in the event that the OPCo is unable to maintain the engagement with Binhai Car City.

In order to reduce such reliance and risk, the Target Group has entered into a framework purchase agreement with another Pilot Platform, Tianjin Bohai Car Supply Chain Management Co., Ltd. (天津渤海名車供應鏈管理有限公司) (“**Tianjin Bohai Car Supply**”) on 13 September 2016. The aforesaid framework purchase agreement has specified the quantities for automobile from various brands to be purchased by the OPCo from Tianjin Bohai Car Supply for the years ending 31 December 2016 and 2017.

The Target Group is subject to multiple regulations in the PRC and any non-compliance with the relevant legal and regulatory requirements may have a material adverse effect on its business, financial condition and results of operations

The operations of the Parallel Import of car business in the PRC are subject to various laws and regulations. If the OPCo fails to comply with the Pilot Implementation Plan, or are otherwise found to be non-compliant with any of the relevant laws, regulations or rules in the PRC, the OPCo may face penalties, suspension of operations etc which could materially and adversely affect its business, financial condition and results of operations.

Uncertainty brought by future changes in PRC legal and regulatory requirements could materially affect the Target Group’s business

The business operations of the OPCo and its future expansions are largely driven by government policies in the PRC and these policies may change significantly in the future. Dependent on the priorities determined by the PRC government, the political climate at any given time, future legislative changes may affect the business, and cost of compliance with the regulatory regime of the industry of Parallel Import of cars. As a result of the uncertainty in legal and regulatory reforms, it is difficult for the Target Group to predict the effect of future developments in the Chinese legal system and these uncertainties may adversely impact on the businesses of the OPCo.

The Target Group faces intense competition and its business could be adversely affected

The Parallel Import of car business is highly competitive and the Target Group faces intense competition in terms of pricing, and range of products offered. Some of the competitors may have certain competitive advantages over the Target Group including greater financial resources, stronger brand recognition, broader product and service offerings and a branch network with wider geographic coverage etc. Given that, the failure to maintain competitive will have a material and adverse effect on the business, financial condition, results of operations and prospects of the Target Group. As a result, the Company’s financial performance and positions may be materially and adversely affected.

LETTER FROM THE BOARD

ASSESSMENT OF THE LIKELIHOOD OF THE ABOVE RISKS AND PLAN TO MANAGE THE ABOVE RISKS

The Directors cannot assure that the above risks will not materialise in the future. However, to minimize the likelihood of these risks, the Directors will ensure that adequate resources are available to manage the risks. The management of the Group will also regularly review these risks and report to the Board if there is any likelihood of the above risks materialising in the future. In addition, the Company intends to implement the following plans to mitigate the risks named above:

- It is the Company’s intention to achieve diversification of sources of supply and optimize its product mix. Detailed plan to reduce operational reliance on Binhai Car City is set out in the paragraph headed “Strategic Cooperative Agreement” in this circular.
- The Company has engaged a PRC legal adviser to advise on the various compliance issues with respect to the Pilot Implementation Plan and other related laws, regulations and other legal documents (including the prospective changes in PRC legal and regulatory requirements).
- The Company intends to expand business of the Target Group and to foster a good business relationship with its customers by adopting an effective sales and marketing plan. Details of the plan are set out in the paragraph headed “Sales and marketing plan” in this circular.
- To further improve profitability, the Target Group is planning to commence overseas purchase from around January 2017 after the OPCo has obtained the status of Pilot Enterprise. Details of the plan are set out in the paragraph headed “Supply Chain Management” in this circular.

INFORMATION OF THE GROUP AND REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company. The Group is principally engaged in manufacturing and trading of household products, operation of department stores and supermarkets, and wholesale of wine and beverages, electrical appliances and investments holdings. Whilst the Group maintains its core businesses, the Board continuously explores different investment opportunities, which are of good potentials and able to generate return to the Shareholders, and is of the view that the Acquisition presents an excellent opportunity for the Group to leverage on the expertise and resources of the Target Group to develop its business of Parallel Import of cars in the PRC.

The Board believes that automotive industry is a fast growing market in the PRC with significant growth potential. For the six months ended 30 June 2016, there were a total of approximately 13.28 million cars newly registered in the PRC, according to the Ministry of Public Security of the PRC, which represented an increase of 1.99 million (or approximately 17.62%) as compared to the same period of last year. Further, according to China Association of Automobile Manufacturers, an organization founded with the approval of the Ministry of Civil Affairs of the PRC and consisting over 2,000 enterprises in the automotive industry, the total car sales in the first half of 2016 reached 11.04 million, which represented approximately 9.23% increment as compared to the same period of last year.

LETTER FROM THE BOARD

The Target Group possesses well-established business connection with suppliers, purchase agents and customers within the sector of the Parallel Import of cars in the TJFTZ. According to information from the People's Government of Tianjin Binhai New Area (天津濱海新區政府), sales of Parallel Imported Cars in TJFTZ accounted for approximately 74% and approximately 83% of the national total sales of Parallel Imported Cars in the PRC for the year of 2015 and the first four months of 2016, respectively. Furthermore, the Pilot Implementation Plan of TJFTZ for Parallel Imported Cars was promulgated in May 2015, which specifies the qualifications for the relevant Pilot Platforms and Pilot Enterprises in TJFTZ and therefore facilitates the competitiveness of the Parallel Imported Cars in the market. In February 2016, several governmental departments in the PRC including Ministry of Commerce, Ministry of Public Security, Ministry of Transport and the General Administration of Customs jointly published Several Opinions on Promoting the Pilot Initiative of Parallel Import of Automobiles (《關於促進汽車平行進口試點的若干意見》) in relation to the promotion of Parallel Import of cars. In the aforesaid guideline, a series of policies and measures are stipulated regarding pilot entities engaged in Parallel Import of cars, including how to apply for automatic import license, how to deal with compulsory product certification, inspection and quarantine, customs declaration, registration, etc. The aforesaid policy and guideline are expected to be beneficial to the Parallel Import of cars in the PRC. In view of such favorable governmental measures, coupled with the increasing disposable income of citizens in the PRC which is expected to drive the demand for the high-end Parallel Imported Cars, the Board believes that the Target Group will benefit from the positive market sentiment.

Upon Completion, the Group will be able to consolidate the financial results of the Target Group into that of the Group. As a result, the financial performance and position of the Group is expected to be improved.

It is intended that following the Completion, the Group will continue to carry out its existing principal businesses and expand its business scope into the Parallel Import of cars segment. As provided in the Acquisition Agreement, one of the condition precedent is the appointment of an executive Director nominated by the Vendor subject to Completion and effective from the Completion Date. In this connection, Mr. Tong Xin has been proposed by the Vendor to be appointed as an executive Director subject to the Shareholders' approval at the SGM. The Directors are of the view that the introduction of Mr. Tong Xin to the Board will diversify the expertise and experience of the Board, in particular those relevant to the operation of the Target Group as possessed by Mr. Tong Xin. Please refer to the section headed "Letter from the Board – Proposed appointment of Executive Director" of this circular for details of the biography of Mr. Tong Xin.

After the Completion, the Board will perform periodical review on its management efficiency on the business of Parallel Import of Car and, if appropriate, consider appointing suitable candidates to the management team or the Board with relevant experience and expertise to further enhance its supervision over the Parallel Import of Car business.

In consideration of the Target Audited Net Profit, the future prospects of the Target Group and other factors as mentioned above, the Directors consider that the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Intention of the Vendor regarding the Group

The Vendor intends that the Group will continue its existing principal business. The Vendor also shares the view of the Board that the Group will be able to develop the business of Parallel Import of cars in the PRC by leveraging on the expertise and resources of the Target Group as mentioned in the section headed “Letter from the Board – Information of the Group and reasons for and benefit of the Acquisition” of this circular.

The Vendor has no current intention to make major changes to the existing employment arrangement of the Group, save for the nomination of Directors as detailed in the section headed “Letter from the Board – Undertakings by the Company” of this circular. The Vendor is considering suitable candidates and information regarding the proposed Directors to be nominated by the Vendor, and all other relevant information will be announced when appropriate and in compliance with the relevant rules and regulations.

The Company (i) has not entered into or proposed to enter into any agreement, arrangement, understanding or undertaking, whether formal or informal, express or implied, and negotiation (whether concluded or not) with an intention to acquire any new asset, business or body corporate, other than pursuant to the Acquisition Agreement and in the ordinary course of business, and/or to dispose of the existing business of the Group; and (ii) the Company has no intention to dispose of its existing business and assets as at the Latest Practicable Date.

Financial information of the Target Group

As at 31 December 2015, the combined net asset value (unaudited) of the Target Group amounted to RMB121,049,000. Set out below are selected combined financial information of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards for the two years ended 31 December 2014 and 31 December 2015:

	Year ended 31 December	
	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Net (loss)/profit before taxation	<u>(3,065)</u>	<u>30,949</u>
Net (loss)/profit after taxation	<u>(2,794)</u>	<u>25,593</u>

INFORMATION OF THE VENDOR

The Vendor is an investment holding company. As at the date of the Acquisition Agreement, the Vendor is the legal and beneficial owner of the entire issued share capital of the Target Company.

The Target Company indirectly wholly owns the entire equity interest in the OPCo, which is principally engaged in, among other businesses, the Parallel Import and trading of Parallel Imported Cars.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition are more than 25% and less than 100%, the entering of the Acquisition Agreement and the transactions contemplated thereunder (including the issue of the Consideration Shares) constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under the Listing Rules.

Further, subject to the achievement of the Target Audited Net Profit by the Target Group (calculated with reference to the Illustrative Exchange Rate), on the assumption that a whitewash waiver has been obtained pursuant to the Takeovers Code and taking into account maintenance of minimum public float requirement as provided in the Supplemental Acquisition Agreement, the Vendor (an Independent Third Party) may be interested in up to 3,183,523,942 Shares, representing approximately 39.61% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. As a result, the Vendor and its shareholders may become controlling shareholders and controllers, within the meaning of the Listing Rules, of the Company. Accordingly, the entering into of the Acquisition Agreement also constitutes a connected transaction for the Company according to Rule 14A.28 of the Listing Rules and the transactions contemplated under the Acquisition Agreement, including the issue of the Consideration Shares, are subject to the requirements of reporting, announcement, circular and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition and no Shareholder and his associates are therefore required to abstain from voting on the relevant resolution(s) to approve the Acquisition at the SGM.

POSSIBLE CONTINUING CONNECTED TRANSACTION

On 2 June 2016, the OPCo and Binhai Car City entered into the Strategic Cooperative Agreement for a period of three years with retrospective effect commencing from 1 January 2016 and ending on 31 December 2018.

The principal terms of the Strategic Cooperative Agreement are set out below:

Strategic Cooperative Agreement

Date	:	2 June 2016
Parties	:	(1) the OPCo; and (2) Binhai Car City
Subject	:	Pursuant to the Strategic Cooperative Agreement, Binhai Car City agreed to supply to the OPCo such Parallel Imported Cars as the OPCo may order from time to time, and procure the completion of all necessary procedures for the purpose of overseas procurement, including but not limited to, logistics and port clearance as well as tax filings to ensure that the sale of such Parallel Imported Cars to the OPCo satisfy all applicable laws, regulations and other conditions.

LETTER FROM THE BOARD

The amount of the order of the Parallel Imported Cars to be made by the OPCo will be determined with reference to (i) the amount of inventory in stock; and (ii) the amount of orders with the OPCo placed by its customers.

Further, in the event that any customer of the OPCo suffer any loss as a result of any purchase of Parallel Imported Cars from the OPCo which in turn cause any loss of Binhai Car City, the loss of which has been proven to be caused by reason of the OPCo, the OPCo shall within 15 days compensate Binhai Car City of such amount. In this regard, within 30 days upon the entering of the Strategic Cooperative Agreement, the OPCo shall provide a sum of RMB50,000,000 as guarantee amount.

Term : The Strategic Cooperative Agreement has a fixed term of three years commenced from 1 January 2016 and ending on 31 December 2018. The OPCo has a right to terminate the Strategic Cooperative Agreement by giving 30 days prior written notice to Binhai Car City.

Pricing Policy : The purchase prices of the Parallel Imported Cars payable by the OPCo to Binhai Car City will be determined with reference to the prevailing market prices of similar products available on the market, and on terms no less favourable to the terms other independent third parties may offer to the OPCo. On the assumption that all conditions being equal, if the purchase price offered by other independent third parties to the OPCo is lower than the purchase price offered by Binhai Car City to the OPCo, Binhai Car City shall reduce the purchase price to the level in line with the lowest price in the market as other independent third parties may offer.

In the event there are suppliers which supply cars of the same brand and quality, OPCo shall ask for a price quote from such suppliers. The transaction between OPCo and Binhai Car City shall be effective upon confirmation by OPCo that the purchase price offered to OPCo by Binhai Car City does not exceed that offered by other suppliers.

In the event no suppliers supply cars of the same brand and quality (i.e. Binhai Car City being the exclusive supplier), Binhai Car City shall provide OPCo with a record of the purchase prices offered by Binhai Car City to other customers for cars of such brand and quality during a period of 30 days prior to the date of the proposed transaction. The transaction between OPCo and Binhai Car City shall be effective upon confirmation by OPCo that the purchase price offered to OPCo does not exceed the purchase prices offered to other customers.

LETTER FROM THE BOARD

- Settlement term : For Parallel Imported Cars to be purchased with reference to the OPCo's inventory level, 20% or the full amount of the purchase price will be payable by the OPCo in cash when an order is placed within 3 days upon a change of inventory in stock and the remaining balance of the purchase price will be payable by the OPCo upon completion of tax and port clearance of the relevant Parallel Imported Cars after three months.
- For Parallel Imported Cars to be purchased with reference to the amount of orders placed with the OPCo by its customers, 20% or the full amount of the purchase price will be payable by the OPCo in cash when the OPCo receives the deposit sum from its customers and places an order with Binhai Car City and the remaining balance of the purchase price will be payable by the OPCo upon completion of tax and port clearance of the relevant Parallel Imported Cars after three months.
- In the event that there is late payment of the purchase price by OPCo, OPCo will be required to pay Binhai Car City damages amounting to 0.5% of the total amount payable calculated on a daily basis.
- Condition precedent : The Strategic Cooperative Agreement is conditional upon the approval being obtained from the Independent Shareholders at the SGM.
- Others : As the transactions with Binhai Car City contemplated under the Strategic Cooperative Agreement will constitute as continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules upon Completion, accordingly, upon Completion the obligations of the OPCo thereunder is subject to the fulfillment of relevant requirements under the Listing Rules applicable to the Company being complied with. If any such requirements cannot be fulfilled, the OPCo reserves the rights to terminate its rights and obligations under the Strategic Cooperative Agreement until the fulfillment of the requirements.
- Termination : Either party to the Strategic Cooperative Agreement can terminate the Strategic Cooperative Agreement only on the following grounds:
- (1) expiry of the term of cooperation and the parties thereto decide not to extend the same; or
 - (2) termination of the agreement by the non-breaching party when the other party to the agreement is in default; or
 - (3) declaration of bankruptcy or the commencement of liquidation or dissolution proceedings by either party; or
 - (4) where a force majeure has lasted for over 30 days, either party may terminate the Strategic Cooperative Agreement by giving a notice in writing for such termination.

LETTER FROM THE BOARD

The OPCo has the right to terminate the Strategic Cooperative Agreement by serving written notice to Binhai Car City at least 30 days in advance. Binhai Car City does not have the right to unilaterally terminate the Strategic Cooperative Agreement.

The parties further entered into the Supplemental Strategic Cooperative Agreement, pursuant to which the OPCo is given the unilateral right to renew the Strategic Cooperative Agreement for another term of 3 years, subject to the compliance of all relevant requirements of the Listing Rules and other applicable law and regulations.

It is proposed that the cap amounts of the Continuing Connected Transaction for each of the three financial years ending 31 December 2018 will not exceed the following:

For the year ending 31 December	Annual Cap (RMB' million)
2016	390
2017	1,000
2018	900

The annual cap amounts of the Continuing Connected Transaction under the Strategic Cooperative Agreement are determined with reference to (i) the historical transaction amount for the year ended 31 December 2015; (ii) the open market prices and the anticipated increases in business demand; and (iii) the reducing proportion of purchases to be made with connected persons for the three years ending 31 December 2018.

The historical transaction amount of the Continuing Connected Transaction for the year ended 31 December 2015 and the three months ended 31 March 2016 was RMB259,346,000 and RMB89,225,000, respectively.

The cap amount for the Continuing Connected Transaction of RMB390 million for the year 2016 was derived based on the expected growth in business scale and sales capacity of the Target Group in 2016 as compared to that of 2015 with reference to the Business Plan prepared by the directors of the Target Group. Besides, in arriving at the 2016 annual cap amount, the Directors also took into account that (i) business of Parallel Import of cars is not cyclical in nature and (ii) the historical amount of the Continuing Connected Transaction for the three months ended 31 March 2016 was RMB89,225,000 and therefore the pro-rata full year amount is estimated to be approximately RMB360 million for the year 2016.

Further, based on the signed confirmation collected by the Target Group from its major customers regarding their respective intended purchases, the Directors expect that there will be a rise in demand for Parallel Imported Cars in 2017. Assuming there will be no significant change in the purchase intention of the major customers, revenue of the Target Group is expected to surge by approximately 200% for the year ending 31 December 2017. The cap amount for the year ending 31 December 2017 was arrived at after taking into account (i) an expected significant increase in sales level of the Target Group in 2017 and (ii) a decrease in the proportion of total purchase to be made from Binhai Car City by the Target Group.

LETTER FROM THE BOARD

Notwithstanding the fact that the annual cap increased significantly from 2016 to 2017, the purchases of Parallel Imported Cars contemplated under the Strategic Cooperative Agreement are expected to only constitute 48% in 2016, 41% in 2017 and 34% in 2018 of the total purchases of parallel imported cars by the OPCo. This shows a descending trend in OPCo's reliance on purchasing parallel imported cars from Binhai Car City. The Directors confirmed that the aforesaid percentages are based on the assumption that the OPCo will obtain the status of Pilot Enterprise during January 2017, whereby allowing it to purchase for Parallel Imported Cars directly from overseas suppliers. The expected purchase of Parallel Imported Cars directly by OPCo from overseas suppliers will be accounted for approximately 16.7% and 23.9% of its total purchase for the year ending 31 December 2017 and 2018, respectively. In the event that the OPCo is not able to obtain the Pilot Enterprise status in January 2017, the Directors expected that the percentage of its total purchase from Binhai Car City will not be changed materially due to the following reasons:

- (a) the OPCo has already signed a framework purchase agreement with another Pilot Platform, Tianjin Bohai Car Supply on 13 September 2016, which will enable the OPCo to purchase Parallel Imported Cars from overseas through another channel and therefore to reduce purchase of Parallel Imported Cars from Binhai Car City going forward;
- (b) the OPCo's management has maintained good business relationship with the other three existing Pilot Platforms in the TJFTZ. Apart from purchasing from Binhai Car City and Tianjin Bohai Car Supply, the Directors and the OPCo's management are optimistic to form business partnerships with the other Pilot Platforms in the TJFTZ, and allowing it to have alternative options for arranging overseas purchase of Parallel Imported Cars going forward; and
- (c) on 7 September 2016, the Commission of Commerce of Tianjin Binhai New Area has published the Notice of the Application of Pilots (Second Batch) for Parallel Import of Cars in TJFTZ (《關於申報中國(天津)自由貿易試驗區(第二批)平行進口汽車試點的通知》) (the "Notice"). According to the Notice, the cutoff date of the application of the second batch of Pilot Platforms and Pilot Enterprises is 16 September 2016. Based on the above, the Directors and the OPCo's management expected that the number of Pilot Platforms in the TJFTZ will be increased from January 2017 onwards, and therefore the OPCo will be able to reduce the purchase of Parallel Imported Cars from Binhai Car City going forward.

In order to achieve an appropriate diversification of sources of supply and optimise its product mix, the Target Group is expected to further reduce the proportion of total purchase to be made from Binhai Car City in 2018. In addition, it is anticipated that the Target Group's reliance on Binhai Car City will be further reduced as a result of the measures to be carried out by the Target Group as detailed below. The cap amount for the year ended 31 December 2018 is therefore reduced to RMB900 million.

The Directors plan to reduce operational reliance on Binhai Car City for the three years ending 31 December 2016, 2017 and 2018 as follows:

- (i) expand supplier base by devoting more resources in the procurement department of the OPCo and participate in various large scale exhibitions, fairs, conferences and seminars relating to sourcing of Parallel Imported Cars, especially in developing business relationship with new suppliers which are the industry leaders in the region;

LETTER FROM THE BOARD

- (ii) enhance the business relationship with other current suppliers which demonstrated good transaction records;
- (iii) commence direct purchase from overseas suppliers from around January 2017 after the OPCo has obtained the status of Pilot Enterprise; and
- (iv) during the year, the OPCo has entered into a framework purchase agreement with Tianjin Bohai Car Supply, which is an independent third party and one of the five Pilot Platforms announced by Tianjin Binhai New Area Commission of Commerce (天津市濱海新區商務委員會) in accordance with the Pilot Implementation Plan, pursuant to which the parties agreed on the specific quantities for automobile from various brands to be purchased by the OPCo from Tianjin Bohai Car Supply for the years ending 31 December 2016 and 2017. The Directors expect that the new supplier will be able to provide reliable alternative source of Parallel Imported Cars of good quality at competitive price.

Tianjin Bohai Car Supply is principally engaged in exhibition, storage and logistics of Parallel Imported Cars, and has a registered capital of RMB50 million. Tianjin Bohai Car Supply's de facto controller (i.e. its largest shareholder) is Li Tianxue. Both Tianjin Bohai Car Supply and its shareholders are independent of the OPCo, the Company and their connected persons. Tianjin Bohai Car Supply and Binhai Car City are both the first batch of Pilot Platforms, which compete with each other and are not connected with each other in terms of business or shareholdings. The framework purchase agreement entered into between the OPCo and Tianjin Bohai Car Supply has included the number of intended purchases by car brands during the year ending 31 December 2016 and 2017. In such framework agreement, the prices of each Parallel Imported Cars have not been fixed, and the OPCo has the right to determine whether or not to purchase Parallel Imported Cars based on the then market conditions to ensure that the OPCo can secure the best purchase price available on the market.

The total number of suppliers of the OPCo increased from 75 as at 31 March 2016 to 93 as at 31 July 2016.

Information on Binhai Car City

Binhai Car City is a company established in the PRC on 28 February 2001 with registered capital of RMB 300,000,000 and has its main place of operation at No. 86 Tianbao Main Road, Tianjin Pilot Free Trade Zone (Tianjin Port Free Trade Zone) ("**Binhai International Car City Centre**") Binhai Car City's major asset is the Binhai International Car City Centre with a GFA of approximately 30,000 sq.m. Binhai International Car City Centre is positioned as a parallel imported car exhibition centre and port service provider (e.g. including functional platform services relating to logistics systems and offered across the industry chain, including financial services, insurance services, information services and other add-value services etc.).

Its scope of operations include exhibition and warehousing of and accessory trading in respect of automobiles; customs brokerage; international trade; related consultancy services; rental of self-owned showrooms; operations in relation to office supplies and small articles for daily use; market operations services; sale of automobiles and automotive devices and fittings; network information consulting services; international sea freight agency; international air freight agency; international land freight agency; import and export business in respect of proprietary and distributed goods and technologies; parking management services (operations may be carried out only upon obtaining approval from the relevant authorities for those items that are subject to approval according to the law). Mr. Cheng Jun is the chairman of its board and its directors include Zhang Haihong and Yang Lili.

LETTER FROM THE BOARD

Binhai Car City is principally engaged in business of exhibiting of Parallel Imported Cars, management of show venues, as well as all-encompassing, functional platform services relating to logistics systems and offered across the industry chain, including financial services, insurance services, information services and add-value services. On 22 October 2015, a Pilot Platform for Parallel Imported Cars in China (Tianjin) Pilot Free Trade Zone was granted to Binhai Car City by Tianjin Commission of Commerce.

The principal business of Binhai Car City is to hold the property of Binhai Car City for the rental of show venues, which is in accordance with the Pilot Implementation Plan and that enterprises at the show venues are provided with platform services including integrated processing of product certifications and application for automatic import licences, and provision of services in relation to the issuance of letters of credit, documentary bills, tax advances, customs declaration and clearance, logistics, regulation, insurance and financing.

The OPCo and Binhai Car City has no past or current dispute in respect of provision of Parallel Imported Cars and both parties have maintained smooth cooperation and a friendly relationship since the OPCo's commencement of business and up to the Latest Practicable Date.

In view of differing business models, the Target Group and Binhai Car City do not have any common suppliers or customers since January 2015.

Business Strategy of Binhai Car City

Binhai Car City, other than making sales of Parallel Imported Cars solely to the OPCo, has not been, and will not be, engaged in businesses similar to the OPCo's principal business activities, namely sale and trading of Parallel Imported Cars since January 2015.

Since January 2015, Binhai Car City had made the following business restructuring:

- (i) Binhai Car City had switched its business focus to leasing show room to Parallel Imported Car traders. These tenants (i.e. being Parallel Imported Car traders) are making sales of Parallel Imported Cars in the show venue which is managed by Binhai Car City. For expanding its source of revenue, Binhai Car City has also been promoting other business services to these tenants (i.e. including functional platform services relating to logistics systems and offered across the industry chain, including financial services, insurance services information services and add-value services etc.); and
- (ii) as a result of (i) above, Binhai Car City had transferred its external trading and sales function and customer list (including both independent customer and connected persons of the Target Group) for Parallel Imported Cars to the OPCo during January 2015. The aforesaid change has been made for striving better results by centralising quality resources. Since January 2015, save for selling of Parallel Imported Cars to the OPCo, no supply or sale of Parallel Imported Cars has been made by Binhai Car City to other customers.

LETTER FROM THE BOARD

During the year ended 31 December 2015, it marked the beginning of fast growth of Parallel Imported Cars in the PRC. Binhai Car City, as the major port exhibition centre lessor, has approximately 200 Parallel Imported Car traders operating in its exhibition booths as of the Latest Practicable Date. Binhai Car City may obtain business information from tenants by capitalising on its property leasing advantages. In the event that Binhai Car City uses such business information to engage in the sale and trading of Parallel Imported Cars, the business relationships with these tenants will be adversely affected. Accordingly, based on the understanding the management of the OPCo, Binhai Car City has advised these tenants that, other than selling Parallel Imported Cars to the OPCo, it will not engage in the sale and trading of Parallel Imported Cars.

In view of the reasons mentioned above and its major source of revenue is from leasing show room to these tenants (i.e. Parallel Imported Car Traders), Binhai Car City has decided to focus on its property operations and promoting other business services to these tenants instead. Other than selling Parallel Imported Cars to the OPCo (i.e. which only accounted for approximately 20% of its revenue and net profit during 2015), Binhai Car City had decided not to engage in the sale and trading of Parallel Imported Cars that will compete with the tenants.

Binhai Car City's supplier will include overseas car dealers (i.e. for the purpose of making sales of Parallel Imported Cars to OPCo). For its other services namely property leasing and promotion of other business services to its tenants, these suppliers are designated by the entrusting party.

Since January 2015, the revenue generated from Binhai Car City's principal business mainly comprises of (1) rental income generated from leasing show rooms to Parallel Imported Car traders; (2) income generated from promoting other business services to its tenants (i.e. Parallel Imported Car traders) in its show venues (i.e. including functional platform services relating to logistics systems and offered across the industry chain, including financial services, insurance services information services and other add-value services etc.); and (3) income generated from sales of Parallel Imported Cars to the OPCo. Based on the understanding from the management of the OPCo, the revenue and net profit contribution from the OPCo was less than 20% during the year ended 31 December 2015.

Binhai Car City's Pilot Platform status is based on the sales revenue for the two preceding years, and it is the intention of Binhai Car City to maintain such status in future. When comparing to being a Pilot Enterprise or a member enterprise of a Pilot Platform, Binhai Car City has certain advantages when performing business which will include (a) being able to provide additional functional platform services relating to logistics systems across the industry chain, including financial services, insurance services, information services and add-value services; (b) enjoying lower cost of financing due to better credit rating; and (c) ease of access to customers due to publicity for being a Pilot Platform in Tianjin.

Non-Competition Undertaking

Binhai Car City provided an undertaking to the OPCo and the Company, pursuant to which Binhai Car City undertook to the OPCo that since January 2015, other than selling Parallel Imported Cars to OPCo, it has not been, and will not be, engaged in businesses similar to the OPCo's principal business activities, being the sale and trading of Parallel Imported Cars (the "**Non-Competition Undertaking**").

LETTER FROM THE BOARD

Conflicts Check Undertaking

Binhai Car City has unconditionally and irrevocably undertaken to the OPCo and the Company that (i) immediately before entering into any agreement with a new customer, Binhai Car City will check the customers list provided by the OPCo to it from time to time to ensure that the new customer is not one of the OPCo's existing customers; (ii) in the event that the new customer is one of the OPCo's existing customers, Binhai Car City will give a written notice to the Company and the OPCo of the proposed transaction (the "**Proposed Transaction**") (setting out the principal terms and conditions of the Proposed Transaction and the identity of the new customer) (the "**Conflict Notice**"); and (iii) that Binhai Car City will refrain from entering into an agreement with such customer until and unless, the Company's independent non-executive Directors who have no material interests in the Proposed Transaction has completed an evaluation and is satisfied that the Proposed Transaction between Binhai Car City and the new customer is not related to the sale and trading of Parallel Imported Cars or any other business which is engaged by the OPCo (the "**Conflict Check Undertaking**"). In the event that Binhai Car City has received a written notice from the Company and the OPCo confirming that (a) the Proposed Transaction is not related to the sale and trading of Parallel Imported Cars; and (b) there is no conflict of interest between the OPCo and Binhai Car City, Binhai Car City will be allowed to enter into a sales agreement with such new customer. In addition, Binhai Car City has also unconditionally and irrevocably undertaken to the OPCo that the OPCo may engage independent financial advisers and other external professional advisers for reviewing the compliance with the Conflicts Check Undertaking by Binhai Car City from time to time.

Customer Referral Undertaking

Binhai Car City has unconditionally and irrevocably undertaken to the OPCo and the Company that in the event that it is given or identified or offered any business or commercial opportunity ("**New Business Opportunities**") which directly or indirectly competes, or may lead to competition with the OPCo, it will solely refer the New Business Opportunities to the OPCo ("**Customer Referral Undertaking**") as soon as practicable in the following manner:

- (i) Binhai Car City shall give written notice to the Company and the OPCo setting out (a) the principal terms and conditions of the New Business Opportunity; (b) the identity of the new customer; and (c) all other information reasonably necessary for the Company to consider whether such New Business Opportunities constitute competition with the OPCo; and whether it is in the interest of the Group and its Shareholders as a whole to pursue such New Business Opportunities (the "**New Business Offer Notice**"); and
- (ii) upon receipt of the New Business Offer Notice, the Company will seek opinions and decisions from the independent non-executive Directors as to whether (a) such New Business Opportunities would constitute competition with the OPCo; and (b) it is in the interest of the Group and the Shareholders as a whole to pursue the New Business Opportunities. In addition, Binhai Car City has also unconditionally and irrevocably undertaken to the OPCo that the OPCo may engage independent financial advisers and other external professional advisers for reviewing the compliance of Customer Referral Undertaking by Binhai Car City from time to time; and
- (iii) Binhai Car City is not allowed in any circumstances (i.e. including but not limited to receiving a written notice from the Company and the OPCo for declining such New Business Opportunities) to refer such New Business Opportunities to other parties or take up such New Business Opportunities by itself.

LETTER FROM THE BOARD

CORPORATE GOVERNANCE MEASURES TO AVOID CONFLICT OF INTERESTS WITH BINHAI CAR CITY

The Directors recognize the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of the Shareholders. In particular, the following corporate governance measures in relation to managing potential conflict of interests between the Group and Binhai Car City will be taken:

- (i) the Company's independent non-executive Directors will (i) review, on a half yearly basis, due compliance by the Binhai Car City with the Non-Competition Undertaking, Conflict Check Undertaking and Customer Referral Undertaking; and (ii) determine, without attendance by any Directors with beneficial or conflicting interest whether to pursue or decline the New Business Opportunities referred to the Group by Binhai Car City and whether the Proposed Transactions are related to the sale and trading of Parallel Imported Cars or such other businesses engaged by the OPCo. The Company's independent non-executive Directors may, at the Company's costs and from time to time, engage independent financial advisers and other external professional advisers as it may consider necessary to advise it on the issues which relate to the above matters (e.g. reviewing the compliance of Conflict Check Undertaking, Customer Referral Undertaking and Non-Competition Undertaking by Binhai Car City);
- (ii) Binhai Car City will make an annual declaration to the Company and the OPCo on compliance with the Non- Competition Undertaking, Conflicts Check Undertaking and Customer Referral Undertaking;
- (iii) the Company will comply with the disclosure requirements under the Listing Rules and will make appropriate disclosures in announcements, the interim report and annual report on matters reviewed by the independent non-executive Directors relating to the compliance with an enforcement of the Non-Competition Undertaking, Conflicts Check Undertaking and Customer Referral Undertaking; and the decision, with basis, on whether (a) to pursue or decline the New Business Opportunities; and (b) to allow or disallow Binhai Car City to enter into transactions with the OPCo's existing customers;
- (iv) the Company will ensure that the Directors (save for Mr. Tong Xin) are independent from Binhai Car City and that the Company will have a team of full-time senior management and employees focused exclusively on the business of the Group;
- (v) any transaction (if any) between (or proposed to be made between) the Company and its connected persons will be required to comply with Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting, annual review and/or independent Shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the grant of waiver(s) from strict compliance with relevant requirements under the Listing Rules;

LETTER FROM THE BOARD

- (vi) in the event that there is any conflict of interest in the Group's operations and Binhai Car City, any Director, who is considered to be interested in such matters, shall disclose his/her interests to the Board. Pursuant to the Articles of Association, should a Director have any material interests in the matter (other than certain matters permitted under note 1 to Appendix 3 to the Listing Rules), he/she shall not vote on the resolutions of the Board approving the same and shall not be counted in the quorum of the relevant Board meeting;
- (vii) the Directors will ensure that any material conflict or potential conflict involving Binhai Car City will be reported to the independent non-executive Directors as soon as practicable and a Board meeting (excluding Mr. Tong and their respective associates and any Directors who has a material conflict or potential conflict) will be held to review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities; and
- (viii) the Company will designate an officer to be responsible for providing periodic updates to the list of the Company's existing customers to Binhai Car City from time to time and to address any queries or, and to enable Binhai Car City to fulfil its Conflicts Check Undertaking.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between Binhai Car City and the Group and to protect the interests of the Shareholders, in particular, the minority Shareholders. The Directors do not identify any competition issue between Binhai Car City and the OPCo in view of (i) apart from Binhai Car City selling Parallel Imported Cars solely to the OPCo, the nature of businesses carried on by Binhai Car City and the OPCo are different; (ii) Binhai Car City has entered into the Non-Competition Undertaking, Conflict Check Undertaking and Customer Referral Undertaking as set out above; and (iii) the Company's corporate government measures as set out above have been put in place.

Reasons for the Strategic Cooperative Agreement

Binhai Car City is one of the largest platform companies engaged in the Parallel Import of cars in the TJFTZ. It is expected that Binhai Car City will be able to provide efficient and reliable services for the Target Group in securing stable supply from overseas car dealers and quality port services.

The entering into of the Strategic Cooperative Agreement ensures that the Target Group would be able to have the flexibility to secure the supply of Parallel Imported Cars from Binhai Car City, a reliable quality supplier, in particular when the demand for Parallel Imported Cars is expected to increase significantly for the three years ending 31 December 2018.

The Target Group has been purchasing Parallel Imported Cars from a number of readily available suppliers and will not be committed to purchase any Parallel Imported Cars from Binhai Car City under the Strategic Cooperative Agreement. If any purchase is transacted pursuant to the Strategic Cooperative Agreement, all such purchase transactions must be on normal commercial terms and at a price that is not higher than the price offered by other suppliers in the market at the time of the transaction. The Strategic Cooperative Agreement will therefore give the Target Group the flexibility to purchase Parallel Imported Cars from Binhai Car City if it so wishes at competitive market prices.

LETTER FROM THE BOARD

The Directors consider that the terms of the Strategic Cooperative Agreement are fair and reasonable and the entering into of the Strategic Cooperative Agreement is in the interest of the Company and the Independent Shareholders as a whole. In particular, the settlement terms pursuant to the Strategic Cooperative Agreement are generally consistent with those settlement terms offered by other suppliers which are independent third parties.

Listing Rules Implications

Upon Completion, (i) the Vendor will become a substantial shareholder of the Company and therefore a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules; and (ii) the Target Company will become a direct wholly-owned subsidiary of the Company. Binhai Car City is a company held as to 98% by the son-in law and 2% by the brother of the ultimate beneficial owner of the Vendor, Binhai Car City is therefore an associate of a connected person of the Company upon Completion. Accordingly, the transactions with Binhai Car City as contemplated under the Strategic Cooperative Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules upon Completion.

As the applicable percentage ratios under Chapter 14A of the Listing Rules in respect of the annual cap amount under the Strategic Cooperative Agreement are more than 5%, the transactions under the Strategic Cooperative Agreement are subject to the requirements of reporting, announcement, circular, Independent Shareholders' approval and annual review under the Listing Rules.

Internal Control

Upon Completion, in order to ensure that the transactions contemplated under the Strategic Cooperative Agreement are conducted on normal commercial terms or better and in accordance with the pricing policy of the Group and will not be prejudicial to the interests of the Company and its Shareholders as a whole, the Group will adopt the following measures:

- Procurement personnel of the OPCo will obtain/retrieve and properly document, as the case may be, (i) at least two price quotes/invoices of transacted purchases from other independent suppliers within 30 days prior to or after the date receiving price quote from Binhai Car City for Parallel Imported Cars of comparable brands and quality; or (ii) at least two records of price quotes offered by Binhai Car City to other customers during a period of 30 days prior to the date of the proposed transaction in the event that the concerned Parallel Imported Cars are only available from Binhai Car City.
- The head of procurement department of the OPCo will make reference to above-mentioned price research and ascertain the purchase price offered by Binhai Car City does not exceed, as the case may be, (i) that offered to OPCo by other independent suppliers; or (ii) that offered by Binhai Car City to its other customers, prior to entering into each individual purchase contract.
- The finance department of the Group will conduct a monthly review on whether the OPCo has sufficient unused annual cap amounts for carrying out Continuing Connected Transaction during the year. If it is anticipated that the annual cap may be exceeded, the Group would take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules before continuing to carry out the Continuing Connected Transaction.

LETTER FROM THE BOARD

- The audit committee of the Group will annually sample 10% of the total number of purchase orders entered into between the OPCo and Binhai Car City contemplated under the Continuing Connected Transaction, and review the relevant documentation and assess whether such transactions are conducted in accordance with the Strategic Cooperative Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Further to the internal control procedures mentioned above, the Continuing Connected Transactions are subject to the following annual review requirements pursuant to Rules 14A.55 to 14A.59 of the Listing Rules:

- a) each year, the independent non-executive Directors must review the transactions to be carried out pursuant to the Strategic Cooperative Agreement and confirm in the annual report whether the Continuing Connected Transaction have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- b) each year, the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days before the bulk printing of the Company's annual report), confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transaction:
 - (i) have not been approved by the Board;
 - (ii) were not, in all material aspects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
 - (iii) were not entered into, in all material aspects, in accordance with the relevant agreement governing the Continuing Connected Transaction; and
 - (iv) have exceeded the annual cap;
- c) the Company shall allow, and shall ensure that the Binhai Car City allow, the Company's auditors sufficient access to their records for the purpose of reporting on the Continuing Connected Transaction as set out in paragraph (b). The Board must state in the annual report whether the Company's auditors have confirmed the matters stated in Listing Rule 14A.56; and
- d) the Company shall promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors of the Company cannot confirm the matters set out in paragraphs (a) and/or (b) respectively.

LETTER FROM THE BOARD

Accordingly, the Directors consider that the internal control mechanism is effective to ensure that the transactions contemplated under the Continuing Connected Transaction have been and will be conducted on normal commercial terms or better and in accordance with the pricing policy of the Group and not prejudicial to the interests of the Company and the Shareholders as a whole.

PROPOSED APPOINTMENT OF EXECUTIVE DIRECTOR

For the purpose of fulfillment of one of the conditions of the Acquisition Agreement, an ordinary resolution will be proposed at the SGM to consider and approve the appointment of Mr. Tong Xin, being a personnel nominated by the Vendor, as an executive Director subject to Completion and with effect from the Completion Date.

Biographical details of Mr. Tong are set out as follows:

Tong Xin (同心) (“**Mr. Tong**”), aged 36, obtained a bachelor’s degree in law from Tianjin Normal University* (天津師範大學) and a master’s degree in law from Université de Savoie. Mr. Tong served in the senior management of various companies listed in the PRC and in Hong Kong. He had served as a supervisor in Tianjin Binhai Teda Logistics (Group) Corporation Limited* (天津濱海泰達物流集團股份有限公司), a company listed on the GEM board of the Stock Exchange (stock code: 8348). In the past three years, Mr. Tong served as a supervisor in Vantone Group (萬通地產), a company listed on the Shanghai Stock Exchange (stock code: 600246). He presently acts as a supervisor in Tianjin Teda Company, a company listed on the Shenzhen Stock Exchange (stock code: 652). Save as disclosed above, so far as the Directors are aware, Mr. Tong has not held any directorships in any listed public companies in the last three years. As at the Latest Practicable Date, Mr. Tong did not hold any positions in the Company and/or its subsidiaries.

Mr. Tong possesses a wealth of work experience and an extensive business network in the area of Parallel Import of cars in Tianjin. He has good, effective channels for communicating with the government on affairs relating to the business of Parallel Import of cars. His strategic vision enables him to navigate the OPCo’s business to devise business development directions and model in compliance with the government’s guidance. Also, having acted as the investment and corporate planning director and the representative for securities affairs of Tianjin Binhai Teda Logistics (Group) Corporation Limited, he possesses extensive business experience and global vision in international trade and financial and logistics services.

Mr. Tong can establish good government-enterprise relations and communication channels with the competent authorities of the Chinese government in relation to the business of Parallel Import of cars through assuming his position with the Company. He can offer numerous strategic framework designs and business model designs for the business of Parallel Import of cars and offer strong support to the business by leveraging on his relevant experience in international trade and international financial and logistics services, thereby creating sound benefits for the Company.

Mr. Tong is the son of the brother of Ms. Cheng Weihong’s husband. Save as disclosed above, Mr. Tong does not have any relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company, nor does he have any interests in the shares of the Company within the meaning of Part XV of the SFO.

LETTER FROM THE BOARD

Subject to the approval by the Shareholders of his appointment as an executive Director at the SGM, Mr. Tong will enter into a service contract with the Company for a term of three years as Director, subject to re-election at a general meeting of the Company. Mr. Tong will not be entitled to a director's fee for his directorship in the Company. Save as disclosed above, there are no other matters relating to Mr. Tong that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee dated 30 September 2016 set out on page 48 of this circular which contains its recommendation to the Independent Shareholders in relation to the terms of the Acquisition and the Continuing Connected Transaction; and (ii) the letter from Vinco Capital dated 30 September 2016 as set out on pages 49 to 98 of this circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Acquisition and the Continuing Connected Transaction as well as the principal factors and reasons considered by Vinco Capital in arriving at its recommendation.

The OPCo has entered into the Strategic Cooperative Agreement with Binhai Car City, which is currently one of the five Pilot Platforms, and carries on the sale and trading of Parallel Imported Cars. Purchases from Binhai Car City accounted for 80.81% and 40.10% of total purchases of the OPCo for the years ended 31 December 2014 and 2015, respectively. On the other side, the revenue contribution from connected persons of the Target Group (including but not limited to customers which are connected persons of Ms. Cheng Weihong) accounted for 80.81% and 63.07% for the years ended 31 December 2014 and 2015, respectively. However, having considered that (i) the OPCo has entered into a framework purchase agreement on 13 September 2016 with Tianjin Bohai Car Supply, another Pilot Platform, by which the parties agreed on the specific quantities for automobile from various brands to be purchased by the OPCo from Tianjin Bohai Car Supply for the years ending 31 December 2016 and 2017; (ii) the OPCo has filed the application to obtain the status of Pilot Enterprise in September 2016, and is expected to obtain the Pilot Enterprise status by January 2017; (iii) the Target Group has ceased its sales to all connected persons of the Target Group since April 2016; and (iv) revenue from sales to connected persons of the Target Group only accounted for 4.25% of the total revenue of OPCo for the three months ended 31 March 2016, the Directors are of the view that there will be no material reliance on Binhai Car City or sales to connected persons of the Target Group upon Completion.

The Directors are of the opinion that the Target Group's business is sustainable before and after the two years ending 31 December 2018 in light of the following: (i) the demand of Parallel Imported Cars is expected to escalate as a result of the favourable governmental measures; (ii) there will be no material reliance on Binhai Car City or sales to connected persons of the Target Group upon Completion with basis as elaborated above; (iii) the Target Group has only operated in less than two years and has recorded substantial growth in net profit as well as number of customers and suppliers; (iv) the management of the OPCo is expected to leverage on their extensive business network and resources in the area of Parallel Import of cars in Tianjin and expand the customer base of the OPCo; (v) the OPCo is planning to commence direct overseas purchase from around January 2017 after obtaining the status of Pilot Enterprise, through which the profitability of the Target Group is expected to be further enhanced;

LETTER FROM THE BOARD

and (vi) the OPCo has applied for the status as Pilot Enterprise in September 2016, and the OPCo's PRC legal adviser is of the view that there will be no material legal impediment for the OPCo to become a Pilot Enterprise in accordance with the Pilot Implementation Plan.

The Directors performed assessment on the possibility of OPCo obtaining the status of Pilot Enterprise and took into account that the OPCo currently meets the criteria to become a Pilot Enterprise as contemplated in the Pilot Implementation Plan, i.e. (i) the OPCo registered capital amounted to RMB100 million, which is greater than registered capital of RMB20 million as required; (ii) the OPCo generated revenue over RMB600 million for its past fiscal year which was substantially generated from sale of automobiles, and such amount is reasonably expected to be greater than automobile sales revenue of RMB200 million as required; (iii) OPCo is a member of Binhai Car City and is protected by Binhai Car City for any responsibilities in relation to faulty Parallel Imported Cars and after-sales services as Binhai Car City will be the subject for any recourse from customers; as such, the OPCo is considered to have relevant risk protection mechanism in place; (iv) the OPCo may rely on Binhai Car City to provide services including maintenance, parts and components supply to its customers; (v) there are no record of administrative penalties, abnormal operations, significant violation of laws or bad credit record of the OPCo being identified, and the OPCo is therefore considered to be in good standings and have no misconduct records; (vi) the registered address of OPCo situates within TJFTZ (vii) the OPCo has filed the application for the status of Pilot Enterprise in September 2016 ;and (viii) the preliminary assessment and ranking of the OPCo amongst all applicants for the second batch of Pilot Enterprises by Tianjin Commission of Commerce as set out in the section headed "Management Discussion and Analysis on the Target Group – Parallel Imported Cars in the PRC" of this circular. In view of above, the Directors did not identify material legal impediments for the OPCo to become a Pilot Enterprise. In the unlikely situation where OPCo is not able to obtain its Pilot Enterprise status in 2017 for any unforeseen circumstances, the Directors are of the view that OPCo can still carry on its import and trading of Parallel Imported Cars using its qualified member status and, as a result, the business of OPCo will not be materially affected.

Based on the aforementioned assessment, and taking into consideration of the reasons set out in the paragraph headed "Information of the Group and reasons for and benefits of the Acquisition" and "Reasons for the Strategic Cooperative Agreement" above, the Directors (including the independent non-executive Directors after taking into account the advice of Vinco Capital) consider that the terms of the Acquisition and the Continuing Connected Transaction are fair and reasonable and on normal commercial terms and the Acquisition and the Continuing Connected Transaction is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors after taking into account the advice of Vinco Capital) recommend the Independent Shareholders to vote in favour of the ordinary resolution as set out in the notice of the SGM to approve, among others, (i) the Acquisition Agreement and the transactions contemplated thereunder; (ii) the allotment and issue of the Consideration Shares pursuant to the Specific Mandate; (iii) the Continuing Connected Transaction; and (iv) the appointment of a personnel nominated by the Vendor as an executive Director subject to Completion and with effect from the Completion Date.

The Directors confirm that, to the best of their knowledge, information and belief after having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition Agreement and the Continuing Connected Transaction. As such, no Shareholder is required to abstain from voting for the resolution to approve, among others, the Acquisition Agreement and the Continuing Connected Transaction at the SGM.

LETTER FROM THE BOARD

To the best knowledge, information and belief of the Company having made all reasonable enquiries, as at the Latest Practicable Date, none of the Directors have a material interest in the Acquisition Agreement and the Continuing Connected Transaction. As such, no Director is required to abstain from voting on the relevant board resolution to approve the Acquisition Agreement and the Continuing Connected Transaction.

SGM

The Company will convene the SGM at Suite 2418, 24/F, Jardine House, 1 Connaught Place, Central, Hong Kong on Tuesday, 18 October 2016 at 3:00 p.m. for the Independent Shareholders to consider and approve, among other things, (i) the Acquisition Agreement and the transactions contemplated thereunder; (ii) the allotment and issue of the Consideration Shares pursuant to the Specific Mandate; (iii) the Continuing Connected Transaction; and (iv) the appointment of a personnel nominated by the Vendor as an executive Director subject to Completion and with effect from the Completion Date.

The notice of the SGM is set out on pages SGM-1 and SGM-3 of this circular. The voting on resolution(s) to be proposed at the SGM will be conducted by way of poll in accordance with Rule 13.39(4) of the Listing Rules.

The Company will publish an announcement on the results of the SGM with respect to whether or not the proposed resolution(s) have been passed by the Independent Shareholders. A form of proxy for use by the Independent Shareholders at the SGM is enclosed with this circular.

A form of proxy for us at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event no later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish and in such event the relevant form of proxy shall be deemed to be revoked.

GENERAL

Completion of the Acquisition is subject to the conditions precedent under the paragraph headed "Conditions Precedent of the Acquisition" in this circular, which may or may not be fulfilled. The Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when they deal or contemplate dealing in the Shares and other securities of the Company.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Lisi Group (Holdings) Limited
Li Lixin
Chairman



LISI GROUP (HOLDINGS) LIMITED

利時集團（控股）有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 526)

30 September 2016

To the Independent Shareholders

Dear Sir or Madam,

**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED
SHARE CAPITAL OF MEGA CONVENTION GROUP LIMITED;
(2) ISSUE OF CONSIDERATION SHARES
UNDER SPECIFIC MANDATE;
(3) POSSIBLE CONTINUING CONNECTED TRANSACTION;
(4) PROPOSED APPOINTMENT OF EXECUTIVE DIRECTOR
AND
(5) NOTICE OF SPECIAL GENERAL MEETING**

We refer to the circular dated 30 September 2016 (the “**Circular**”) issued by the Company of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular have the same meanings herein.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on the Acquisition and the Continuing Connected Transaction. Vinco Capital has been appointed by the Company 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 47 of the Circular; (ii) the letter from Vinco Capital as set out on pages 49 to 98 of the Circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Acquisition and the Continuing Connected Transaction as well as the principal factors and reasons considered by Vinco Capital in arriving at its recommendation; and (iii) the additional information as set out in the appendix to the Circular.

After taking into account the factors and reasons considered by Vinco Capital and its conclusion and advice, we concur with its views and consider that the terms of the Acquisition and the Continuing Connected Transaction are fair and reasonable so far as the Company and the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the resolution to be proposed at the SGM to approve the Acquisition and the Continuing Connected Transaction.

Yours faithfully

For and on behalf of the

Independent Board Committee

Mr. He Chengying

Mr. Cheung Kiu Cho Vincent

Mr. Shin Yick Fabian

Independent non-executive Directors

LETTER FROM VINCO CAPITAL

The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders with respect to the Acquisition and the Continuing Connected Transaction and the transactions contemplated thereunder which has been prepared for the purpose of incorporation in this circular:



Grand Vinco Capital Limited
Units 4909-4910, 49/F., The Center
99 Queen's Road Central, Hong Kong

30 September 2016

To the Independent Board Committee and the Independent Shareholders of
Lisi Group (Holdings) Limited

Dear Sirs and Madams,

**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED
SHARE CAPITAL OF MEGA CONVENTION GROUP LIMITED;
AND
(2) POSSIBLE CONTINUING CONNECTED TRANSACTION**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the Acquisition and the Continuing Connected Transaction, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 30 September 2016 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Reference is made to the announcements of the Company dated 25 September 2015, 9 August 2016 and 29 September 2016 in relation to, among other things, the Acquisition Agreement, the Supplemental Acquisition Agreement, the allotment and issue of the Consideration Shares pursuant to the Specific Mandate, and the Continuing Connected Transaction.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition are more than 25% and less than 100%, the entering of the Acquisition Agreement and the transactions contemplated thereunder constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirement under the Listing Rules.

LETTER FROM VINCO CAPITAL

Further, subject to the achievement of the Target Audited Net Profit by the Target Group, (calculated with reference to the Illustrative Exchange rate), on the assumption that a whitewash waiver has been obtained pursuant to the Takeovers Code and taking into account maintenance of minimum public float requirement as provided in the Supplemental Acquisition Agreement, the Vendor (an Independent Third Party) may be interested in up to 3,183,523,942 Shares (calculated with reference to the Illustrative Exchange Rate), representing approximately 39.61% of the issued share capital of the Company as enlarged by the allotment and issue of Consideration Shares. As a result, the Vendor and its shareholders may become controlling shareholder and controller, within the meaning of Listing Rules, of the Company. Accordingly, the entering into of the Acquisition Agreement also constitute a connected transaction for the Company according to Rule 14A.28 of the Listing Rule and the transactions contemplated under the Acquisition Agreement, including the issue of the Consideration Shares, are subject to the requirements of reporting, announcement, circular and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, no Shareholders has a material interest in the Acquisition and no Shareholder and his associates are therefore required to abstain from voting on the relevant resolution(s) to approve the Acquisition at the SGM.

On 2 June 2016, the OPCo and Binhai Car City entered into the Strategic Cooperative Agreement for a period of three years with retrospective effect commencing from 1 January 2016 and ending on 31 December 2018. Details of the Strategic Cooperative Agreement are set forth in the paragraph headed "Possible Continuing Connected Transaction" in this circular.

Upon Completion, (i) the Vendor will become a substantial shareholder of the Company and therefore a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules; and (ii) the Target Company will become a direct wholly-owned subsidiary of the Company. Binhai Car City is a company held as to 98% by the son-in-law and 2% by the brother of the ultimate beneficial owner of the Vendor, Binhai Car City is therefore an associate of a connected person of the Company upon Completion. Accordingly, the transactions with Binhai Car City as contemplated under the Strategic Cooperative Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules upon Completion.

As the applicable percentage ratios under Chapter 14A of the Listing Rules in respect of the annual cap amount under the Strategic Cooperative Agreement are more than 5%, the transactions under the Strategic Cooperative Agreement are subject to the requirements of reporting, announcement, circular, Independent Shareholders' approval and annual review under the Listing Rules.

The Independent Board Committee, comprising Mr. He Chengying, Mr. Cheung Kiu Cho Vincent and Mr. Shin Yick Fabian, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders with respect to the Acquisition and the Continuing Connected Transaction. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the Acquisition and the Continuing Connected Transaction. In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Listing Rules, our role is to give an independent opinion as to whether the Acquisition and the Continuing Connected Transaction are in the

LETTER FROM VINCO CAPITAL

interests of the Company and the Shareholders as a whole and whether the terms of the Acquisition Agreement and the Continuing Connected Transaction are fair and reasonable, on normal commercial terms, so far as the Company and Independent Shareholders are concerned and whether the Independent Board Committee should recommend the Independent Shareholders to vote in favour of the Acquisition and the Continuing Connected Transaction at the SGM.

We are not connected with the directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, 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 Group and therefore is considered suitable as defined under Rule 13.84 of the Listing Rules to give independent advice to the Independent Board Committee and the Independent Shareholders. During the past two years, we have been appointed as the independent financial advisor to the Company regarding to continuing connected transactions of which the circular dated 22 January 2016. Apart from normal professional fees payable to us in connection with this appointment as the independent financial advisor, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. Accordingly, we consider that we are eligible to give independent advice on the Acquisition and the Continuing Connected Transaction.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders with respect to the Acquisition and the Continuing Connected Transaction, 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, management of the Company and its subsidiaries. We have assumed that all 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 up to and including the date of the SGM and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

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 there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with, and we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. 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 Directors, management of the

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Company and its subsidiaries. We have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Acquisition and the Continuing Connected Transaction, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto) in formulating our opinion and recommendation.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition Agreement and the Continuing Connected Transaction and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

(1) PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO THE ACQUISITION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, we have considered the principal factors and reasons set out below:

Background of the Acquisition

Information of the Group

The Company is an investment holding company. The Group is principally engaged in manufacturing and trading of household products, operation of department stores and supermarkets, and wholesale of wine and beverages, electrical appliances and investments holdings.

Historical financial information of the Group

Set out below is a summary of the audited consolidated financial results of the Group for the two years ended 31 March 2016, as extracted from the Company's annual report for the year ended 31 March 2016 (the "2016 Annual Report"):

	For the year ended	
	31 March	
	2015	2016
	<i>(audited)</i>	<i>(audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,158,042	1,085,709
Gross profit	260,050	252,559
Profit for the year attributable to equity holders of the Company	87,608	23,243

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	As at 31 March 2015 <i>(audited)</i> <i>RMB'000</i>	As at 31 March 2016 <i>(audited)</i> <i>RMB'000</i>
Total assets	3,994,600	3,561,758
Total liabilities	2,281,389	1,821,973
Net assets	1,713,211	1,739,785

For the year ended 31 March 2016, the Group recorded a revenue of approximately RMB1.1 billion, representing a decrease of approximately 6.3% when compared with the revenue of approximately RMB1.2 billion reported for the year ended 31 March 2015. According to the 2016 Annual Report, the decrease on revenue was mainly due to (i) decrease in revenue in manufacturing and trading business of the Group of approximately 8.0% from approximately RMB 401.1 million for the year ended 31 March 2015 to approximately RMB 369.4 million for the year ended 31 March 2016. The reason was mainly due to the reduction of customers' orders and a reflection of the current weak market situation and the cyclical order pattern of the Group's key customers; (ii) a significant drop of the retail and wholesale business revenue which decreased by approximately 3.6% and 11.5% to approximately RMB422.1 million and approximately RMB258.6 million respectively for the year ended 31 March 2016 as compared with the previous year. Such decrease was mainly due to the development speed of e-commerce, competition from large supermarket chains and new shopping malls nearby. On the other hand, the PRC central government continues to control strictly on business entertainment and expenditures, so the revenue of wholesale business in wine and beverages dropped inevitably and; (iii) decrease in dividend income of investment holding business of the Group by approximately 43.1% to approximately RMB 0.5 million during the year ended 31 March 2016 as compared with the previous year.

Net profit for the year ended 31 March 2016 was approximately RMB25.0 million compared to a net profit of approximately RMB80.3 million for the year ended 31 March 2015. According to the 2016 Annual Report, the decrease was primarily attributable to the negative change of approximately RMB90.5 million for the year ended 31 March 2016 in the fair value on the derivative component of the convertible bonds issued by the Company for the acquisition of New JoySun Group in August 2013 and still outstanding during the year ended 31 March 2016. This factor had impact in profit and loss but not in cash flow.

Information of the Vendor

The Vendor is an investment holding company. As at the date of the Acquisition Agreement, the Vendor is the legal and beneficial owner of the entire issued share capital of the Target Company.

The Target Company indirectly wholly owns the entire equity interest in the OPCo, which is principally engaged in, among other businesses, the Parallel Import and trading of Parallel Imported Cars.

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Information on Binhai Car City

Binhai Car City is a company established in the PRC on 28 February 2001 with registered capital of RMB 300,000,000 and has its main place of operation at No. 86 Tianbao Main Road, Tianjin Pilot Free Trade Zone (Tianjin Port Free Trade Zone). (“**Binhai International Car City Centre**”) Binhai Car City’s major asset is the “Binhai International Car City Centre” with a GFA of approximately 30,000 sq.m. Binhai International Car City Centre is positioned as a parallel imported car exhibition centre and port service provider (e.g. including functional platform services relating to logistics systems and offered across the industry chain, including financial services, insurance services, information services and other add-value services etc.).

As stated in the Letter from the Board, the scope of operation of Binhai Car City include exhibition and warehousing of and accessory trading in respect of automobiles; customs brokerage; international trade; related consultancy services; rental of self-owned showrooms; operations in relation to office supplies and small articles for daily use; market operations services; sale of automobiles and automotive devices and fittings; network information consulting services; international sea freight agency; international air freight agency; international land freight agency; import and export business in respect of proprietary and distributed goods and technologies; parking management services (operations may be carried out only upon obtaining approval from the relevant authorities for those items that are subject to approval according to the law). Mr. Cheng Jun is the chairman of its board and its directors include Zhang Haihong and Yang Lili.

Binhai Car City is principally engaged in business of exhibiting of Parallel Imported Cars, management of show venues, as well as all-encompassing, functional platform services relating to logistics systems and offered across the industry chain, including financial services, insurance services, information services and add-value services. On 22 October 2015, a Pilot Platform for Parallel Imported Cars in China (Tianjin) Pilot Free Trade Zone was granted to Binhai Car City by Tianjin Commission of Commerce.

The principal business of Binhai Car City is to hold the property of Binhai Car City for the rental of show venues, which is in accordance with the Pilot Implementation Plan and that enterprises at the show venues are provided with platform services including integrated processing of product certifications and application for automatic import licences, and provision of services in relation to the issuance of letters of credit, documentary bills, tax advances, customs declaration and clearance, logistics, regulation, insurance and financing.

The OPCo and Binhai Car City has no past or current dispute in respect of provision of Parallel Imported Cars and both parties have maintained smooth cooperation and a friendly relationship since the OPCo’s commencement of business and up to the Latest Practicable Date.

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As discussed with the management of the Company, due to the business models of the Target Group and Binhai Car City are different, the Target Group and Binhai Car City do not have any common suppliers or customers. As stated in the Letter from the Board, Binhai Car City provided an undertaking to the OPCo on 29 September 2016 (the “Non-competition Undertaking”), pursuant to which Binhai Car City undertook to the OPCo that since January 2015 it has not been, and will not be, engaged in businesses similar to the OPCo’s principal business activities, namely the sale and trading of Parallel Imported Cars. We note that Binhai Car City is eligible to engage in the sale and trading Parallel Imported Cars. However, in order to ensure there will not be any potential competition between Binhai Car City and OPCo, since January 2015, Binhai Car City (i) has terminated the business activities of sale and trading of Parallel Imported Cars; (ii) switched its business focus to leasing show room to Parallel Imported Car traders. These tenants (i.e. being Parallel Imported Car traders) are making sales of Parallel Imported Cars in the show venue which is managed by Binhai Car City. For expanding its source of revenue, Binhai Car City has also been promoting other business services to these tenants (i.e. including functional platform services relating to logistics systems and offered across the industry chain, including financial services, insurance services information services and add value services etc.); and (iii) transferred its external trading and sales function and customer list (including both independent customer and connected persons of the Target Group) for Parallel Imported Cars to OPCo during January 2015. The aforesaid change has been made for striving better results by centralising quality resources. Since January 2015, save for selling of Parallel Imported Cars to the OPCo, no supply or sale of Parallel Imported Cars has been made by Binhai Car City to other customers. Therefore, we are of the view that since January 2015, Binhai Car City has not been and will not be engaged in similar business activities of the Target Group.

We have reviewed the Non-competition Undertaking provided by Binhai Car City to OPCo, the terms of the undertaking ensure that there will not be any potential competition between Binhai Car City and OPCo by (i) the termination of engaging in the Parallel Imported Cars business; (ii) providing customer referral undertaking, which Binhai Car City would transfer new clients and/or existing projects which is relating to the business activities of Parallel Imported Cars to OPCo; and (iii) make annual disclaimer in relating to the condition of non-competition. In addition to the Non-competition Undertaking, Binhai Car City also provide the conflicts check undertaking to ensure that there will be not conflict of interest with OPCo before entering into a new contract. In order to ensure the that Binhai Car City will not be engaged in business similar to the Target Group after the completion, the Company will form a committee and/or hire internal control consultant to review the Non-competition Undertaking and investigate the conflict of interest regularly after the completion of the Acquisition.

Having taking consideration that (i) the different nature of businesses carried on by Binhai Car City and OPCo i.e. provision of venue for car exhibitions and provision of platform services in accordance with the Pilot Implementation Plan; and sale and trading of Parallel Imported Cars, respectively; (ii) no common suppliers or customers between the Target Group and Binhai Car City due to different business models; and (iii) we have reviewed the non-competition undertaking provided by Binhai Car City to the OPCo as mentioned above. We do not aware of any competition issue between Binhai Car City and the Target Group.

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Information of the Target Group

Financial information of the Target Group

As at 31 December 2015, the audited combined net asset value of the Target Group amounted to approximately RMB121.0 million and as at 31 March 2016, the combined net asset value of the Target Group amounted to approximately RMB32.1 million. Set out below are selected combined financial information of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards for the two years ended 31 December 2014 and 31 December 2015 and the three months ended 31 March 2015 and 31 March 2016:

	Years ended		Three months ended	
	31 December	31 December	31 March	31 March
	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Profit/(Loss) before taxation	(3,065)	30,949	5,149	14,362
Profit/(Loss) after taxation	(2,794)	23,593	3,383	10,683

The Target Group recorded net profit after taxation of approximately RMB23.6 million for the year ended 31 December 2015, representing an increase in profit of approximately 9.4 times compare to the loss for the year ended 31 December 2014. The increased turnover from making loss to profit was a result of (i) increase in revenue of the Target Group of approximately RMB642.9 million for the year ended 31 December 2015 from RMB6.4 million for the year ended 31 December 2014 as the Target Group has started to pick up its operation and building up customer base since its initial operation in 2014; (ii) net gain on disposal of investments in subsidiaries of approximately RMB4.6 million for the year ended 31 December 2015, comparing to there was no net gain on disposal of investments in subsidiaries for the year ended 31 December 2014.

The Target Group recorded net profit after taxation of approximately RMB10.7 million for the three months ended 31 March 2016, representing an increase in profit of approximately 2.2 times compare to the profit for the three months ended 31 March 2015. The increase in profit was mainly due to (i) decrease in cost of sale of the Target Group by approximately 17.30% from approximately RMB170.4 million for the three months ended 31 March 2015 to approximately RMB140.9 million for the three months ended 31 March 2016. The decrease was mainly attributable to the decrease in sales volume on top of a change in product portfolio being sold; (ii) decrease in administrative expenses by approximately 83.7% from approximately RMB2.1 million for the three months ended 31 March 2015 to approximately RMB0.34 million for the three months ended 2016. The decrease was mainly attributable to the reduction in rental expenses and staff cost as a result of the disposal of six subsidiaries by the Target Group in June 2015 off set by increase in income tax expense.

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Based on the unaudited management accounts for the six months ended 30 June 2016, the Target Group's unaudited revenue for the six months ended 30 June 2016 was approximately 35% lower than that for the six months ended 30 June 2015. During the six months ended 30 June 2016, the Target Group sold approximately 376 cars in aggregate. Comparatively, the Target Group sold approximately 622 cars during the six months ended 30 June 2015. The Directors expect the Target Group to record a decrease in revenue for the six months ended 30 June 2016 as compared to six months ended 30 June 2015 which was mainly due to decrease in sales volume. Along with the expansion of its business, the directors of the OPCo strategically develop business with high gross profit margin customers, such as individual customers, to improve its profitability. As a result, the sales volume decreased but the gross profit margin has improved from 5% for the six months ended 30 June 2015 to 10% for the six months ended 30 June 2016, which was mainly due to a higher proportion of sales being made to individual customers instead of distributors, which typically renders a higher gross profit margin. The revenue contribution from distributors constituted 100%, 83% and 68% for the year ended 31 December 2014, 2015 and for the three months ended 2016 respectively. The revenue contribution from individual customers constituted 0%, 17% and 32% for the year ended 31 December 2014, 2015 and for the three months ended 2016 respectively.

After our discussion with the management of the Target Group, we note that the business model of the Target Group for 2015 is principally engaged in sales and trading of Parallel Imported Cars. As confirmed by the Target Group, Ms. Cheng Weihong is the controlling shareholder of both the Target Group and Binhai Car City and Mr. Cheng Jun, brother of Ms. Cheng Weihong, is the chairman of Binhai Car City and the controlling shareholder of one of the major customers of the Target Group in 2015.

Risks associates with the business of the Target Group

As discussed with the management of the Company, the business of the Target Group is significantly affected by the availability, cost and quality of Parallel Imported Cars supplied by Binhai Car City and requires the continued support of Binhai Car City in order to maintain its businesses and to meet its expected growth in business scale and sales capacity. If the Company is unable to procure Parallel Imported Cars in a timely manner, or if the cost of these cars exceed the budgeted cost of the Target Group, there may be an adverse effect on the business, financial condition and results of operations of the Target Group and hence, the Company. Although the Target Group will continue to endeavor to diversify and expand its customer base, the Target Group expect that its present key customers will continue to account for a relatively large percentage of its sales in the coming years. There can be no assurance that any of Target Group's major customers will continue to place orders with us in the future nor that the income generated therefrom will be maintained or increase in the future. Any unexpected cessation of, or substantial reduction in, the volume of business from any of the major customers could adversely affect our business and financial performance. In addition, in order for the OPCo to engage in the business of Parallel Import of cars, it must enter into a cooperative agreement with Binhai Car City which is in the list of the Pilot Platforms. The operational reliance on Binhai Car City exposes the Target Group to potential violation of the Pilot Implementation Plan and other related laws, regulations and other legal documents in the event that the OPCo is unable to maintain the engagement with Binhai Car City. In order to reduce such reliance and risk, the Target Group has entered into a

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framework purchase agreement with another Pilot Platform, Tianjin Bohai Car Supply Chain Management Co., Ltd. (天津渤海名車供應鏈管理有限公司) (“**Tianjin Bohai Car Supply**”) on 13 September 2016. The aforesaid framework purchase agreement has specified the quantities for automobile from various brands to be purchased by the OPCo from Tianjin Bohai Car Supply for the years ending 31 December 2016 and 2017. As advised by the management of the Company, in the event the Directors continue to procure services and purchases from Binhai Car City upon Completion, the Directors will also regularly review these risks and report to the Board if there is any likelihood of the above risks materialising in the future.

Based on our desktop search, Tianjin Bohai Car Supply is a private company founded in 2006 and principally engaged in exhibition, storage and logistics of Parallel Imported Cars. The company located in Tianjin Port Free Zone and has a registered capital of RMB50 million. Since Tianjin Bohai Car Supply is a private company, we can only access to limit public information. As advised by the management of the Company, the controlling shareholder of Tianjin Bohai Car Supply is Li Tianxue. Both Tianjin Bohai Car Supply and its shareholders are independent of the OPCo, the Company and their connected persons. We note that Tianjin Bohai Car Supply and Binhai Car City are both the first batch of Pilot Platforms, which are not connected with each other in terms of business or shareholdings.

We have reviewed the aforesaid framework purchase agreement entered into between the Target Group and Tianjin Bohai Car Supply, the parties agreed on the specific quantities for the automobile from various brands of vehicles intended to purchase from Tianjin Bohai Car supply during the years ending 31 December 2016 and 2017. In such framework agreement, the prices of each Parallel Imported Cars have not been fixed, and OPCo has the right to determine whether or not to purchase Parallel Imported Cars based on the then market conditions to ensure that OPCo can secure the best purchase price available on the market.

In order to mitigate the risks mentioned above, the Directors intends to (i) achieve diversification of sources of supply and optimize its product mix; (ii) expand business of the Target Group and to foster a good business relationship with its customers by adopting an effective sales and marketing plan; and (iii) commence overseas purchase by the end of 2016.

Management of the Target Group

As stated in the Acquisition Agreement, one of the condition precedent is the appointment of an executive Director nominated by the Vendor subject to Completion and effective from the Completion Date. In this connection, Mr. Tong Xin has been proposed by the Vendor to be appointed as an executive Director subject to the Shareholders’ approval at the SGM. The Directors are of the view that the introduction of Mr. Tong Xin to the Board will diversify the expertise and experience of the Board, in particular those relevant to the operation of the Target Group as possessed by Mr. Tong Xin. After the Completion, the Board will perform periodical review on its management efficiency on the business of Parallel Import of Car and, if appropriate, consider appointing suitable candidates to the management team or the Board with relevant experience and expertise to further enhance its supervision over the Parallel Import of Car business.

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Reasons for the Acquisition

As stated in the Letter from the Board, whilst the Group maintains its core businesses, the Board continuously explores different investment opportunities, which are of good potentials and able to generate return to the Shareholders, and is of the view that the Acquisition presents an excellent opportunity for the Group to leverage on the expertise and resources of the Target Group to develop its business of Parallel Import of cars in the PRC.

The Board believes that automotive industry is a fast growing market in the PRC with significant growth potential. For the six months ended 30 June 2016, there were a total of approximately 13.3 million cars newly registered in the PRC, according to the Ministry of Public Security of the PRC, which represented an increase of 2.0 million (or approximately 17.62%) as compared to the same period of last year. Further, according to China Association of Automobile Manufacturers, an organization founded with the approval of the Ministry of Civil Affairs of the PRC and consisting over 2,000 enterprises in the automotive industry, the total car sales in the first half of 2016 reached 11.0 million, which represented approximately 9.2% increment as compared to the same period of last year.

The Target Group possesses well-established business connection with suppliers, purchase agents and customers within the sector of the Parallel Import of cars in the TJFTZ. According to information from the People's Government of Tianjin Binhai New Area (天津濱海新區政府), sales of Parallel Imported Cars in TJFTZ accounted for approximately 74.0% and approximately 83.0% of the national total sales of Parallel Imported Cars in the PRC for the year of 2015 and the first four months of 2016, respectively. Furthermore, the Pilot Implementation Plan of TJFTZ for Parallel Imported Cars was promulgated in May 2015, which specifies the qualifications for the relevant pilot platforms and enterprises in TJFTZ and therefore facilitates the competitiveness of the Parallel Imported Cars in the market. In February 2016, several governmental departments in the PRC including Ministry of Commerce, Ministry of Public Security, Ministry of Transport and the General Administration of Customs jointly published a guideline (關於促進汽車平行進口試點的若干意見) in relation to the promotion of Parallel Import of cars. In the aforesaid guideline, a series of policies and measures are stipulated regarding pilot entities engaged in Parallel Import of cars, including how to apply for automatic import license, how to deal with compulsory product certification, inspection and quarantine, customs declaration, registration, etc. The aforesaid policy and guideline are expected to be beneficial to the Parallel Import of cars in the PRC. In view of such favorable governmental measures, coupled with the increasing disposable income of citizens in the PRC which is expected to drive the demand for the high-end Parallel Imported Cars, the Board believes that the Target Group will benefit from the positive market sentiment.

Upon Completion, the Group will be able to consolidate the financial results of the Target Group into that of the Group. As a result, the financial performance and position of the Group is expected to be improved. As stated in the Letter from the Board, the revenue contribution from connected persons of the Target Group (including but not limited to customers which are connected persons of Ms. Cheng Weihong) accounted for 80.81% and 63.07% for the years ended 31 December 2014 and 2015, respectively. However, we noted that OPCo's will still having considered that (i) the OPCo has entered into a framework purchase agreement on 13 September 2016 with Tianjin Bohai Car Supply, another Pilot Platform, by which the parties agreed on the specific quantities for automobile from various brands to be purchased by the OPCo from Tianjin

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Bohai Car Supply for the years ending 31 December 2016 and 2017; (ii) the OPCo has filed the application to obtain the status of Pilot Enterprise in September 2016, and is expected to obtain the Pilot Enterprise status by January 2017; (iii) the Target Group has ceased its sales to all connected persons of the Target Group since April 2016; and (iv) the Target Group's intention to commence purchasing directly from overseas suppliers from around January 2017 after the OPCo has obtained the status of Pilot Enterprise, striving to further improve its profitability such as Hunan and Xinjiang. We are of the view that the OPCo's business model of sales and trading Parallel Imported Cars will not be changed after the completion of the Acquisition.

According to the Strategic Cooperative Agreement, the Target Group is a member enterprise of Binhai Car City and the Target Group may rely on Binhai Car City to provide services including maintenance, parts and components supply to the Target Group's customers. Based on the above, we are of the view that the role between the Target Group and Binhai Car City will not be changed after the completion of the Acquisition. Moreover, as confirmed by the Company the role of Ms. Cheng Weihong or her relatives as the controlling shareholder of both the Target Group and Binhai Car City or the chairman of Binhai Car City would not change after the completion of the Acquisition. However, as stated in the Letter from the Board, the Target Group has ceased its sales to all connected persons of the Target Group since April 2016, we are of the view that Ms. Cheng Weihong or her relatives would no longer be the connected customers of the Target Group.

In consideration of the Target Audited Net Profit, the future prospects of the Target Group and other factors as mentioned above, the Directors consider that the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In order to assess the fairness and reasonableness of the Acquisition, we have conducted our own desktop research related to the business of Parallel Import of cars in the PRC.

According to a research "Market Opportunities in the Tianjin Free Trade Zone" dated 18 September 2015 by Hong Kong Trade Development Council, The TJFTZ will fully leverage Tianjin Port's advantages in being able to serve overseas markets, including Northeast Asia, in order to promote economic growth in Beijing, Hebei and other inland regions. Situated at the eastern end of the Eurasian land bridge, Tianjin benefits multi-modal transportation and other infrastructure for serving trade between countries and regions along the land bridge. It is an important pivot on the China-Mongolia-Russia Economic Corridor, which is integral to the Belt and Road Initiative.

Moreover, the research also stated that The TJFTZ will promote cross-border e-commerce, facilitate parallel car imports. It is an ideal platform for Hong Kong companies intending to penetrate mainland markets, especially in North China. Tianjin's customs, inspection and quarantine departments have therefore accumulated rich experience in supervision and customs clearance inspections of car imports. These will be of benefit to parallel car imports in TJFTZ, including in Dongjiang International Automobile City, in the Dongjiang Bonded Port Area. It started a trial operation in May 2015 as Tianjin's first parallel car import platform, providing a one-stop service for inventory, car exhibition and trade, "three guarantees" insurance, maintenance and after-sale technical support.

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Besides, according to the information section of the Tianjin Municipal Commission of Commerce, government pilot allowing unauthorized car dealers to sell imported cars was extended to Tianjin last year. Tianjin's annual car imports currently account for about 40.0% of the national total and the municipality has supported close to 500 car import enterprises over the past decade. The result was an increase of 14.1% in what are known as parallel imports to 79,000 units in 2015.

As part of our due diligence on the Target Group's operation, we have reviewed the Target Group's purchases orders and sales orders and noted that the scope of products and services provided by the Target Group, the terms of distributorship arrangement and the term of supplier arrangement are consistent with the disclosure under paragraphs headed "Distribution arrangement" and "Supply chain management" in Appendix III – Management discussion and analysis on the Target Group. We are of the view that the above arrangements of the Target Group follow normal market practice after reviewing the purchase orders and sales orders of the OPCo and Binhar Car City made to the Independent Third Parties. As stated in "Appendix III – Management discussion and analysis on the Target Group" in the Circular, it is not a common practice for companies engaged in the sale and trading of Parallel Imported Cars to enter into long term customer or distributorship agreements since the industry of Parallel Import of cars is emerging and fast growing and the companies would like to maintain their flexibility to actively meet market changes induced by uncertain factors. The Directors are of the opinion that conducting business by one-off sales contracts may enable the Target Group to optimize its product offering and pricing closely in line with the latest market trend and customer preference. We concur with the Directors on the view that long-term contracts may not be applicable to the Target Group's business model as the Parallel Import Cars industry is at a fast growing industry with demands always changing. Also, most of the purchases from the Target Group's customers are one-off in nature, so it is fair and reasonable for the Target Group not to sign any long-term commitment contracts with its suppliers. We have reviewed the list of the key customers together with the revenue generated with each of the key customers of the Target Group in the first half of 2016. We have also conducted a desktop research on the key customers' profile including but not limited to principal business activities and geographical location. Based on our discussion with the management of the Target Group we noted that the Target Group's largest customer, which is an independent third party accounted for approximately 20.02% of the Target Group's total sales in the first half of 2016 and we also confirmed with the Target Group the other 27 key customers are all independent from the Target Group.

The Directors are of the view that the Target Group's business is sustainable in light of the following: (i) In addition to the Strategic Cooperative Agreement, the OPCo has entered into a framework purchase agreement with Tianjin Bohai Car Supply on 13 September 2016, by which the parties agreed on the specific quantities for automobile from various brands to be purchased by the OPCo from Tianjin Bohai Car Supply for the years ending 31 December 2016 and 2017. The Target Group has therefore secured supply of Parallel Imported Cars from two of the five named Pilot Platforms; (ii) the business model of the Target Group resembles normal market practice as elaborated above; (iii) the Target Group has only operated in less than two years and has recorded substantial growth in sales as well as number of customers and suppliers; (iv) the management of the OPCo is expected to leverage on their extensive business network and resources in the area of Parallel Import of cars in Tianjin and expand the customer base of the OPCo; and (v) the OPCo has applied for the status as one of the Pilot Enterprises during September 2016, and the OPCo's

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PRC legal adviser is of the view that there will be no material legal impediment for the OPCo to become a Pilot Enterprise in accordance with the Pilot Implementation Plan. We concur with the Directors that the current business model of the Target Group is sustainable as (i) the Target Group has remarkable growth in 2015; (ii) the sales and profit forecast of the Group is on an upward trend; (iii) the Target Group has seasoned management and a fair and reasonable market plan to expand and (iv) the increasing demand trend of Parallel Import Cars due to its competitive pricing.

As the trading business nature of OPCo, the Directors are of the view that the Target Group does not have any significant capital expenditure requirement. For the Group's development plan in which we have discussed with the Directors, including the Group's intention to expand its market to Hunan and Xinjiang and the intention to commence purchasing directly from overseas suppliers, we are of the view that it is fair and reasonable and they are beneficial for the Target Group given (i) the support of government policies such as establishment of the TJFTZ to promote Parallel Import Cars; (ii) the promising prospects of the Parallel Import Cars in the PRC; (iii) the sound track record performance of the Target Group in 2015 has demonstrated that the Target Group is having a upward business growth with the suitable business growth strategies; (iv) it is fair and reasonable for the Target Group not to have significant capital expenditure as it would become a financial burden of the Target Group if it has maintained showrooms in different cities that would incur huge capital investment and monthly fixed costs that would form a long-term commitment to the Target Group.

In order to assess the business expansion plan we have reviewed business development plan provided by the Target Group and discussed with the Target Group, we note that it is the intention of the Target Group not to establish a branch or showroom directly in Hunan and Xinjiang, Target Group will still remain their business base in Tianjin. In the business development plan, it mentioned that there will be two new automobile showrooms completed in Hunan and Xinjiang in 2016 and 2017 which can provide the business opportunities to the Target Group and the Group. According to the information provided by the Target Group, in particular an article released by Tianjian Free Trade Zone International Automobile City (天津保稅區國際汽車城), one of the China's largest parallel trade import car display center, one of the new showrooms will be located in Xinjiang Urumqi with gross floor area of more than 42,000 square meters, and over 10 exhibition sectors. In addition, we have reviewed an article published by Changsha Municipal Government, on its official website (www.changsha.gov.cn) dated 1 September 2016 which stated that another showroom in Hunan will be located in Changsha City which has gross floor area of more than 70,000 square meters of which over 30,000 square meters will be used as exhibition area. In order to expand its market in Hunan and Xinjiang, the business development plan stated that the Target Group would focus on promoting its business brand which included (i) participate all of the promotion activities when the two new automobile showrooms are completed; (ii) assign some experienced staff in Hunan and Xinjiang to prepare the market research of the Parallel Imported Car for model preferences, price preference, service preference and other market analysis in the early-staged; (iii) participate in the two showroom's planning and opening activities which in order to embed the Target Group's sales and services concept to the new showrooms and markets; (iv) visiting the customers of showroom, organizing or participating the meeting of car dealers to enhance the Target Group's reputation and brand recognition in the new markets; (v) coordinate with the showrooms' grand opening marketing activities, the Target Group intends to secure the market share in the new markets by promoting high quality entry level car models in favorable price to new market's customers; and (vi) recruit and train more marketing and sales staff to expand its business.

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Having consider that the Target Group would not directly establish a branch or showroom in Hunan and Xinjian and significant capital expenditure is not required as its business strategies would only related to (i) participate more promotion activities in Hunan and Xinjiang; (ii) assign experienced staff to prepare market research; and (iii) promise to recruit more staff to expand its business.

As a conclusion, although the Parallel Import car business is not an ordinary and usual course of business of the Group, however, given that (i) the industry of Parallel Import of cars in the PRC, especially in Tianjin are promising, given the forecasted growth potentials and the support by the PRC government as stated above; (ii) the Target Group has been generating substantial increase in revenue and profit in the past year; and (iii) the Acquisition would increase the revenue stream of the Company and generate greater return potential to the Shareholders, we are of the view that the Acquisition is fair and reasonable and in the interests of the Company and Shareholders as a whole.

Principal terms of the Acquisition Agreement

Date

9 August 2016 (after trading hours of the Stock Exchange)

Parties

- (i) the Company; and
- (ii) the Vendor

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

Assets to be acquired

Pursuant to the Acquisition Agreement, the Company conditionally agreed to purchase, and the Vendor conditionally agreed to sell, the Sale Shares. The Sale Shares represent the entire issued share capital of the Target Company as at the date of the Acquisition Agreement.

Consideration

Subject to the satisfaction of the Target Audited Net Profit, the Consideration for the Sale Shares shall be up to RMB916,000,000, and will be settled by the Company by the allotment and issue of Consideration Shares to the Vendor and/or its designated party credited as fully paid in three tranches at the Issue Price of HK\$0.3712 per Consideration Share in the following manner:

- (i) the first tranche of the Consideration shall be paid by the Company by the allotment and issue of Tranche A Consideration Shares to the Vendor and/or its designated party on the Completion Date, which shall comprise of the number of Consideration Shares equal to the sum of (a) RMB100,000,000; and (b) RMB20,000,000 multiplied

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by 8.5, and be converted into equivalent amount in Hong Kong dollars at the then Agreed Exchange Rate and divided by the Issue Price. For illustrative purposes only, the number of Tranche A Consideration Shares determined with reference to the Illustrative Exchange Rate will be 1,018,270,089 Shares, equivalent to approximately 22.23% of the total Shares in issue as at the date of the Acquisition Agreement and as at the Latest Practicable Date. For the avoidance of doubt, the actual number of Tranche A Consideration Shares will be determined with reference to the then Agreed Exchange Rate as aforementioned;

- (ii) subject to the satisfaction of the Target Audited Net Profit by the Target Group for the financial year ending 31 December 2016 (i.e. no less than RMB30,000,000), the second tranche of the Consideration shall be paid by the Company by the allotment and issue of Tranche B Consideration Shares to the Vendor and/or its designated party within 10 Business Days immediately upon the release of the signed auditors' report of the Target Group for the financial year ending 31 December 2016, which shall comprise of the number of Consideration Shares equal to the amount of RMB10,000,000 multiplied by 8.5, and be converted into equivalent amount in Hong Kong dollars at the then Agreed Exchange Rate and divided by the Issue Price. For illustration purposes only, the number of Tranche B Consideration Shares determined with reference to the Illustrative Exchange Rate will be 320,566,510 Shares, equivalent to approximately 7.00% of the total Shares in issue as at the date of the Acquisition Agreement and as at the Latest Practicable Date. For the avoidance of doubt, the actual number of Tranche B Consideration Shares, if any, will be determined with reference to the then Agreed Exchange Rate as aforementioned; and
- (iii) subject to the satisfaction of the Target Audited Net Profit by the Target Group for the financial year ending 31 December 2017 (i.e. no less than RMB80,000,000), the third tranche of the Consideration shall be paid by the Company by the allotment and issue of Tranche C Consideration Shares to the Vendor and/or its designated party within 10 Business Days immediately upon the release of the signed auditors' report of the Target Group for the financial year ending 31 December 2017, which shall comprise of the number of Consideration Shares equal to the amount of the difference between (a) the actual audited after-tax net profit of the Target Group for the year ending 31 December 2017; and (b) RMB30,000,000 multiplied by 8.5, and be converted into equivalent amount in Hong Kong dollars at the then Agreed Exchange Rate and divided by the Issue Price, subject to a maximum amount being RMB66,000,000 multiplied by 8.5, and be converted into equivalent amount in Hong Kong dollars at the then Agreed Exchange Rate and divided by the Issue Price (the "Maximum Tranche C Consideration Shares"). For the avoidance of doubt, even if the actual audited after-tax net profit of the Target Group for the year ending 31 December 2017 exceeds RMB96,000,000, the amount of Tranche C Consideration Shares to be allotted and issued shall only equal to the Maximum Tranche C Consideration Shares.

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For illustrative purposes only, the amount of Tranche C Consideration Shares determined with reference to the Illustrative Exchange Rate on the assumption that the actual audited after-tax net profit of the Target Group for the financial year ending 31 December 2017 exceeds RMB96,000,000 will be 1,908,008,756 Shares, equivalent to approximately 41.64% of the total Shares in issue as at the date of the Acquisition Agreement and as at the Latest Practicable Date. However, the actual number of Tranche C Consideration Shares, if any, will be determined with reference to the then Agreed Exchange Rate and the actual audited after-tax net profit of the Target Group for the year ending 31 December 2017 as aforementioned. For the avoidance of doubt, in the event that the Vendor is required to (a) reduce its shareholdings in the Company to avoid the triggering of the General Offer Obligation; or (b) obtain a whitewash waiver from the Executive waiving the General Offer Obligation pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code, the time limit to which the Company shall allot and issue the Tranche C Consideration Shares to the Vendor and/or its designated party shall be 10 Business Days upon completion of (a) or (b) above.

The Company undertakes that, so long as permitted under relevant laws, during the period from the date of the Acquisition Agreement up till the allotment and issue of the Tranche C Consideration Shares to the Vendor, the Company will not increase its share capital or undertake any other changes which affect its issued share capital (including but not limited to share issue, consolidation or split), unless otherwise consented by the Vendor in writing and corresponding adjustments having been made to the Consideration Shares to be allotted and issued to the Vendor so as to maintain the relevant shareholding percentage of the Vendor as described above. Provided that if after any of the Consideration Shares have been allotted and issued to the Vendor, and the Vendor decreases its shareholdings in the Company (a) upon consent being obtained from the Company as set forth in the paragraph headed “Lock-up Undertakings by the Vendor” below or (b) for the avoidance of the triggering of the General Offer Obligation, the Company has no obligation to adjust the amount of Consideration Shares to be allotted and issued to the Vendor in relation to the portion of Consideration Shares disposed by the Vendor pursuant to (a) or (b) above.

For the avoidance of doubt, the respective tranches of the Consideration Shares will only be allotted and issued to the Vendor if and when the Target Audited Net Profit for the two financial years ending 31 December 2016 and 2017 can be achieved by the Target Group in accordance with the terms of the Acquisition Agreement.

The Agreed Exchange Rate is defined as the mid-point exchange rate applicable for conversion of RMB to HK\$ published by the People’s Bank of China as at the date of SGM, the date when the signed auditors’ report containing the after-tax net profit of the Target Group for the financial year ending 31 December 2016 is being issued and the date when the signed auditors’ report containing the after-tax net profit of the Target Group for the financial year ending 31 December 2017 is being issued for determining the amount of Tranche A Consideration Shares, Tranche B Consideration Shares and Tranche C Consideration Shares, respectively. We are of the view it is fair and reasonable at the date of SGM and the dates of signing the auditors’ report are the immediately time when the Acquisition is approved and when the amount of Consideration can be firmly determined once the after-tax net profit of the Target Group for year ending 31 December 2016 and 31 December 2017 have been confirmed by the auditors.

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The Issue Price

The Issue Price of HK\$0.3712 per Consideration Share represents:

- (i) a discount of approximately 43.76% to the closing price of HK\$0.66 per Share as quoted on the Stock Exchange on 9 August 2016, being the date of the Acquisition Agreement;
- (ii) a discount of approximately 43.93% to the average closing price of approximately HK\$0.662 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the Acquisition Agreement;
- (iii) a discount of approximately 43.41% to the average closing price of approximately HK\$0.656 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Acquisition Agreement; and
- (iv) A discount of approximately 50.51% to the closing price of approximately HK\$0.75 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares represent approximately:

- (i) 75.41% of the existing issued share capital of the Company as at the date of the Acquisition Agreement and as the Latest Practicable Date; and
- (ii) 42.99% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming (i) there will be no change in the issued share capital of the Company between the date of the Acquisition Agreement and the issue date of the Tranch C Consideration Shares save for the issue of the Consideration Shares; and (ii) the audited after-tax net profit of the Target Group for the financial year ending 31 December 2017 exceeds RMB96,000,000).

The Consideration (including the Issue Price) was arrived upon arm's length negotiations between the Company and the Vendor with reference to (1) the net asset value of the Target Company as of 31 December 2015 according to the combined financial statements of the Target Group prepared in accordance with Hong Kong Financial Reporting Standards; (2) the undertaking from the Vendor in relation to the Target Audited Net Profit; (3) the business prospects of the Target Group; and (4) the price-to-earnings ratio of the companies whose principal activity is similar to that of the Target Group.

Conditions precedent of the Acquisition

Completion is conditional upon the following conditions being fulfilled on or before the Long Stop Date:

- (i) the Target Group having completed the Reorganisation pursuant to the Acquisition Agreement, all government approvals, filings and licenses relevant to the Reorganisation having been obtained and/or completed, and the transfer price with respect to the relevant share transfers involved in the Reorganisation having been fully paid and settled in accordance with applicable laws and regulations, and without any outstanding payment;

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- (ii) the passing of the following resolution(s) by the Independent Shareholders at the SGM approving:
 - (a) the Acquisition Agreement and the transactions contemplated thereunder;
 - (b) the allotment and issue of Consideration Shares by the Company to the Vendor (or its designated party) pursuant to the Specific Mandate;
 - (c) the Continuing Connected Transaction; and
 - (d) the appointment of a personnel nominated by the Vendor as an executive Director subject to Completion and with effect from the Completion Date;
- (iii) the listing committee of the Stock Exchange having approved the listing of, and permission to deal in, the Consideration Shares;
- (iv) the warranties set out in the Acquisition Agreement given by the Vendor remaining true, accurate and not misleading in all material respects;
- (v) since the date of the Acquisition Agreement and up till the Completion Date, there being no material adverse effect in respect of the business, assets or operation of the Target Group having been discovered;
- (vi) the Vendor having obtained all necessary approvals, consents, notices required under applicable laws and regulations and other agreements or contracts in relation to the Acquisition Agreement;
- (vii) all third party consents, approvals and notices which is required to be obtained by the Vendor pursuant to any applicable laws or agreements involving the Vendor or any company of the Target Group, and in connection with the transactions contemplated under the Acquisition Agreement having been obtained;
- (viii) the Vendor having fully performed and complied with all the covenants and undertakings required to be performed or complied by it under the Acquisition Agreement on or before the Completion Date in all material respects;
- (ix) the Target Company having obtained all necessary consents and approval, including the approvals from its board of directors and shareholders which are necessary to be obtained for any of the transactions contemplated under the Acquisition Agreement and the execution of any relevant documents; and
- (x) the Vendor having provided to the Company (i) the Strategic Cooperative Agreement in relation to the Continuing Connected Transaction; and (ii) the financial statements of the Target Group for the financial year ended 31 December 2015 (which indicates that the audited after-tax net profit amounted to RMB20,000,000 or above).

None of the conditions precedent under the Acquisition Agreement can be waived by either the Company or the Vendor.

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In the event that any of the above conditions precedent have not been fulfilled on or before the Long Stop Date, the Acquisition Agreement shall cease and terminate immediately. Upon which, parties to the Acquisition Agreement shall be released and discharged from their respective obligations under the Acquisition Agreement, save for obligations with continuing effect under the Acquisition Agreement. Based on information available to the Company, condition (x) have been satisfied as at the Latest Practicable Date.

Completion of the Acquisition

Completion shall take place on the Completion Date.

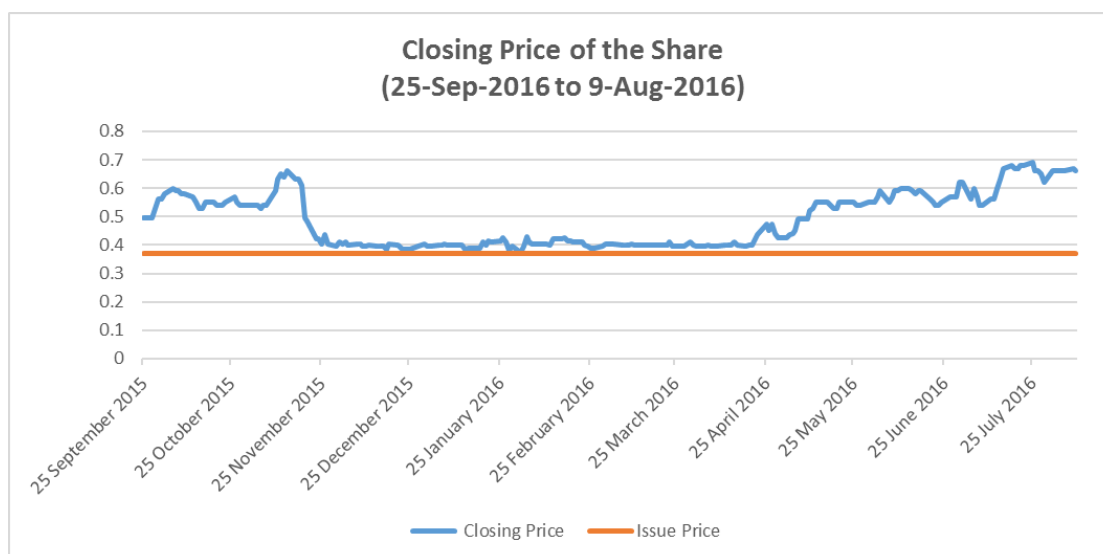
In the event that either the Company or the Vendor is unable to perform their respective completion obligations on the Completion Date as set out in the Acquisition Agreement, the non-defaulting party may, by written notice to the defaulting party, determine to:

- (i) proceed with the Completion so far as practicable; or
- (ii) delay Completion to a later date, but no later than the Long Stop Date; or
- (iii) terminate the Acquisition Agreement.

Issue Price analysis

Company's Share price movement

The below chart shows closing prices of the Shares from 25 September 2015 to 9 August 2016, the price of the Share are relatively stable in the beginning of the year which was the closing price of the last trading day as quoted on the Stock Exchange (the “**Review Period**”). The results are set out in below:



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During the Review Period, the highest closing price and the lowest closing price of the Share were HK\$0.69 (on 25 July 2016) and HK\$0.375 (on 1 February 2016), respectively, with an average closing price of approximately HK\$0.488. The issue price of HK\$0.3712 therefore represents a discount of approximately 1.0% over the lowest closing price per Share and a discount of approximately 46.2% to the highest closing price per Share.

Company's Share trading liquidity

	Total volume of the Shares traded	Number of trading days	Average Daily Volume	Number of issued Shares as at end of the period/month	Approximately % of average daily trading volume to the then total number of issued Shares as at end of the period/month <i>(Note 3)</i>
2015					
September	25,440,000	3	8,480,000	4,581,631,935	0.19%
October	34,981,300	20	1,749,065	4,581,631,935	0.04%
November	618,296,797	21	29,442,705	4,581,631,935	0.64%
December	129,004,000	22	5,863,818	4,581,631,935	0.13%
2016					
January	72,712,000	20	3,653,600	4,581,631,935	0.08%
February	145,344,010	18	8,074,667	4,581,631,935	0.18%
March	49,542,000	21	2,359,143	4,581,631,935	0.05%
April	189,531,220	20	9,476,561	4,581,631,935	0.21%
May	120,692,001	21	5,747,238	4,581,631,935	0.13%
June	148,764,000	21	7,084,000	4,581,631,935	0.15%
July	299,141,000	20	14,957,050	4,581,631,935	0.33%
August	43,136,000	6	7,189,333	4,581,631,935	0.16%

Notes:

1. The Review Period commenced on 25 September 2015.
2. The Review Period ended on 9 August 2016.
3. Based on the total number of issued Shares as at end of the period/month

Regarding the liquidity of the Shares, as shown in the table above, the highest average daily volume was approximately 29 million Shares in November 2015, representing approximately 0.64% of the total number of Shares as at end of July 2016. We noted that the trading liquidity of the Shares was thin during the Review Period.

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Market comparable analysis on the Issue Price

To assess as to the fairness and reasonableness of the Issue Price, we have considered applying a comparable analysis to companies listed on the Main Board of the Stock Exchange that (i) with similar business of the Target Group and/or the Group in terms of principal business, operations and financial position; (ii) issue consideration shares for the purpose of acquiring a company with different business nature; and (iii) involving acquisition transactions by issuance of consideration shares during the three months period from 9 May 2016 up to the date of the Acquisition Agreement (the “**Comparable Period**”) which could represent the recent trend of the acquisition transactions in the prevailing market condition. However, we have reviewed all the companies listed on the Main Board of the Stock Exchange which have announced acquisitions by issuance of consideration shares during the Comparable Period and we have not been able to identify suitable comparable companies with the above selection criteria. We noted that the issue prices of the acquisitions of the companies may vary upon many factors, including but not limited to the business nature, the financial performance of the companies, the prevailing market conditions and the price and trading performance of the shares of the respective companies. Meanwhile, due to the unique business nature of the Target Group and/or the Group, we did not identify suitable comparable companies which are engaged in a business similar to the principal business of the Target Group and/or the Group. Thus, we consider a comparable analysis on similar principal business is not applicable and would not be able to give a representative and comprehensive information to the Independent Shareholders for a fair comparison with the Issue Price proposed by the Group. As such, our analyses are mainly on the historical market price and trading liquidity of the Shares.

As stated in the Letter from the Board, when arriving at the Issue Price of HK\$0.3712, the Directors mainly took into accounts of the following to form the adjusted net assets of the Group, the total equity attributable to equity shareholders of the Company as at 31 March 2015 amounted to approximately RMB1,644 million was (i) deducted by the special dividend amounted to approximately RMB183 million distributed to the Shareholders on 10 June 2015; (ii) deducted by the special dividend of HK\$0.11 per share declared by the Board on 26 July 2016 (i.e. in total of approximately RMB399 million); (iv) adding to the conversion of convertible bonds amounted to approximately RMB134 million; and (v) adding to the net effect of reversal of overprovision of tax in prior years (i.e. in total of approximately RMB150 million) during the year ended 31 March 2016. As a result, the adjusted net assets of the Group was amounted to approximately RMB1,347 million which was equivalent to approximately HK\$1,700 million by referring to the exchange rate as at 31 March 2015 in People’s Bank of China (i.e. HK\$1 = RMB0.7921). The Issue Price of HK\$0.3712 was arrived from dividing the adjusted net assets of the Group by total number of issued Shares which was 4,581,631,935.

After our detailed assessment, we concur with the Directors about the calculation of the adjusted net assets by the following consideration: (i) the vendor should not be entitled to the special dividend amounted to approximately RMB183 million and approximately RMB399 million distributed to the Shareholders on 10 June 2015 and 26 July 2016 respectively which were then being deducted from the calculation; (ii) the convertible bonds amounted to approximately RMB134 million, the value of the conversion would be the equity of the Company which should then be taken into account for calculation of the Issued Price; and (iii) with reference to the 2016 Annual report of the Company, the reversal of overprovision of tax in prior years during the year ended 31 March 2016 was mainly due to the difference between the agreed amount from local tax authority of Shenzhen and the originally accrued amount calculated based on the standard tax rate,

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the net effect of reversal of overprovision of tax amounted to approximately RMB150 million should then be included into calculation of the adjusted net assets. After the assessment on the adjustments, we are of the view that the calculation of Issue Price is fair and reasonable as the adjustments have eliminated those assets value that the Vendor will not be entitled after the issue and allotment of Consideration Shares.

The Issue Price represents a discount of 44% to the closing price of the Shares on 9 August 2016 (being the date of the Acquisition Agreement). It was announced on 25 September 2015 that the Company and the Vendor entered into the MOU on the same day, where both parties agreed to further negotiate the number of Consideration Shares upon completion of the due diligence by the Company. Since then, the price of the Shares moved in a moderate upward trend and peaked at HK\$0.66 on 13 November 2015. On 18 November 2015, the Company announced that the amount of compensation to be received by the Group in relation to a very substantial disposal would be adjusted downwards by RMB50 million. Coupled with the profit warning announcement published by the Company on 23 November 2015, the price of Shares plunged to HK\$0.395 on 30 November 2015 and maintained relatively stable afterwards. As illustrated from the chart above showing the share price performance for the Company over the period from 25 September 2015 to 9 August 2016, the price of the Shares was mildly oscillating during the period from December 2015 to mid-April 2016, during which the Company had received preliminary due diligence reports from its auditors and PRC legal adviser on the Target Group and the negotiation of Issue Price between the Company and the Vendor had taken place. From May 2016 to the date of the Acquisition Agreement, the closing price of the Shares had shown positive momentum and had been in line with the performance of the overall market (Hang Seng Index was at 20,676.94 on 3 May 2016 and rose to 22,465.61 on 9 August 2016). Further, the Company announced that a Board meeting would be held to consider recommendation for a special dividend after trading hours on 14 July 2016. The price of the Shares reached a recent high to HK\$0.67 on the following trading day and maintained a mild increasing trend and rose to its highest at HK\$0.69 on 25 July 2016. The price of the Shares fluctuated within narrow range and reached HK\$0.66 on 9 August 2016. The Directors is of the view that the recent increase in the Share price was mainly attributable to (a) the special dividend of HK\$0.11 per share declared by the Board on 26 July 2016; and (b) the high volatility of the price of the Shares due to its low liquidity. The Directors consider that such increase in price of the Shares do not reflect an organic growth of the Group's business and shall not be contemplated in the Issue Price. For the period from the publication of the MOU announcement to the execution of the Acquisition Agreement, the price of the Shares fluctuated within a span from HK\$0.375 to HK\$0.69, approximately half of the period of which (i.e. from December 2015 to mid-April 2016) the price of the Shares fluctuated within a relatively narrow range of HK\$0.375 to HK\$0.43. The Directors mainly considered the company-specific factors impacting the price of the Shares as elaborated above when determining the Issue Price and are of the view that the Issue Price largely accord with the price performance of the Shares in the relevant period and is therefore reasonable.

In order to assess the movement of the Share price we have discussed with the management of the Company and reviewed the announcements published by the Company during 25 September 2015, the of the MOU was entered into between the Vendor and the Company to 9 August 2016, the date of Acquisition Agreement was announced. We note that the Share price of the company fluctuated in relatively large magnitude as a result of several incidents, including but not limited to (i) the Share price was moved in a moderate upward since the MOU announced on 25 September 2015 and peaked at HK\$0.66 on 13 November 2016; (ii) the Share price begins to drop in mid-November and plunged to HK\$0.395 due to (a) the announcement of the Company dated 18

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November 2015 stating that the amount of compensation to be received by the Group in relation to a very substantial disposal would be adjusted downwards by RMB50 million; and (b) announcement of profit warning dated 23 November 2015, mainly attributable to the loss of approximately RMB90 million from the recognition of fair value change on the convertible bonds issued by the Company which were outstanding and converted into new ordinary shares of the Company in early June 2015; (iii) the Share price maintained relatively stable with the share price range of HK\$0.375 to HK\$0.42 during the period of December 2015 to mid-April 2016, which was being the negotiation of Issue Price between the Company and the Vendor had taken place; (iv) the Share price rose again from May 2016 to the date of Acquisition Agreement, which had shown positive momentum and had been in line with the performance of the overall market (Hang Seng Index was at 20,676.94 on 3 May 2016 and rose to 22,456.61 on 9 August 2016); and (v) the Share price has no specific movement on 29 June 2016, which the Company announced the final result for the year ended 31 March 2016; (vi) the Share prices reached its peak after the Company's announcement of special dividend of HK\$0.11 per Share on 26 July 2016, we are of the view that the increase in the Company's Share price are caused by market sensitive information and did not reflect the organic growth of the Group.

In addition, as stated in the Share price chart above, the Shares has been constantly traded slightly above HK\$0.3712 since January 2016. The Share price only started to surge in May 2016 from the average closing price in April 2016 of approximately HK\$0.41 (the "April Average Price") to the average closing price in May 2016 of approximately HK\$0.52 (the "May Average Price") and increased further to the closing price of HK\$0.66 on 9 August 2016, being the date of the Acquisition Agreement. In order to eliminate the short term fluctuations in Share price, we have also made Share price comparison as follows:

The Issue Price of HK\$0.3712 per Consideration Shares represents:

- A discount of approximately 1.02% over the lowest closing price of the Share of HK\$0.375 during the Review Period recorded on 1 February 2016;
- A discount of approximately 10.45% over the approximate average closing price of the Share of HK\$0.41 over the April Average Price;
- A discount of approximately 40.08% over the approximate average closing price of the Share of HK\$0.52 over the May Average Price;

In assessing the fairness and reasonableness of the Issue Price, we have taking considerations of (i) the entire consideration of Acquisition is to be satisfied solely by the allotment and issue of the Consideration Shares and involving no cash outlay of the Company; and (ii) given the lower average daily turnover of the Shares and the size of the Consideration Shares, as well as the fluctuation of Share price since May 2016, it would not be unreasonable to have Issue Price set at a discount to the closing price on 9 August 2016, being the date of the Acquisition Agreement.

Taken into these incidents into consideration, we concur with the Directors that the increase in share price are caused by market sensitive information of the Group and did not reflect an organic growth of the Group's business. Moreover, as stipulated in the "Company's Share trading liquidity" chart above, the high price volatility of the Shares with thin trading liquidity could further increase the fluctuation of the Share prices.

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Furthermore, as stated in the Letter from the Board, subject to the satisfaction of the Target Audited Net Profit by the Target Group for the two years ending 31 December 2016 and 2017, the Tranches B and C of the Consideration Shares will be issued in 2017 and 2018. We note that the Company's share price may be further increased at the time of issuance, the actual discount of the Issue Price to the prevailing market price, and the dilution impact to the existing Shareholders would be further increase. However, there is no reasonable ground or basis to predict the future performance of the Company's share price and any comparison of such estimates with the Issue Price will not procure meaningful information for the Shareholders to appraise the terms of the Acquisition. Taking into consideration that (i) issuance of the Tranches B and C of the Consideration Shares will be subject to the satisfaction of the Target Audited Net Profit for the two financial years ending 31 December 2016 and 2017 can be achieved by the Target Group in accordance with the terms of the Acquisition Agreement; (ii) the future performance of the Company's share price will be effectively influenced by the business performance and profitability of the Target Group; and (iii) the further increased of share price is speculative and may not actually occur, we are of the view that it may not be fair to account for the future share prices of the Company when determining the Issue Price.

Taken into consideration of (i) the Issue Price is determined based on the adjusted net assets of the Group, which is a common market practice to determine the value of a company, as stated above; (ii) the recent increase in the Share prices of the Company was mainly due to announcement of the special dividends and the high volatility of the Shares prices due to its low liquidity; (iii) the promising future of the Parallel Import Car business; and (iv) the profit generated by Target Group for the year ended 31 December 2015, we therefore concur with the Directors' view that the Issue Price of the Consideration Shares is fair and reasonable and is in the interests of the Company and Shareholders as a whole.

Consideration Analysis

As per our discussion with the Directors, we understand that the implied price-to-earnings ratio of the Target Group is 8.5 times, which is determined based the valuation of companies with similar principal activity of the Target Group. We also understand that (i) for the first tranche of the Consideration, RMB100,000,000 being the approximate amount of paid-in capital of the Target Group as at 31 December 2015 and RMB20,000,000 is approximate to the audited profit for the year ended 31 December 2015 of the Target Group; (ii) for the second tranche of the Consideration, RMB10,000,000 being the difference between the Target Audited Net Profit by the Target Group for the financial year ending 31 December 2016 (i.e. no less than RMB30,000,000) and RMB20,000,000, approximate to the audited profit for the year ended 31 December 2015 of the Target Group and (iii) for the third tranche of the Consideration, RMB30,00,000 being the Target Audited Net Profit by the Target Group for the financial year ending 31 December 2017 (i.e. no less than RMB80,000,000) minus the sum of audited net profit of the Group for the year ended 31 December 2015 and the Target Audited Net Profit by the Target Group for the financial year ending 31 December 2016 (i.e. RMB50,000,000). Therefore, the Consideration has taken into the account of (i) the net assets value of the Target Group as at the last financial year, (ii) the audited profit of the Target Group for the year ended 31 December 2015, (iii) the Target Audited Net Profit: (iv) the estimated increase in profit of the Target Group for the coming two years; and (v) the price-to-earnings ratio of the companies whose principal activity is similar to that of the Target Group.

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In addition, we also reviewed the business plan for the year ending 31 December 2016 and 2017 provided by the Company including but not limited to (i) the major basis and assumptions adopted in the business plan; (ii) the relevant historical financial information for the year ended 31 December 2015 and estimated the sales expenses and administrative expenses of the Target Group for the years ending 31 December 2016 and 2017; (iii) the non-legally binding confirmation signed by OPCo's independent customers on their respective intended purchases; (iv) the estimated finance costs as well as the income tax of the Target Group and based on our discussion with the Directors we note that the Directors are of the view that the Target Group's business is sustainable in light of the following: (i) In addition to the Strategic Cooperative Agreement, the OPCo has already signed a framework purchase agreement with another Pilot Platform, Tianjin Bohai Car Supply on 13 September 2016, which will enable the OPCo to purchase Parallel Imported Cars from overseas through another channel and therefore to reduce purchase of Parallel Imported Cars from Binhai Car City going forward; (ii) the OPCo's management has maintained good business relationship with the other three existing Pilot Platforms in the TJFTZ. Apart from purchase from Binhai Car City and Tianjin Bohai Car Supply, the Directors and the OPCo's management are optimistic to form business partnerships with the other Pilot Platforms in the TJFTZ, and allowing it to have different alternative for arranging overseas purchase of Parallel Imported Cars going forward; (iii) On 7 September 2016, the Commission of Commerce of Tianjin Binhai New Area has published the Notice of the Application of Pilots (Second Batch) for Parallel Import of Cars in TJFTZ (《關於申報中國(天津)自由貿易試驗區(第二批)平行進口汽車試點的通知》) (the "Notice").

According to the Notice, the cutoff date of the application of the second batch of Pilot Platforms and Pilot Enterprises is 16 September 2016. Based on the above, the Directors and the OPCo's management expected that the number of Pilot Platform in the TJFTZ will be increased from January 2017 onwards, and therefore the OPCo will be able to reduce the purchase of Parallel Imported Cars from Binhai Car City going forward; (iv) the Target Group has only operated in less than two years and has recorded substantial growth in sales as well as number of customers and suppliers; (v) the management of the OPCo is expected to leverage on their extensive business network and resources in the area of Parallel Import of cars in Tianjin and expand the customer base of the OPCo; and (vi) the OPCo has applied for the status as one of the Pilot Enterprises during September 2016, and the OPCo's PRC legal adviser is of the view that there will be no material legal impediment for the OPCo to become a Pilot Enterprise in accordance with the Pilot Implementation Plan.

We concur with the Directors that the current business model of the Target Group is sustainable as (i) the Target Group has remarkable growth in 2015; (ii) the sales and profit forecast of the Group is on an upward trend; (iii) the Target Group's intention develop its business with high gross profit margin customers, such as individual customers, to improve its profitability; (iv) the Target Group has seasoned management and a fair and reasonable market plan to expand and (v) the increasing demand trend of Parallel Import Cars due to its competitive pricing.

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According to the unaudited management account for the six months ended 30 June of the Target Group, the Target Group recorded a total revenue of approximately RMB248 million for the six-month ended 30 June 2016 as compared to approximately RMB378 million which recorded in the same period in 2015 mainly due to decrease in sales volume. Despite the Target Group has recorded a decrease in sale but the gross profit and gross profit margin has improved from approximately RMB17.5 million and 5% for the six months ended 30 June 2015 to approximately RMB25.0 million and 10% for the six months ended 30 June 2016, which was mainly due to a higher proportion of sales being made to individual customers instead of distributors, which typically renders a higher gross profit margin.

Also, the net profit of the Target Group has improved from approximately RMB11.1 million for the six-month ended 30 June 2015 to approximately RMB17.8 million for the six-month ended 30 June 2016.

Having consider that (i) the Business Plan prepared by the directors of the Target Group; (ii) the Target Group is looking forward to increase its market share by extending its customer base in Hunan and Xinjiang in the future; (iii) Target Group's business is sustainable as mentioned above; and (iv) the gross profit margin and the net profit of the Target Group as at 30 June 2016 is better than the same period in 2015, we are of the view that the Target Group's P/E ratio of 8.5 for 2016 and 2017 is justifiable.

To further assess the fairness and reasonableness of the Consideration and its implied price to earnings ratio (the "**P/E ratio**"), we reviewed the financial and operation information on the Target Group. We also selected and identified a list of 12 companies (the "**Comparables Companies**") from our desk-top research and on our best endeavour that (i) are listed on the Stock Exchange or Shanghai Stock Exchange; (ii) are principally engaged in the wholesale and/or retail of automobiles in the PRC; and (iii) revenue generated from sales of automobiles represented over 70% of the total revenue for their respective latest financial year. The Comparable Companies have been selected exhaustively based on the criteria set out above which have been identified, to the best of our efforts, in our research through public sources and hence are fair and representative. Our relevant findings are summarized in the table below:

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Company name	Stock Code	Principal Activities	Closing price on the last trading day <i>(note i)</i>	Earnings per share <i>(note ii)</i>	P/E ratio <i>(note iii)</i>
Pang Da Automobile Trade Company Limited (Shanghai Stock Exchange)	601258	Automotive Retailers	HK\$2.73	HK\$0.058	46.8
China Grand Automotive Services Co Limited (Shanghai Stock Exchange)	600297	Automotive Retailers	HK\$9.23	HK\$0.455	20.3
Sinomach Automobile Company (Shanghai Stock Exchange)	600335	Automotive Wholesalers	HK\$12.59	HK\$0.899	14.0
Auto Italia Limited	720	Import, marketing and distribution of luxury and ultra-luxury cars.	HK\$0.15	HK\$0.005	30.8
Zhongsheng Group Holdings Limited (Stock Exchange)	881	Sale and service of motor vehicles.	HK\$5.48	HK\$0.247	22.2
China Meidong Auto Holding Limited (Stock Exchange)	1268	Engaged in automobile dealership business authorized by the respective automobile manufacturers of a particular brand in the PRC including the sale of new passenger cars, spare parts, service and survey.	HK\$0.97	HK\$0.114	8.5
China Greenland Rundong Auto Group Limited	1365	Sale and service of motor vehicles in Mainland China.	HK\$3.5	HK\$0.424	8.3
China ZhengTong Auto Services Holdings Limited (Stock Exchange)	1728	4S dealership business, motor-related logistics business, lubricant oil trading business and financial services in the PRC.	HK3.19	HK\$0.329	9.7
Sunfonda Group Holdings Limited	1771	Sale of automobiles; provision of after-sales services; provision of automobile insurance agency services, automobile financing services, automobile licensing services and automobile survey services.	HK\$2.42	HK\$0.047	51.5

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Company name	Stock Code	Principal Activities	Closing price on the last trading day <i>(note i)</i>	Earnings per share <i>(note ii)</i>	P/E ratio <i>(note iii)</i>
Dah Chong Hong Holdings Limited (Stock Exchange)	1828	Sales of motor vehicle and related business and services, sales of food and consumer products and provision of logistics services.	HK\$3.74	HK\$0.311	12.0
China Yongda Automobiles Services Holding Limited (Stock Exchange)	3669	Sale of automobiles and provision of after-sales services, provision of automobile rental services, automobile finance leasing service and distribution of automobile insurance products; and automobile financial products in the PRC.	HK\$4.03	HK\$0.412	9.8
China Harmony New Energy Auto Holding Limited (Stock Exchange)	3836	Sale of exclusively in luxury and ultra-luxury passenger vehicles.	HK\$4.14	HK\$0.459	9.0
Maximum					51.5
Minimum					8.3
Mean					20.3
The Target Group					8.5

Notes:

- (i) The market capitalizations of the Comparable Companies are calculated by multiplying the share price and the number of issued shares of the respective companies as at the last trading day.
- (iii) The latest earning per share of each of the Comparable Companies are extracted from the respective latest published annual reports
- (iv) The P/E ratio is calculated by dividing the respective stock price of the Comparable Companies as the last trading day to their latest earning per share as published in the annual reports

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Based on the table above, we noted that the P/E ratios of the Comparables Companies, based on the closing price of the date of the Announcement, represented a range from approximately 8.3 times and 51.5 times with a mean of approximately 20.3 times. Accordingly, the P/E Ratio of the Acquisition of approximately 8.5 times is significantly lower than the average P/E ratio of the Comparables Companies, and fall within the lowest range P/E ratio of the Comparables Companies. Taken into consideration of (i) the above analysis; (ii) the promising industry prospects of the Parallel Imported Cars business as stated in the paragraph headed “Reasons for the Acquisition” above; (iii) the increase in sales and profit of the Target Group from 2014 to 2015; (iv) the P/E ratio is fixed at 8.5 times regardless the possible potential increase in valuation of the Target Group; and (v) the respective tranches of the Consideration Shares will only be allotted and issued to the Vendor if and when the Target Audited Net Profit for the two financial years ending 31 December 2016 and 2017 can be achieved by the Target Group in accordance with the terms of the Acquisition Agreement, we are of the view that the pricing of the Consideration is fair and reasonable so far as the Company and the Shareholders are concerned and is in the interests of the Company and Shareholders as a whole.

Selection of Valuation Multiples

In our assessment of the valuation of the Target Group, we have considered various commonly used valuation multiples, including (i) price to net book value (“P/B”); (ii) price to sales (“P/S”); (iii) price to earnings (“P/E”). Based on the nature of the subject business, we consider that P/E method is the most appropriate in this valuation assessment and therefore have been adopted. The multiples selection assessments are as follows:

P/S multiple ignores the cost structure of a company and hence the profitability of a company, which is critical in reflecting the market value of the equity interests. Such multiple was not suitable in our assessment as the Target Group is still in the early stage of development and its sales volume in the coming years are expected to grow in a substantial percentage as forecasted by the management of the Target Group.

P/B multiple is usually adopted in the valuation of asset-intensive companies. However, given that the Target Group’s trading business nature which made it assets light, the P/B ratio is not application to this valuation assessment.

P/E multiple indicates the future profitability of the assessment subject. Since the Target Company is at its growing stage and started generating profits in the last financial year, we are of the view that the P/E multiple is the most relevant and therefore has been adopted in our valuation assessment. Despite the recent decrease in revenue and number of car sold in Target Group, we are of the view that the Target Group is still in the growing stage as indicated by the forecast sales and net profit. The drop in those parameters are just due to the change in the Target Group’s business strategies on obtaining more gross margin on its individual customers, instead of distributors that generate lower margin for the business.

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Effect on the Shareholding Structure

The following table sets out the effect of the issue of the Consideration Shares on the shareholding structure of the Company based on the issued share capital and shareholding structure of the Company as at the Latest Practicable Date and assuming Completion having taken place, without taking into account the issue of any other new Shares, if any, after the date of the Acquisition Agreement and prior to the allotment and issue of the Tranche C Consideration Shares and on the assumptions as set forth in the paragraph headed “Consideration” above:

	As at the Latest Practicable Date		Immediately upon the allotment and issue of the Tranche A Consideration Shares		Immediately upon the allotment and issue of the Tranche A Consideration Shares and Tranche B Consideration Shares		Immediately upon the allotment and issue of all the Consideration Shares (disregarding maintenance of minimum public float requirement as provided in the Supplemental Acquisition Agreement) (Note 2)		Immediately upon the allotment and issue of all the Consideration Shares (on the assumption that a whitewash waiver has been obtained pursuant to the Takeovers Code and taking into account maintenance of minimum public float requirement as provided in the Supplemental Acquisition Agreement) (Note 3)		Immediately upon the allotment and issue of all the Consideration Shares (on the assumption that a whitewash waiver has not been obtained pursuant to the Takeovers Code and taking into account maintenance of minimum public float requirement as provided in the Supplemental Acquisition Agreement) (Note 3)	
	Number of Shares	Approximately %	Number of Shares	Approximately %	Number of Shares	Approximately %	Number of Shares	Approximately %	Number of Shares	Approximately %	Number of Shares	Approximately %
Mr. Li Lixin and his associates (Note 1)	2,843,631,680	62.07%	2,843,631,680	50.78%	2,843,631,680	48.03%	2,843,631,680	35.39%	2,843,631,680	35.39%	2,843,631,680	43.45%
The Vendor	-	-	1,018,270,089	18.18%	1,338,836,599	22.61%	3,454,575,561	42.99%	3,183,523,942	39.61%	1,962,382,718	29.99%
Public Shareholders	1,738,000,255	37.93%	1,738,000,255	31.04%	1,738,000,255	29.36%	1,738,000,255	21.63%	2,009,051,874	25.00%	1,738,000,255	26.56%
	<u>4,581,631,935</u>	<u>100%</u>	<u>5,599,902,024</u>	<u>100%</u>	<u>5,920,468,534</u>	<u>100%</u>	<u>8,036,207,496</u>	<u>100%</u>	<u>8,036,207,496</u>	<u>100%</u>	<u>6,544,014,653</u>	<u>100%</u>

Note 1: Mr. Li Lixin’s interests in 2,843,631,680 Shares is held as to 9,822,000 Shares personally, 19,258,000 Shares through his spouse Ms. Jin Yaer, 1,332,139,014 Shares through Big-Max Manufacturing Co., Limited and 1,482,412,666 Shares through Shi Hui Holdings Limited, which is wholly-owned by Big-Max Manufacturing Co., Limited. The issued share capital of Big-Max Manufacturing Co., Limited is beneficially owned as to 90% by Mr. Li Lixin and as to 10% by his spouse, Ms. Jin Yaer.

Note 2: For illustrative purposes only, the amount of Tranche C Consideration Shares was determined with reference to the Illustrative Exchange Rate on the assumption that the actual audited after-tax net profit of the Target Group for the financial year ending 31 December 2017 exceeds RMB96,000,000.

Note 3: As there exists relevant provision in the Supplemental Acquisition Agreement (please refer to the paragraph headed “Maintenance of minimum public float requirement” above), the Vendor is obligated to dispose of its relevant shareholding prior to the allotment and issue of Tranche C Consideration Shares in the event that such allotment and issue of Tranche C Consideration Shares may result in the public float of the Company falling below 25%. Further, the Company is also not obligated to allot and issue the Tranche C Consideration Shares if the General Offer Obligation will be triggered upon the allotment and issue of the Tranche C Consideration Shares, or the Vendor fails to obtain a whitewash waiver from the Executive waiving the General Offer Obligation pursuant the Note 1 on Dispensations from Rule 26 of the Takeovers Code.

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As demonstrated in the table above, upon the completion of the Acquisition, the shareholding interest of the existing public Shareholders will be dilution from approximately 37.93% to approximately 25.00% for illustrative purpose. However, having taken into account (i) the reasons of the Acquisition Agreement, including but not limited to the terms of the Acquisition Agreement, are fair and reasonable so far as the Shareholders are concerned; and (ii) that the issue of Consideration Shares allow the Group to pursue the Acquisition without any cash outlay, we consider the potential dilution on the shareholdings of the existing public Shareholders upon Completion to be acceptable in this regard.

Maintenance of minimum public float requirement

We have reviewed the Supplemental Acquisition Agreement in regard to the details of the mechanism, in the event that the Company fails to meet the minimum public float requirement under Rule 8.08 of the Listing Rules as a result of the allotment and issue of Tranche C Consideration Shares to the Vendor, in relation to the number of Tranche C Consideration Shares to be allotted and issued to the Vendor which exceeds the minimum public float requirement, the Vendor is obligated to dispose of its corresponding shareholding prior to the relevant Tranche C Consideration Shares is being allotted and issued to the Vendor. As discussed with the Company, the Vendor (if necessary) will take appropriate steps, including but not limited to, entering into placing agreement(s) with placing agent(s) to place down a portion of the Consideration Shares, to ensure the minimum public float requirement of 25% for the Company is maintained at all times. In addition, as stated in the Letter from the Board, the Company will only allot and issue the Tranche C Consideration Shares if the General Offer Obligation (assuming that a whitewash waiver from the Executive waiving the General Offer Obligation pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code has not been obtained) is not triggered, and the percentage of the public float of the Company does not fall below 25%.

Having considered that the Company will take appropriate steps to maintain the minimum public float of 25% at all times. We are of the view that the above mechanism is effective to maintain the minimum public flat requirement under Rule 8.08 of the Listing Rules.

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Financial effect of the Acquisition

(a) *Net Profit*

Upon Completion, the Target Company will become a direct wholly-owned subsidiary of the Company and the profit and loss of the Target Group will be consolidated to the Group. As the Vendor has undertaken to the Company that the Target Audited Net Profit for the financial years ending 31 December 2016 and 31 December 2017 shall not lower than RMB30 million and RMB80 million respectively, otherwise the Group is not obligated to issue the subsequent Consideration Shares, we expect that there will have no overall negative financial impacts on the profitability of the Group upon Completion.

(b) *Net assets value*

As stated in Accountants' report of the Target Group in Appendix II of this Circular, the net assets value of the Target Group was approximately RMB32.1 million as at 31 March 2016. As the financial results of the Target Group will be consolidated into that of the Group and the Consideration will be settled by Consideration Shares with no cash outflow, we are of the view that the Acquisition will enhance the net assets value of the Group.

(c) *Working Capital*

As the Acquisition will be fully satisfied by the Consideration Shares and hence there will be no material negative impact on the working capital of the Group in this regard. As stated in Accountants' report of the Target Group in Appendix II of this Circular, the net current assets value of the Target Group was approximately RMB31.9 million as at 31 March 2016, given the net current assets will be consolidated into the Group's balance sheet upon completion of the Acquisition, we are of the view that the Acquisition will improve the liquidity position of the Group.

As at 31 March 2016, trade and other payables of the Target Group amounted to RMB201.69 million, among which RMB100 million was consideration payable for the acquisition of 100% equity interest in the OPCo by World Vast as part of the Reorganization. Such consideration payable is outside of the ordinary course of business of the Target and is not recurring in nature. It is expected that the amount will be settled by Ms. Cheng Weihong by way of capital investment in World Vast in her capacity as the ultimate controlling shareholder before the Completion.

We have reviewed the working capital requirements of the Target Group for the two years ending 31 December 2017 and discussed with the Directors the relevant basis and assumptions regarding to the working capital forecast in which we concur. We noted that the working capital requirements of the Target Group for the two years ending 31 December 2017 are satisfied by cash flow generated by operations and the indicated banking facilities provided by the two commercial banks in the PRC amounting to RMB100,000,000 and RMB200,000,000, respectively for the year ending 31 December 2016 and 2017. We have reviewed the signed cooperative strategic agreements entered into by the OPCo and the two commercial banks, the strategic agreements

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stated the amount of banking facilities offered by the two commercial banks in 2016 and 2017 respectively, which is non-legal binding. In nature. From our observation in the working capital for the year ended 31 December 2015, the Target Group has net operating outflow from operation but for the two years ending 31 December 2017, cash flow from operation will become positive. The Target Group maintains positive cash balance for the year ended 31 December 2015 and two years ending 31 December 2017.

Therefore, taken above into consideration, we are of the view that the Target Group is able to satisfy its working capital requirements for the two years ending 31 December 2017.

Based on the foregoing, we are of the view that the financial effects of the Acquisition are favourable to the Group and accordingly we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

(2) PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO THE POSSIBLE CONTINUING CONNECTED TRANSACTION

Reasons for the Strategic Cooperative Agreement and Continuing Connected Transactions

Binhai Car City is a company established in the PRC and is one of the largest platform companies engaged in the Parallel Import of cars in the TJFTZ. It is expected that Binhai Car City will be able to provide efficient and reliable services for the Target Group in securing stable supply from overseas car dealers and quality port services.

The entering into of the Strategic Cooperative Agreement ensures that the Target Group would be able to have the flexibility to secure the supply of Parallel Imported Cars from Binhai Car City, a reliable quality supplier, in particular when the demand for Parallel Imported Cars is expected to increase significantly for the three years ending 31 December 2018.

The Target Group has been purchasing Parallel Imported Cars from a number of readily available suppliers and will not be committed to purchase any Parallel Imported Cars from Binhai Car City under the Strategic Cooperative Agreement. If any purchase are transacted pursuant to the Strategic Cooperative Agreement, all such purchase transactions must be on normal commercial terms and at a price that is not higher than the price offered by other suppliers in the market at the time of the transaction. The Strategic Cooperative Agreement will therefore give the Target Group the flexibility to purchase Parallel Imported Cars from Binhai Car City if it so wishes at competitive market prices.

The Directors consider that the terms of the Strategic Cooperative Agreement are fair and reasonable and the entering into of the Strategic Cooperative Agreement is in the interest of the Company and the Independent Shareholders as a whole. In particular, the settlement terms pursuant to the Strategic Cooperative Agreement are generally consistent with those settlement terms offered by other suppliers which are independent third parties.

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As stated in the section headed “Parallel Imported Cars in the PRC” in Appendix III -Management discussion and analysis on the Target Group of the Circular, The principal regulation governing Parallel Import of cars in TJFTZ is the Pilot Implementation Plan for Parallel Import of Cars in TJFTZ (《中國（天津）自由貿易試驗區開展平行進口汽車試點實施方案》) (the “**Pilot Implementation Plan**”). It was jointly promulgated by Tianjin Commission of Commerce (天津市商務委員會), Tianjin Market and Quality Supervision Administration (天津市市場和質量監督管理委員會), the People’s Government of Tianjin Binhai New Area (天津市濱海新區人民政府), Tianjin Customs (天津海關) and Tianjin Entry- Exit Inspection and Quarantine Bureau (天津出入境檢驗檢疫局) on 27 May 2015 and became effective on the same day. Pursuant to the Pilot Implementation Plan, Tianjin Municipality shall launch Parallel Import of cars in the TJFTZ on a pilot basis. Before the promulgation of the Pilot Implementation Plan, there were no specific laws, regulators or any other legal documents that regulates Parallel Import of cars business in the PRC.

According to the scale and business method of the entities, the pilot objects, which are companies engaging in Parallel Import of cars in TJFTZ, have been divided into Pilot Platforms and Pilot Enterprises. The conditions of the Pilot Platforms are as follows: (1) the registered capital of the enterprise shall be no less than RMB50 million; and its or its investor’s automobile sales average revenue per year of the past two years shall be no less than RMB500 million; and the enterprise’s fixed assets shall be no less than RMB 400 million; and the enterprise shall have an area more than 30,000 square meters in Tianjin Municipality for the sales, exhibition and storage of Parallel Import cars. (2) the enterprise or its investor shall have a sound domestic sales, maintenance and services system. Its maintenance, services, and parts and components supply system shall have the capacity to serve for the member enterprises of the Pilot Platform. (3) the enterprise shall be in good standings, and have no misconduct records in its competent authorities, including but not limited to market and quality administration, inspection and quarantine, customs and audit etc. (4) the registration place of the enterprise shall be within TJFTZ. (5) the enterprise shall make the relevant application. The conditions of the Pilot Enterprises are as follows: (1) The registered capital of the enterprise shall be no less than RMB20 million; and its or its investor’s automobile sales revenue of the past fiscal year shall be no less than RMB200 million; and the enterprise shall have relevant fixed assets and established risk protection mechanism suitable for its business scale. (2) The enterprise shall have maintenance, services, and parts and components supply system suitable for its business scale. An enterprise that is unable to satisfy this condition may rely on Pilot Platforms to provide appropriate services, and may participate in this pilot initiative after satisfying this condition. (3) The enterprise shall be in good standings, and have no misconduct records in its competent authorities, including but not limited to market and quality administration, inspection and quarantine, customs and audit etc. (4) The registration place of the enterprise shall be within TJFTZ. (5) The enterprise shall make the relevant application. The main difference between Pilot Platforms and Pilot Enterprises is that Pilot Platforms may serve as a platform to provide Parallel Import of cars related services to companies that are members of Pilot Platforms but not Pilot Enterprises, as the Pilot Implementation Plan has stipulated that the obligation of Pilot Platforms includes but not limited to (1) develop qualified member enterprises that conduct cars import and sales business; regulate and supervise the operation of the member enterprises; (2) process the product certification and the application of the automatic import certification in a uniform matter in accordance with the purchase and sales plan submitted by the member enterprises. According to the Strategic Cooperative Agreement, having consider that (i) OPCo is a member of Binhai Car City and is protected by Binhai Car City for any responsibilities in relation to faulty Parallel Imported Cars and after-sales services as Binhai Car City will be the subject for any recourse from customers; as such, the OPCo is considered to have relevant risk protection mechanism in place; (ii) the OPCo may rely on Binhai Car City to provide services including maintenance, parts and components supply to its customers.

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We have reviewed the requirement of the membership program of Binhai Car City, we note that as being a qualified member of Binhai Car City, (i) the company should have registered capital of no less than RMB20 million; (ii) enter into a strategic cooperative agreement with Binhai Car City; and (iii) credit deposit is required; the terms of the strategic cooperative agreement should be agreed by both parties. Since the certain terms of the strategic cooperative agreement are confidential, the roles and responsibilities, amount of credit deposit, as well as the validity period would not be disclosed.

As advised by the management of the Company, the enterprise or its investor shall have a sound domestic sales, maintenance and services system. Its maintenance, services, and parts and components supply system shall have the capacity to serve for the member enterprises of the Pilot Platform is one of the admittance conditions of the Pilot Platforms. We note that according to the Strategic Cooperative Agreement date 2 June 2016, OPCo, in its capacity as a member of Binhai Car City, is protected by the Binhai Car City for any responsibilities in relation to repair, replacement or refund of faulty Parallel Imported Cars and after-sales services as Binhai Car City will be the subject for any recourse from the customers as contemplated by the Pilot Implementation Plan. Given that the Binhai Car City is a qualified member enterprise of a Pilot Platform, provision of maintenance services, and parts and components supply system is one of the admittance conditions of the Pilot Platforms. Thus, we are of the view that Binhai Car City in fact has the relevant services in its current business.

Since the promulgation of the Pilot Implementation Plan, there has been one batch of Pilot Platforms and Pilot Enterprises announced in October 2015, which includes 5 Pilot Platforms, including Binhai Car City, Tianjin Bohai Car Supply, Tianjin Tianyuan Weiye International Trade Co., Ltd. (天津天元偉業國際貿易有限公司), Tianjin Konggang International Car Development Co., Ltd. (天津空港國際汽車園發展有限公司) and Tianjin Haowu Junchi International Trade Co., Ltd. (天津浩物駿馳國際貿易有限公司), and 30 Pilot Enterprises. Those Pilot Platforms and Pilot Enterprises are granted with licences and there is no validity period of being a Pilot Platform or Pilot Enterprise currently. The application of the list of second batch of Pilot Platforms and Pilot Enterprises is initiated in September 2016. The OPCo has made the application to obtain the status of Pilot Enterprise accordingly. The cutoff date of the application of the first batch of Pilot Platforms and Pilot Enterprises was 18 June 2015, and the first batch of Pilot Platforms and Pilot Enterprises was announced in October 2015. In view of the examination and approval time of the first batch of Pilot Platforms and Pilot Enterprises, OPCo is expected to obtain the status of Pilot Enterprise around January 2017.

OPCo is engaged in the business of Parallel Import of cars and is not in the list of first batch of Pilot Platforms and Pilot Enterprises. The Company's PRC legal adviser of the Company has interviewed with the director of Department of Mechanic Electronic and Hi-Tech Industry (機電科技產業處) of Tianjin Commission of Commerce, and has been informed that (1) provided that the enterprise has entered into cooperation contract with Pilot Platform and has become a member enterprise of the Pilot Platform, the enterprise may engage in the business of Parallel Import of cars. There is no specific requirement with regard to the content of the cooperation contract. The Pilot Platforms may decide the standard of member enterprises and the terms of the cooperation contract on their own. (2) Apart from the above, there is no other government permits or approvals required to conduct Parallel Import of cars business in the TJFTZ. (3) Although OPCo is not in the

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list of first batch of Pilot Platforms and Pilot Enterprises, its engagement in the business of Parallel Import of cars does not violate the Pilot Implementation Plan and other related laws, regulations and other legal documents. (4) As there were no specific laws, regulations or any other legal documents that regulates Parallel Import of cars business in the PRC before the promulgation of the Pilot Implementation Plan, the Parallel Import of cars was regulated by market force, from the perspective of the Tianjin Commission of Commerce, OPCo's engagement in the business of Parallel Import of cars since December 2014 does not violate any related laws, regulations and other documents. OPCo has never been charged with received any penalty by Tianjin Commission of Commerce. The Company's PRC legal adviser, having considered (1) OPCo has entered into cooperation contract with Binhai Binhai Car City, which is in the list of first batch of Pilot Platforms, and has become a member enterprise of such pilot platform; (2) as stipulated in the Pilot Implementation Plan, Pilot Platforms have the obligation to develop qualified member enterprises that conduct cars import and sales business, and process the product certification and the application of the automatic import certification in a uniform matter in accordance with the purchase and sales plan submitted by the member enterprises; (3) OPCo has entered into a framework purchase agreement with Tianjia Bohai Car Supply; (4) it has interviewed with the relevant official/director of Tianjin Commission of Commerce and was advised that enterprises may conduct business of Parallel Import of cars provided that such enterprises have become a member enterprises of a Pilot Platform, and the OPCo's engagement in the business of Parallel Import of cars since December 2014 does not violate the Pilot Implementation Plan and other related laws, regulations and other legal documents; Company's PRC legal adviser is in the opinion that (i) Department of Mechanic Electronic and Hi-Tech Industry of Tianjin Commission of Commerce is the competent authority with regard to Parallel Import of cars in TJFTZ since Tianjin Commission of Commerce is one of the five governmental authorities within the Supervisory Group for Parallel Import of Cars in Tianjin (天津市汽車平行進口領導小組) as stipulated in the Pilot Implementation Plan, whose duties include overall supervision, management and coordination in relation to the conduct of Parallel Imports of cars in TJFTZ as well as development of pilot plans and the implementation thereof, and (ii) the operation of OPCo does not violate the Pilot Implementation Plan and other related laws, regulations and other legal documents. In order to assess the reason why the Company's PRC legal adviser has only interviewed with one director under a particular department of Tianjin Commission of Commerce. We have discussed with the Company's PRC legal adviser to obtain more information and had our own desktop research about the department of Tianjin Commission of Commerce, and we also make reference to (i) the first interview note on 16 August 2016; (ii) the questionnaire with replies from Tianjin Commission of Commerce dated 14 September 2016; (iii) confirmation by the Company's PRC legal adviser; and (iv) our own desktop research.

We noted that the Company's PRC legal adviser has only interviewed with one director under a particular department of Tianjin Commission of Commerce was mainly due to (i) Tianjin Commission of Commerce is the key authority that response to announce most of the Tianjin' policies included the Pilot Implementation Plan; and (ii) as confirmed by the Company's PRC legal adviser, the Tianjin Commission of Commerce is basically the leading department about the Pilot Implementation Plan after they discussed with the department director. After our desktop research, we found that most of the Pilot Implementation Plan news or policies or announcements about the Pilot Implementation Plan are mainly released by Tianjin Commission of Commerce. Also, after discussed with the Company's PRC legal adviser, we understood that the Tianjin Commission of

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Commerce is basically to response to formulate the policies in Tinjian City, so Tianjin Commission of Commerce is acting a leading role for the Pilot Implementation Plan. In the course of its preparation for the application for the status of Pilot Enterprises, the OPCo has engaged a PRC legal adviser to provide legal opinion as to whether there is any legal impediments for it to make such application. The OPCo's PRC legal adviser, based on its due diligence work performed (including but not limited to) (i) inspected the application materials for Pilot Enterprises which was submitted by the OPCo and compared with the admittance requirements under the Pilot Implementation Plan; (ii) obtained and reviewed the credit report issued by the Credit Reference Centre of the People's Bank of China in relation to OPCo's credit condition; (iii) researched on relevant information regarding administrative penalty, abnormal operations and significant violation of laws through the National Enterprise Credit Information Publicity System in order to inspect OPCo's record on administrative penalties and misconduct for industry and commerce, is of the view that the OPCo has satisfied the requirements stipulated under the Pilot Implementation Plan with basis as set out in below table, and is of the view that there will be no material legal impediment for the OPCo to become a Pilot Enterprise.

Any investments conducted by the foreign investors and foreign enterprises in the PRC shall be subject to the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) (the "Guidance Catalogue"), the latest version of which was promulgated by the Ministry of Commerce (商務部) and the National Development and Reform Commission (國家發展和改革委員會) on 10 March 2015 and came into effect since 10 April 2015. The Guidance Catalogue was divided into the Encouraged Foreign Investment Industries, the Restricted Foreign Investment Industries and the Prohibited Foreign Investment Industries. Industries which are not listed in the Guidance Catalogue shall be classified as the Permitted Foreign Investment Industries. As advised by the PRC legal advisor, the business activities engaged by OPCo are not listed in the Guidance Catalogue and will be in compliance with the PRC legal requirements on foreign investment industrial policies and requirements under the Guidance Catalogue upon Completion.

Therefore, we concur with the PRC legal adviser that OPCo' engagement in the business of Parallel Import of cars does not violate the Pilot Implementation Plan and other related laws, regulations and other legal documents.

We have discussed with the PRC legal adviser and the relevant questionnaire with replies from 天津市商務委員會, we note that (i) there no material legal impediment for the OPCo to become a pilot Enterprises as long as it satisfies the requirements under; (ii) OPCo has applied to be a Pilot Enterprise; (iii) the Target Group could conduct parallel import car business under Pilot Implementation Plan after entering into the strategic Cooperative Agreement with Binhai Car City and (iv) Binhai Car City is eligible to conduct parallel import car business once it has become a Pilot Platform under the Pilot Implementation Plan and once the license is granted, there is no expiry date of the license.

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The relevant replies from Xu Li Hua (徐立華), the Director of Department of Mechanic Electronic & Hi-Tech Industry and Director of Tianjin Import Office for Machinery and Electronic products Tianjin Commission of Commerce, dated 14 September 2016 in respect of the Pilot Implementation Plan are summarized below:

- As the Pilot Implementation Plan has stipulated that the obligation of Pilot Platforms includes but not limited to (1) develop qualified member enterprises that conduct cars import and sales business; regulate and supervise the operation of the member enterprises; (2) process the product certification and the application of the automatic import certification in a uniform matter in accordance with the purchase and sales plan submitted by the member enterprises.
- As there were no specific laws, regulations or any other legal documents that regulates Parallel Import of cars business in the PRC before the promulgation of the Pilot Implementation Plan, the Parallel Import of cars was regulated by market force.
- (1) The registered capital of the enterprise shall be no less than RMB20 million; and its or its investor's automobile sales revenue of the past fiscal year shall be no less than RMB200 million; and the enterprise shall have relevant fixed assets and established risk protection mechanism suitable for its business scale. (2) The enterprise shall have maintenance, services, and parts and components supply system suitable for its business scale. An enterprise that is unable to satisfy this condition may rely on Pilot Platforms to provide appropriate services, and may participate in this pilot initiative after satisfying this condition. (3) The enterprise shall be in good standings, and have no misconduct records in its competent authorities, including but not limited to market and quality administration, inspection and quarantine, customs and audit etc. (4) The registration place of the enterprise shall be within TJFTZ. (5) The enterprise shall make the relevant application.
- OPCo's engagement in the business of Parallel Import of cars since December 2014 does not violate any related laws, regulations and other documents.
- Since the promulgation of the Pilot Implementation Plan, there has been one batch of Pilot Platforms and Pilot Enterprises. Those Pilot Platforms and Pilot Enterprises are granted with licences and there is no validity period of being a Pilot Platform or Pilot Enterprise currently.
- Except from the application conditions. The main difference between Pilot Platforms and Pilot Enterprises is that Pilot Platforms may serve as a platform to provide Parallel Import of cars related services to companies that are members of Pilot Platforms but not Pilot Enterprises, as the Pilot Implementation Plan has stipulated that the obligation of Pilot Platforms includes but not limited to (1) develop qualified member enterprises that conduct cars import and sales business; regulate and supervise the operation of the member enterprises; (2) process the product certification and the application of the automatic import certification in a uniform matter in accordance with the purchase and sales plan submitted by the member enterprises.

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OPCo has two purchasing models which are overseas purchase and local purchase. For the overseas purchase, OPCo needs to obtain the letter of credit from the bank to finance the purchase of the Parallel Import cars directly from the overseas manufacturer. For the local purchases, OPCo purchases Parallel Import cars from local suppliers of Parallel Import cars by making respective stage payments, in which it will settle the purchases after its customers have settled stage payments. The local suppliers does not require letter of credit from OPCo to warrant the remaining 80% of the purchase price as final payment upon completion of tax and port clearance of the relevant Parallel Imported Cars after 3 months. Binhai Car City, as one of the local suppliers of OPCo, has its own banking facilities to support its purchase of cars from its own supply source. Therefore, OPCo, while having its own banking facilities and funding to satisfy its operation needs, can also take advantage of the banking facilities of Binhai Car City to improve its working capital liquidity.

Having considered that (i) OPCo is a limited company registered in the PRC, possessing well-established business methods and connection with suppliers, purchase agents and customers with the sector of the Parallel Import of car in the PRC; (ii) Binhai Car City is one of the largest platform companies engaged in the Parallel Import of cars in the TJFTZ; (iii) OPCo is able to share the benefits enjoyed by Binhai Car City by entering into the Strategic Cooperate Agreement of being a member in the platform under the Pilot Implementation Plan; and (iv) the prospects of Parallel Import of cars business in Tianjin is promising as mentioned in the paragraph headed "Reasons for the Acquisition", we are of the view that the Continuing Connect Transaction are conducted in the ordinary and usual course of businesses of the Group upon Acquisition and are in the interests of the Company and Shareholders as a whole.

Principle terms of the Possible Continuing Connected Transaction

Pursuant to the Strategic Cooperative Agreement, Binhai Car City agreed to supply to the OPCo such Parallel Imported Cars as the OPCo may order from time to time, and procure the completion of all necessary procedures for the purpose of overseas procurement, including but not limited to, logistics and port clearance as well as tax filings to ensure that the sale of such Parallel Imported Cars to the OPCo satisfy all applicable laws, regulations and other conditions.

The amount of the order of the Parallel Imported Cars to be made by the OPCo will be determined with reference to (i) the amount of inventory in stock; and (ii) the amount of orders with the OPCo placed by its customers.

Further, in the event that any customer of the OPCo suffer any loss as a result of any purchase of Parallel Imported Cars from the OPCo which in turn cause any loss of Binhai Car City, the loss of which has been proven to be caused by reason of the OPCo, the OPCo shall within 15 days compensate Binhai Car City of such amount. In this regard, within 30 days upon the entering of the Strategic Cooperative Agreement, the OPCo shall provide a sum of RMB50,000,000 as guarantee amount.

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Terms

The Strategic Cooperative Agreement has a fixed term of three years commenced from 1 January 2016 and ending on 31 December 2018. The OPCo has a right to terminate the Strategic Cooperative Agreement by giving 30 days prior written notice to Binhai Car City.

Pricing Policy

The purchase prices of the Parallel Imported Cars payable by the OPCo to Binhai Car City will be determined with reference to the prevailing market prices of similar products available on the market, and on terms no less favourable to the terms other independent third parties may offer to the OPCo. On the assumption that all conditions being equal, if the purchase price offered by other independent third parties to the OPCo is lower than the purchase price offered by Binhai Car City to the OPCo, Binhai Car City shall reduce the purchase price to the level in line with the lowest price in the market as other independent third parties may offer.

In the event there are suppliers which supply cars of the same brand and quality, OPCo may ask for a price quote from such suppliers. The transaction between OPCo and Binhai Car City shall be effective upon confirmation by OPCo that the purchase price offered to OPCo by Binhai Car City does not exceed that offered by other suppliers.

In the event no suppliers supply cars of the same brand and quality (i.e. Binhai Car City being the exclusive supplier), Binhai Car City shall provide OPCo with a record of the purchase prices offered by Binhai Car City to other customers during a period of 30 days prior to the date of the proposed transaction. The transaction between OPCo and Binhai Car City shall be effective upon confirmation by OPCo that the purchase price offered to OPCo does not exceed the purchase prices offered to other customers.

Settlement term

For Parallel Imported Cars to be purchased with reference to the OPCo's inventory level, 20% or the full amount of the purchase price will be payable by the OPCo in cash when an order is placed within 3 days upon a change of inventory in stock and the remaining balance of the purchase price will be payable by the OPCo upon completion of tax and port clearance of the relevant Parallel Imported Cars after three months.

For Parallel Imported Cars to be purchased with reference to the amount of orders placed with the OPCo by its customers, 20% or the full amount of the purchase price will be payable by the OPCo in cash when the OPCo receives the deposit sum from its customers and places an order with Binhai Car City and the remaining balance of the purchase price will be payable by the OPCo upon completion of tax and port clearance of the relevant Parallel Imported Cars after 3 months.

In the event that there is late payment of the purchase price by OPCo, OPCo will be required to pay Binhai Car City damages amounting to 0.5% of the total amount payable calculated on a daily basis.

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Termination

Either party to the Strategic Cooperative Agreement can terminate the Strategic Cooperative Agreement only on the following grounds:

- (1) expiry of the term of cooperation and the parties thereto decide not to extend the same; or
- (2) termination of the agreement by the non-breaching party when the other party to the agreement is in default; or
- (3) declaration of bankruptcy or the commencement of liquidation or dissolution proceedings by either party; or
- (4) where a force majeure has lasted for over 30 days, either party may terminate the Strategic Cooperative Agreement by giving a notice in writing for such termination.

The OPCo has the right to terminate the Strategic Cooperative Agreement by serving written notice to Binhai Car City at least 30 days in advance. Binhai Car City does not have the right to unilaterally terminate the Strategic Cooperative Agreement.

The parties further entered into a Supplemental Strategic Cooperative Agreement on 29 September 2016, pursuant to which the OPCo is given the unilateral right to renew the Strategic Cooperative Agreement for another term of 3 years, subject to the compliance of all relevant requirements of the Listing Rules and other applicable law and regulations.

We are of the view that the termination clauses are fair and reasonable and OPCo has the advantage of unilaterally terminating the Strategic Agreement in which it is in the interests of the Shareholders and Company as a whole.

We have reviewed six samples of sales confirmation of the transactions (i) entered into between OPCo and Binhai Car City and (ii) entered into between OPCo and Independent Third Parties in 2015 and 2016 and note that the product pricing terms offered by Binhai Car City to OPCo are more favourable to those offered by Independent Third Parties and the settlement terms offered by Binhai Car City to OPCo are the same as those offered by Independent Third Parties.

Taken into consideration of above analysis, we are of the view that the terms of the Cooperative Strategic Agreement is fair and reasonable and the entering into of the Cooperative Strategic Agreement is in the ordinary and usual course of business of the Group upon the completion of the Acquisition and is in the interests of the Company and the Shareholders as a whole.

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Internal Control

Upon Completion, in order to ensure that the transactions contemplated under the Strategic Cooperative Agreement are conducted on normal commercial terms or better and in accordance with the pricing policy of the Group and will not be prejudicial to the interests of the Company and its Shareholders as a whole, the Group will adopt the following measures:

- Procurement personnel of the OPCo will obtain/retrieve and properly document, as the case may be, (i) at least two price quotes/invoices of transacted purchases from other independent suppliers within 30 days prior to or after the date receiving price quote from Binhai Car City for Parallel Imported Cars of comparable brands and quality; or (ii) at least two records of price quotes offered by Binhai Car City to other customers during a period of 30 days prior to the date of the proposed transaction in the event that the concerned Parallel Imported Cars are only available from Binhai Car City.
- The head of procurement department of the OPCo will make reference to above-mentioned price research and ascertain the purchase price offered by Binhai Car City does not exceed, as the case may be, (i) that offered to OPCo by other independent suppliers; or (ii) that offered by Binhai Car City to its other customers, prior to entering into each individual purchase contract.
- The finance department of the Group will conduct a monthly review on whether the OPCo has sufficient unused annual cap amounts for carrying out Continuing Connected Transaction during the year. If it is anticipated that the annual cap may be exceeded, the Group would take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules before continuing to carry out the Continuing Connected Transaction.

Having reviewed the above internal control policies, we are of the view that they are adequate to ensure the Continuing Connected Transactions are done on fair and reasonable basis as the number of samples are adequate for the procurement department to determine which suppliers to go for with the validity period of 30 days, which is considered to be recent information. Also, the approval by the head of procurement department would ensure transactions are entered into fair and reasonable basis with Binhai Car City.

Proposed appointment of Executive Director

For the purpose of fulfillment of one of the conditions of the Acquisition Agreement, an ordinary resolution will be proposed at the SGM to consider and approve the appointment of Mr. Tong Xin, being a personnel nominated by the Vendor, as an executive Director.

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As stated in the Letter from the Board, Mr. Tong possesses a wealth of work experience and an extensive business network in the area of Parallel Import of cars in Tianjin. He has good, effective channels for communicating with the government on affairs relating to the business of Parallel Import of cars. His strategic vision enables him to navigate the OPCo's business to devise business development directions and model in compliance with the government's guidance. Also, having acted as the investment and corporate planning director and the representative for securities affairs of Tianjin Binhai Teda Logistics (Group) Corporation Limited, he possesses extensive business experience and global vision in international trade and financial and logistics services.

Mr. Tong can establish good government-enterprise relations and communication channels with the competent authorities of the Chinese government in relation to the business of Parallel Import of cars through assuming his position with the Company. He can offer numerous strategic framework designs and business model designs for the business of Parallel Import of cars and offer strong support to the business by leveraging on his relevant experience in international trade and international financial and logistics services, thereby creating sound benefits for the Company.

Given Mr. Tong extensive experience and network in the Parallel Import of cars in Tianjin, we are of the view that the joining of Mr. Tong into the Board of Directors of the Company would facilitate the Company to manage the Target Group's business.

Annual Caps

It is proposed that the cap amounts of the Continuing Connected Transaction for each of the three financial years ending 31 December 2018 will not exceed the following:

For the year ending 31 December	Annual Cap (RMB' million)
2016	390
2017	1,000
2018	900

The annual cap amounts of the Continuing Connected Transaction under the Strategic Cooperative Agreement are determined with reference to (i) the historical transaction amount for the year ended 31 December 2015, which was approximately RMB259.3 million; (ii) the open market prices and the anticipated increases in business demand as stated in the Business Plan in which we have reviewed and found that the basis and assumptions are fair and reasonable; and (iii) the reducing proportion of purchases to be made with connected persons for the three years ending 2018, in relation to the increase in forecasted sales of the Target Group from 2016 to 2018.

The historical transaction amount of the Continuing Connected Transaction for the year ended 31 December 2015 and the three months ended 31 March 2016 was RMB259,346,000 and RMB89,225,000 respectively.

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As stated in the Letter from the Board, the cap amount for the Continuing Connected Transaction of RMB390 million for the year 2016 was derived based on the expected growth in business scale and sales capacity of the Target Group in 2016 as compared to that of 2015 with reference to the Business Plan prepared by the directors of the Target Group. Besides, in arriving at the 2016 annual cap amount, the Directors also took into account that (i) business of Parallel Import of cars is not cyclical in nature and (ii) the historical amount of the Continuing Connected Transaction for the three months ended 31 March 2016 was RMB89,225,000 and therefore the pro-rata full year amount is estimated to be approximately RMB360 million for the year 2016.

Further, we have reviewed the signed confirmation collected by the Target Group from its major customers regarding their respective intended purchases, the Directors expect that there will be a rise in demand for Parallel Imported Cars in 2017. Assuming there will be no significant change in the purchase intention of the major customers, forecasted revenue of the Target Group is expected to surge by approximately 200% for the year ending 31 December 2017 which is supported by non-legally binding confirmation signed by OPCo's customers on their respective purchases. We noted that there were 28 customers who have submitted their purchase indications to OPCo for 2016 and 2017. As confirmed by the Directors, all customers are unrelated to the Target Group and nature of the customers including but not limited to corporate clients who are car sellers in different region of the PRC. The purchase indications include the car brand, model and quantity that the customers intending to purchase from OPCo for 2016 and 2017.

The cap amount for the year ending 31 December 2017 was arrived at after taking into account (i) an expected significant increase in sales level of the Target Group in 2017 and (ii) a decrease in the proportion of total purchase to be made from Binhai Car City by the Target Group.

Notwithstanding the fact that the annual cap increased significantly from 2016 to 2017, the purchases of parallel imported cars contemplated under the Strategic Cooperative Agreement are expected to only constitute 48% in 2016, 41% in 2017 and 34% in 2018 of the total purchases of parallel imported cars by the OPCo. This shows a descending trend in OPCo's reliance on purchasing parallel imported cars from Binhai Car City. The Directors confirmed that the aforesaid percentages are based on the assumption that the OPCo will obtain the status of Pilot Enterprise during January 2017, whereby allowing it to purchase for Parallel Imported Cars directly from overseas suppliers. The expected purchase of Parallel Imported Cars directly by OPCo from overseas suppliers will be accounted for approximately 16.7% and 23.9% of its total purchase during the year ending 31 December 2017 and 2018. In the event that the OPCo is not able to obtain the Pilot Enterprise status in January 2017, the Directors expected that the percentage of its total purchase from Binhai Car City will not be changed materially due to the following reasons:

- (a) the OPCo has already signed a framework purchase agreement with another Pilot Platform, Tianjin Bohai Car Supply on 13 September 2016, which will enable the OPCo to purchase Parallel Imported Cars from overseas through another channel and therefore to reduce purchase of Parallel Imported Cars from Binhai Car City going forward;

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- (b) the OPCo's management has maintained good business relationship with the other three existing Pilot Platforms in the TJFTZ. Apart from purchasing from Binhai Car City and Tianjin Bohai Car Supply, the Directors and the OPCo's management are optimistic to form business partnerships with the other Pilot Platforms in the TJFTZ, by which the OPCo could have alternatives for arranging overseas purchase of Parallel Imported Cars going forward; and
- (c) On 7 September 2016, the Commission of Commerce of Tianjin Binhai New Area has published the Notice of the Application of Pilots (Second Batch) for Parallel Import of Cars in TJFTZ (《關於申報中國(天津)自由貿易試驗區(第二批)平行進口汽車試點的通知》) (the "Notice"). According to the Notice, the cutoff date of the application of the second batch of Pilot Platforms and Pilot Enterprises is 16 September 2016. Based on the above, the Directors and the OPCo's management expected that the number of Pilot Platforms in the TJFTZ will be increased from January 2017 onwards, and therefore the OPCo will be able to reduce the purchase of Parallel Imported Cars from Binhai Car City going forward.

According to the Business Plan provided by the Vendor in relation to the Target Group, the proportional of the purchases from Binhai Car City compared to the total purchases of the OPCo for the three years ending 31 December 2018 are approximately 48%, 42% and 34%, which is on a decreasing trend. The Annual Caps are determined based on the estimated revenue for the coming years of the Target Group, around 80.1% and 74.6% of the estimated revenue for the year ending 31 December 2016 and 2017 were supported by signed confirmation from its customers on their respective intended purchases. Also, management of the Target Group has taken into consideration the availability of the credit facilities obtained by OPCo and the inventory storage capacity in the warehouse. Details of the assumptions in defining the Target Audited Net Profit for 2016 and 2017 and as follows:

- (i) the directors of the Target Group have prepared a business plan for the year ending 31 December 2016 and 2017 (the "**Business Plan**"), in which the accounting policies adopted are consistent with those used in the Accountants' Report of the Target Group as set out in Appendix II of the Circular;
- (ii) the Directors are of the view that the Business Plan has been prepared after due and careful enquiry based on their discussion with the management of the Target Group in relation to the reasonableness of the major basis and assumptions adopted in the Business Plan as below:
 - (1) There will be no material changes in the law or legislation or regulations or rules in the PRC or other countries where the Target Group and its suppliers operate, which will adversely affect the business of the Target Group during the year ending 31 December 2016 and 2017.
 - (2) There will be no material changes in the bases or applicable tax rates in relation to the business of the Target Group during the year ending 31 December 2016 and 2017.

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- (3) There will be no material changes in the interest rates, exchange rates and inflation rates in the PRC or other countries where the Target Group and its suppliers operate during the year ending 31 December 2016 and 2017.
 - (4) The Target Group's business and operation will not be severely interrupted by any unforeseeable factors or unforeseen reasons that are beyond the control of the Target Group, including but not limited to the occurrence of natural disasters, catastrophes (such as flood or typhoons), serious accidents and labour disputes during the year ending 31 December 2016 and 2017.
 - (5) There will be no material change in the business environment/industry outlook in relation to the Target Group's principal business activity during the year ending 31 December 2016 and 2017.
- (iii) for substantiating the estimated revenue in the Business Plan, the Directors noted that around 80.1% and 74.6% of the estimated revenue for the year ending 31 December 2016 and 2017 were supported by non-legally binding confirmation signed by OPCo's customers on their respective intended purchases. In this connection, the Directors have obtained the aforementioned signed confirmations and selected three samples on a random basis for each of the years ending 31 December 2016 and 2017 and conducted phone interviews with the respective customers to validate that (1) they are all independent third parties to the Target Group; (2) the signed confirmation reflected their purchase intention including the quantity, model and price of the Parallel Imported Cars as of the date of confirmation; and (3) as of the date of the phone interview, there had been no material change in their intended purchases as indicated in the signed confirmation;
- (iv) the management of the OPCo has issued a pricing policy which specifies the benchmark gross profit margins required to be attained by the sales personnel for different types of transactions. The directors of the Target Group have estimated the gross profit of the Target Group for the years ending 31 December 2016 and 2017 based on such pricing policy;
- (v) the directors of the OPCo have estimated the sales expenses and administrative expenses of the Target Group for the years ending 31 December 2016 and 2017 based on (1) the relevant historical financial information for the year ended 31 December 2015; (2) the expected fluctuation of the relevant expenses to render the expected business growth; and (3) the budgeted headcount of sales staff and administrative staff and their respective average remunerations;
- (vi) the directors of the OPCo have estimated the finance costs of the Target Group for the years ending 31 December 2016 and 2017 based on the forecasted amount of banking facilities to be obtained and the maximum utilization rate set by the board of directors of the OPCo;

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- (vii) the directors of the OPCo have estimated the income tax of the Target Group for the years ending 31 December 2016 and 2017 with reference to the effective income tax rate of the Target Group for the year ended 31 December 2015 and adjusted for items that are not expected to be incurred during the years ending 31 December 2016 and 2017;
- (viii) the Directors have discussed with the directors of the OPCo, performed a reasonableness test on the forecasted finance costs by reference to the latest benchmark one-year lending rate as published by the People's Bank of China, carried out sample phone interviews with independent third party customers of the Target Group and checked to the various relevant supporting documents regarding the basis and assumptions adopted by the board of directors of the OPCo. The Directors are of the view that, after taking into consideration of the estimated gross profit margin, sales expenses, administrative expenses and finance costs, the Target Audited Net Profit for the years ending 31 December 2016 and 2017 are fair and reasonable estimates.

We have discussed with the management of the Company on the basis and assumptions on formulating the Target Audited Net profit for 2016 and 2017. We noted that (i) the sales model of the Target Group are mainly based on customers' orders in which the Target Group will conduct sourcing of the Parallel Import Cars after receiving orders from its customers, and we also noted that the sales forecast of 2016 and 2017 are based on the indicated purchase by customers in which we are of the view it is fair estimation on sales as it covers 80.1% and 74.6% if the sales forecast in 2016 and 2017. Also, the Directors have conducted sample phone interviews with the customers to validate their order indications; (ii) the purchase price of different type of car models are based on the average historical prices from 1 January 2015 to 29 February 2016 adjusted by management estimation and experience, the gross profit margin ranged from 5.6 % to 6.1% which is similar to the historical gross margin of the Target Group; (iii) the forecast sales and administrative expenses are generally in line with the growth in sales taken into account of increase in staff hiring as a result of business expansion and wage inflation; (iv) the management fee is estimated based on the sales growth and there will be an increase on entertainment expenses as a result of the Target Group's expansion to its sales network to Xinjiang and Hunan; (v) the finance costs are estimated based on the required banking facilities to be utilized based on the business plan of the Target Group and (vi) the tax rate is reasonably determined based on the historical effective tax rate and the corporate tax rate. Taken above into consideration, we are of the view that the basis and assumption on formulating the Target Audited Net profit for 2016 and 2017 are fair and reasonable.

Base on the above analysis, (i) we are of the view that the assumptions made on the sales forecast and the purchase amount of OPCo from Binhai Car City are reasonable and factually supportable; (ii) it is fair and reasonable for the increase in Annual Caps from 2016 to 2017; and (iii) we concur with the Directors that they have taken into account the assumption of reduction in purchase from Binhai Car City in determining the Annual Caps for the two years ending 31 December 2018 given the substantial increase in business of the Target Group.

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Given that (i) the Annual Caps for each of the three years ending 31 December 2018 are on a decreasing trend implying reliance on Binhai Car City is lessened; (ii) the basis of determining the Annual Caps are based on management forecast with customers preference and (iii) the continuing connected transactions are conducted in normal commercial terms, we are of the view that the Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

CONCLUSION

Having taken into consideration of the following principal factors and reasons regarding the Acquisition and the Continuing Connected Transaction, including:

- a) the satisfactory performance of the Target Group and the prospects in the Parallel Import car industry in the PRC;
- b) the terms of the Acquisition Agreement are fair and reasonable;
- c) the implied P/E ratio of the Target Group is fall within the range of the Comparables Companies;
- d) the Issue Price discount is within the range of the Issue Price Comparables;
- e) the Acquisition enhance the overall financial performance and profitability of the Group upon completion of the Acquisition;
- f) the entering of the Strategic Cooperative Agreement is fair and reasonable and it would enhance the Group to get access to the platform resources of the Pilot Implementation Plan;
- g) the terms of the Cooperative Agreements are fair and reasonable; and
- h) the basis of determining the Annual Caps are fair and reasonable.

We are of the view that (i) the Acquisition, though it is not the ordinary and usual course of business of the Group, is on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and (ii) the Strategic Cooperative Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) are entered in the ordinary and usual course of business of the Group upon the completion of the Acquisition and on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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Accordingly, we recommend the Independent Board Committee to advise, the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve (i) the Acquisition and transactions contemplated thereunder and (ii) the Strategic Cooperative Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps).

Yours faithfully,
For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

Note: Mr. Alister Chung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Grand Vinco Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong for over 10 years.

FINANCIAL INFORMATION OF THE GROUP FOR THE THREE FINANCIAL YEARS ENDED 31 MARCH 2014, 2015 AND 2016

The audited consolidated financial statements of the Group for the three financial years ended 31 March 2014, 31 March 2015 and 31 March 2016 are disclosed in pages 25 to 123 of the annual report of the Company for the year ended 31 March 2014, pages 27 to 119 of the annual report of the Company for the year ended 31 March 2015, pages 27 to 111 of the annual report of the Company for the year ended 31 March 2016, respectively, all of which are published on both the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.lisigroup.com.hk>).

Quick links to the annual reports of the Company are set out below:

1. Annual report of the Company for the year ended 31 March 2014:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0730/LTN20140730411.pdf>

2. Annual report of the Company for the year ended 31 March 2015:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0730/LTN20150730187.pdf>

3. Annual report of the Company for the year ended 31 March 2016:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0728/LTN20160728668.pdf>

I. INDEBTEDNESS**Borrowings**

As at 31 July 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of the circular, the Group had aggregate outstanding bank loans of approximately RMB1,085,741,703, in which aggregate outstanding bank loans of Mega Convention Group Limited and its subsidiaries (collectively referred to as the “Target Group”) was RMB18,823,479. The secured bank loans were secured by the Group’s leasehold land and buildings and investment properties with an aggregate carrying amount of approximately RMB1,072,832,818. The guaranteed bank loans were guaranteed by the related companies under the control of Mr. Li Lixin, a controlling shareholder. In addition, on 31 July 2016 the Group had aggregate outstanding other unsecured borrowings due to a shareholder and a third party of approximately RMB8,886,661.

Save as disclosed above and otherwise mentioned in this circular, as at 31 July 2016, the Group did not have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities. As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the Group’s indebtedness position and contingent liabilities since the close of business on 31 July 2016.

II. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, taking into account the internal resources available to the Group and in the absence of unforeseeable circumstances, the Enlarged Group will have sufficient working capital for its present requirement for the next twelve months from the Latest Practicable Date.

III. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2016 being the date of the latest published audited financial statements of the Company up to and including the Latest Practicable Date.

IV. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As at the Latest Practicable Date, the Group is principally engaged in manufacturing and trading of household products, operation of department stores and supermarkets, and wholesale of wine and beverages, electrical appliances and investments holdings.

As disclosed in the annual report of the Group for the year ended 31 March 2016, relocation of the Group's manufacturing plant in Shenzhen to Ningbo, PRC, was completed and the manufacturing facilities of household products of the Group are now consolidated in one location in Ningbo. The benefit on the Group's operations in terms of efficiency improvement in management resources in management resources and synergies in scale procurement and production operations began to take place and contribute to the business on long-term basis. The Group will continue its cost control measures and business strategy of focusing on higher margin products and customers that have been improving the segment's business and financial performance.

Apart from the continuing effort in cost control measures, the Group will step up its efforts to explore new products. Besides, the Group will also enlarge its customer base in both existing and emerging markets. The Group shall also monitor closely the volatility of global financial markets, the extension of different markets and adjust its sales and purchase strategies accordingly to achieve its goal of continuous business growth and performance improvement.

The management will also actively look into investment and acquisition targets of appropriate and reasonable valuation and consider other uses of fund for the best benefit of the company and the Shareholders as a whole. The investment objectives of the Group will be in driving impactful business growth, strengthening further competitive advantage of existing business segments and enhancing the return to the Shareholders.

The Board is of the view that the Acquisition may broaden the Group's income stream and it presents an excellent opportunity for the Group to leverage on the expertise and resources of the Target Group to develop its business of Parallel Import of cars in the PRC.

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



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

30 September 2016

The Directors
Lisi Group (Holdings) Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the combined financial information relating to Mega Convention Group Limited (the “**Target Company**”), World Vast International Enterprise Limited (“**World Vast**”) and Tianjin Calistar Automall Operation Management Co., Ltd. (“**Tianjin Calistar**”) and its subsidiaries (together the “**Target Group**”), in which the Business (as defined in Section B Note 1(b)) is operated, comprising the combined statements of financial position of the Target Group as at 31 December 2013, 2014 and 2015 and 31 March 2016, and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Target Group, for each of the years ended 31 December 2013, 2014 and 2015 and the three months ended 31 March 2016 (the “**Relevant Periods**”), and a summary of significant accounting policies and other explanatory information (the “**Financial Information**”), for inclusion in the circular of Lisi Group (Holdings) Limited (the “**Company**”) dated 30 September 2016 (the “**Circular**”) in connection with the proposed acquisition of entire issued share capital in the Target Company by the Company (the “**Proposed Acquisition**”).

The Target Company was incorporated in the British Virgin Islands on 22 November 2011 as a limited liability company under the British Virgin Islands Business Companies Act, 2004. Pursuant to a group reorganisation (the “**Reorganisation**”) as mentioned in the section headed “History and Background of the Target Group” in Appendix III to the Circular, the Target Company will become the holding company of the companies comprising the Target Group, details of which are set out in Section B Note 1(b) below. The Target Company has not carried out any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company and Tianjin Calistar, as they are not subject to statutory audit requirements under the relevant rules and regulations in their respective jurisdiction of incorporation.

The Target Company and Tianjin Calistar adopt 31 December as their financial year end, while World Vast adopts 31 March as its financial year end. Detail information of the auditor of World Vast during the Relevant Periods is set out in Section B Note 24. The statutory financial statements of World Vast was prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

The sole director of the Target Company has prepared the combined financial information of the Target Group for the Relevant Periods (the “**Underlying Financial Information**”) on the same basis as used in the preparation of the Financial Information as set out in Section B below. The Underlying Financial Information for each of the years ended 31 December 2013, 2014 and 2015 and three months ended 31 March 2016 were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing.

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular in connection with the proposed acquisition of entire issued share capital in the Target Company by the Company based on the Underlying Financial Information, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL INFORMATION

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

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Target Company, or any companies comprising the Target Group in respect of any period subsequent to 31 March 2016.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report and on the basis of preparation set out in Section B Note 1(b) below, a true and fair view of the financial position of the Target Group as at 31 December 2013, 2014 and 2015 and 31 March 2016 and of the Target Group's financial performance and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Target Group comprising the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined cash flow statement for the three months ended 31 March 2015, together with the notes thereon (the “Corresponding Financial Information”), for which the directors of the Company are responsible, 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.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, 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 on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A COMBINED FINANCIAL INFORMATION OF THE TARGET GROUP

1 Combined statements of profit or loss and other comprehensive income

(Expressed in Renminbi ("RMB"))

	Section B Note	Years ended 31 December			Three months ended 31 March	
		2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (unaudited)	2016 RMB'000
Revenue	3	–	6,430	642,944	178,306	156,277
Cost of sales		–	(6,414)	(608,140)	(170,388)	(140,915)
Gross profit		–	16	34,804	7,918	15,362
Other income	4	–	–	188	4	95
Selling and distribution expenses		–	(1,314)	(1,720)	(603)	(349)
Administrative expenses		(53)	(1,764)	(4,293)	(2,084)	(338)
(Loss)/profit from operations		(53)	(3,062)	28,979	5,235	14,770
Net gain on disposal of investments in subsidiaries	18	–	–	4,617	–	–
Finance costs	5(a)	–	(3)	(2,647)	(86)	(408)
(Loss)/profit before taxation	5	(53)	(3,065)	30,949	5,149	14,362
Income tax	6	–	271	(7,356)	(1,766)	(3,679)
(Loss)/profit for the year/period		<u>(53)</u>	<u>(2,794)</u>	<u>23,593</u>	<u>3,383</u>	<u>10,683</u>
Attributable to:						
The equity shareholder of the Target Company		(53)	(2,776)	23,619	3,400	10,683
Non-controlling interests		–	(18)	(26)	(17)	–
(Loss)/profit for the year/period		<u>(53)</u>	<u>(2,794)</u>	<u>23,593</u>	<u>3,383</u>	<u>10,683</u>

1 Combined statements of profit or loss and other comprehensive income (continued)
(Expressed in RMB)

	Years ended 31 December			Three months ended	
	2013	2014	2015	2015	2016
<i>Section B</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Note</i>					
				(unaudited)	
Other comprehensive income for the year/period (before and after tax):					
Item that may be reclassified subsequently to profit or loss:					
– Exchange differences on translation of financial statements of overseas companies into presentation currency	(8)	(24)	11	1	354
Total comprehensive income for the year/period	(61)	(2,818)	23,604	3,384	11,037
Attributable to:					
The equity shareholder of the Target Company	(61)	(2,800)	23,630	3,401	11,037
Non-controlling interests	–	(18)	(26)	(17)	–
Total comprehensive income for the year/period	(61)	(2,818)	23,604	3,384	11,037

The accompanying notes form part of the Financial Information.

2 Combined statements of financial position
(Expressed in RMB)

		At 31 December		At 31 March	
	Section B Note	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Non-current assets					
Property, plant and equipment	10	3	413	205	184
Deferred tax assets	16(b)	5	276	–	–
		<u>8</u>	<u>689</u>	<u>205</u>	<u>184</u>
Current assets					
Inventories	11	–	–	38,705	44,423
Trade and other receivables	12	10,129	34,296	180,848	173,345
Cash and cash equivalents	13	120	5,377	9,739	11,339
Restricted bank deposits	13	–	–	17,740	15,516
		<u>10,249</u>	<u>39,673</u>	<u>247,032</u>	<u>244,623</u>
Current liabilities					
Trade and other payables	14	38	11,823	101,429	201,685
Bank loans	15	–	–	21,929	7,357
Income tax payable	16(a)	–	–	2,830	3,679
		<u>38</u>	<u>11,823</u>	<u>126,188</u>	<u>212,721</u>
Net current assets		<u>10,211</u>	<u>27,850</u>	<u>120,844</u>	<u>31,902</u>
NET ASSETS		<u>10,219</u>	<u>28,539</u>	<u>121,049</u>	<u>32,086</u>
CAPITAL AND RESERVES					
Paid-in/share capital	17	10,326	31,464	100,326	326
Reserves		(107)	(2,907)	20,723	31,760
Total equity attributable to the equity shareholder of the Target Company		<u>10,219</u>	<u>28,557</u>	<u>121,049</u>	<u>32,086</u>
Non-controlling interests		<u>–</u>	<u>(18)</u>	<u>–</u>	<u>–</u>
TOTAL EQUITY		<u>10,219</u>	<u>28,539</u>	<u>121,049</u>	<u>32,086</u>

The accompanying notes form part of the Financial Information.

3 Combined statements of changes in equity*(Expressed in RMB)*

	Attributable to the equity shareholder of the Target Company						Total equity RMB'000
	Paid-in/ Share capital RMB'000 (Section B Note 17(c))	Statutory reserve RMB'000 (Section B Note 17(d))	Exchange reserve RMB'000 (Section B Note 17(e))	(Accumulated losses)/ retained profits RMB'000	Total RMB'000	Non- controlling interests RMB'000	
Balance at 1 January 2013	10,326	–	(4)	(42)	10,280	–	10,280
Changes in equity for 2013:							
Loss for the year	–	–	–	(53)	(53)	–	(53)
Other comprehensive Income	–	–	(8)	–	(8)	–	(8)
Total comprehensive income for the year	–	–	(8)	(53)	(61)	–	(61)
Balance at 31 December 2013 and 1 January 2014	10,326	–	(12)	(95)	10,219	–	10,219
Changes in equity for 2014:							
Loss for the year	–	–	–	(2,776)	(2,776)	(18)	(2,794)
Other comprehensive income	–	–	(24)	–	(24)	–	(24)
Total comprehensive income for the year	–	–	(24)	(2,776)	(2,800)	(18)	(2,818)
Capital injection	21,138	–	–	–	21,138	–	21,138
Balance at 31 December 2014 and 1 January 2015	31,464	–	(36)	(2,871)	28,557	(18)	28,539
Changes in equity for 2015:							
Profit/(loss) for the year	–	–	–	23,619	23,619	(26)	23,593
Other comprehensive Income	–	–	11	–	11	–	11
Total comprehensive income for the year	–	–	11	23,619	23,630	(26)	23,604
Appropriation to reserves	–	2,084	–	(2,084)	–	–	–
Disposal of investments in subsidiaries	–	–	–	–	–	44	44
Capital injection	68,862	–	–	–	68,862	–	68,862
	68,862	2,084	–	(2,084)	68,862	44	68,906
Balance at 31 December 2015	100,326	2,084	(25)	18,664	121,049	–	121,049

3 Combined statements of changes in equity (continued)
(Expressed in RMB)

	Attributable to the equity shareholder of the Target Company (Accumulated losses)/						Total equity RMB'000
	Paid-in/ Share capital RMB'000 (Section B Note 17(c))	Statutory reserve RMB'000 (Section B Note 17(d))	Exchange reserve RMB'000 (Section B Note 17(e))	retained profits RMB'000	Total RMB'000	Non- controlling interests RMB'000	
Balance at 1 January 2016	100,326	2,084	(25)	18,664	121,049	–	121,049
Changes in equity for the three months ended 31 March 2016:							
Profit for the period	–	–	–	10,683	10,683	–	10,683
Other comprehensive income	–	–	354	–	354	–	354
Total comprehensive income for the period	–	–	354	10,683	11,037	–	11,037
Effect on equity arising from the Reorganisation (Section B Note 17(c))	(100,000)	–	–	–	(100,000)	–	(100,000)
Balance at 31 March 2016	326	2,084	329	29,347	32,086	–	32,086
Balance at 1 January 2015	31,464	–	(36)	(2,871)	28,557	(18)	28,539
Changes in equity for the three months ended 31 March 2015: (unaudited)							
Profit/(loss) for the period (unaudited)	–	–	–	3,400	3,400	(17)	3,383
Other comprehensive income (unaudited)	–	–	1	–	1	–	1
Total comprehensive income for the period (unaudited)	–	–	1	3,400	3,401	(17)	3,384
Capital injection (unaudited)	68,862	–	–	–	68,862	–	68,862
Balance at 31 March 2015 (unaudited)	100,326	–	(35)	529	100,820	(35)	100,785

The accompanying notes form part of the Financial Information.

4 Combined cash flow statements

(Expressed in RMB)

	Section B Note	Years ended 31 December			Three months ended 31 March	
		2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (unaudited)	2016 RMB'000
Operating activities						
(Loss)/profit before taxation		(53)	(3,065)	30,949	5,149	14,362
Adjustments for:						
– Depreciation	5(c)	1	18	100	27	21
– Net loss on disposal of property, plant and equipment	4	–	–	60	–	–
– Net gain on disposal of investments in subsidiaries	18	–	–	(4,617)	–	–
– Interest income	4	–	–	(248)	(4)	(95)
– Finance costs	5(a)	–	3	2,647	86	408
Changes in working capital:						
– (Increase)/decrease in trade and other receivables		(19)	(24,167)	(151,590)	(85,382)	8,015
– Increase in trade and other payables		17	11,761	89,574	176,516	256
– Increase in inventories		–	–	(38,705)	(160,372)	(5,718)
Cash used in operations		(54)	(15,450)	(71,830)	(63,980)	17,249
The People's Republic of China (the "PRC") Corporate Income Tax paid	16(a)	–	–	(4,250)	–	(2,830)
Net cash (used in)/ generated from operating activities		(54)	(15,450)	(76,080)	(63,980)	14,419
Investing activities						
Payments for purchase of property, plant and equipment		–	(428)	(48)	(32)	–
Proceeds from disposal of investments in subsidiaries, net of cash disposed	18	–	–	11,406	–	–
Net (increase)/decrease in restricted bank deposits		–	–	(17,740)	(1,460)	2,224
Interest received		–	–	205	4	48
Net cash (used in)/ generated from investing activities		–	(428)	(6,177)	(1,488)	2,272

The accompanying notes form part of the Financial Information.

4 Combined cash flow statements (continued)

(Expressed in RMB)

	Section B Note	Years ended 31 December			Three months ended 31 March	
		2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (unaudited)	2016 RMB'000
Financing activities						
Capital injection	17(c)	–	21,138	68,862	68,862	–
Proceeds from new bank loans		–	–	20,361	–	6,845
Repayment of bank loans		–	–	–	–	(21,929)
Finance costs paid		–	(3)	(2,604)	(86)	(7)
		<u>–</u>	<u>21,135</u>	<u>86,619</u>	<u>68,776</u>	<u>(15,091)</u>
Net cash generated from/(used in) financing activities						
		<u>–</u>	<u>21,135</u>	<u>86,619</u>	<u>68,776</u>	<u>(15,091)</u>
Net (decrease)/increase in cash and cash equivalents						
		(54)	5,257	4,362	3,308	1,600
Cash and cash equivalents at the beginning of the year/period						
	13	<u>174</u>	<u>120</u>	<u>5,377</u>	<u>5,377</u>	<u>9,739</u>
Cash and cash equivalents at the end of the year/period						
	13	<u><u>120</u></u>	<u><u>5,377</u></u>	<u><u>9,739</u></u>	<u><u>8,685</u></u>	<u><u>11,339</u></u>

The accompanying notes form part of the Financial Information.

B NOTES TO THE COMBINED FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

1 Significant accounting policies*(a) Statement of compliance*

The Financial Information set out in this report has been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Target Group has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning 1 January 2016. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2016 are set out in Section B Note 23.

The Financial Information also complies with the applicable disclosure provisions of the Listing Rules.

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

(b) Basis of preparation and presentation

The Target Company and World Vast are investment holding companies. Tianjin Calistar is principally engaged in the trading and sales of imported cars and providing related services, and the provision of agency services for trading of cars (the "Business"). The companies comprising the Target Group are controlled by Mrs Cheng Weihong (the "Controlling Shareholder").

Pursuant to the Reorganisation as mentioned in the section headed "History and Background of the Target Group" in Appendix III of the Circular, World Vast acquired the entire equity interests in Tianjin Calistar in March 2016 and the Target Company will acquire 100% equity interests in World Vast. Since the Reorganisation is merely a reorganisation of the companies comprising the Target Group with no change in the ultimate control of the Target Group and management of the Business, the Financial Information has been prepared on a combined basis. The assets and liabilities of the companies comprising the Target Group are combined using the historical book values from the Controlling Shareholder's perspective. The equity interests of equity holders other than the Controlling Shareholder in the companies comprising the Target Group have been presented as non-controlling interests in the Financial Information.

1 Significant accounting policies (continued)

The combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Target Group for the Relevant Periods, as set out in Section A, include the results of operations of the companies comprising the Target Group for the Relevant Periods as if the group structure after the completion of the Reorganisation had been in existence throughout the Relevant Periods. The combined statements of financial position of the Target Group as at 31 December 2013, 2014 and 2015 and 31 March 2016, as set out in Section A, have been prepared to present the state of affairs of the companies comprising the Target Group as at the respective dates as if the group structure after the completion of the Reorganisation had been in existence as at the respective dates. All material intra-group transactions and balances have been eliminated on combination.

The Controlling Shareholder had direct or indirect interests in the following companies comprising the Target Group, all of which are private companies. The particulars of these companies are set out below:

Name of entity	Place and date of establishment/ incorporation	Particulars of registered/issued and paid-up capital	Percentage of interests attributable to the Controlling Shareholder	Principal activities
Mega Convention Group Limited	British Virgin Islands 22 November 2011	United States dollar 50,000	100%	Investment holding
World Vast 世浩國際企業有限公司	Hong Kong 20 June 2012	10,000 shares	100%	Investment holding
Tianjin Calistar 天津開利星空汽車城運營 管理有限公司*	The PRC 7 August 2012	RMB100,000,000	100%	Importing and trading of cars and providing related services

* This company is a limited liability company established in mainland China. The English translation of the name of the entity is for reference only. The official name of the entity is in Chinese.

(c) Basis of measurement

The Financial Information is presented in RMB, rounded to the nearest thousand. It is prepared on the historical cost basis.

(d) Use of estimates and judgments

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

1 Significant accounting policies (continued)

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

Judgments made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Section B Note 2.

(e) Subsidiaries and non-controlling interests

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

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

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

Non-controlling interests are presented in the combined statement of financial position within equity, separately from equity attributable to the equity shareholder of the Target Company. Non-controlling interests in the results of the Target Group are presented on the face of the combined statement of profit or loss and the combined statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period between non-controlling interests and the equity shareholder of the Target Company.

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

1 Significant accounting policies (continued)*(f) Property, plant and equipment*

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see Section B Note 1(h)(ii)).

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

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

	<i>Estimated useful lives</i>
Furniture, fixtures and equipment	5 years
Leasehold improvements	3 years

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

(g) Leased assets

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

(i) Classification of assets leased to the Target Group

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

(ii) Operating lease charges

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

1 Significant accounting policies (continued)*(h) Impairment of assets**(i) Impairment of receivables*

Receivables that are stated at cost are or amortised cost reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

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

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

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

1 Significant accounting policies (continued)**(ii) Impairment of other assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify that property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(i) Inventories

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

Cost is calculated using the specific identification formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

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

1 Significant accounting policies (continued)

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.

(j) Trade and other receivables

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

(k) Interest-bearing borrowings

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

(l) Trade and other payables

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

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been with three months of maturity at acquisition.

(n) Employee benefits

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

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

1 Significant accounting policies (continued)**(ii) Termination benefits**

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

(o) Income tax

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

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

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

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

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

1 Significant accounting policies (continued)

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

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

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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

- in the case of current tax assets and liabilities, the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

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

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

1 Significant accounting policies (continued)*(q) Revenue recognition*

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

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Commission income

When the Target Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue is recognised when the related agent services are rendered at the net amount of commission received or to be received by the Target Group.

(iii) Interest income

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

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the transaction date.

The results of foreign operations which have a functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange difference are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

1 Significant accounting policies (continued)*(s) Borrowing costs*

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

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

(t) Related parties

- (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 the Target Group's parent.
- (b) An entity is related to the Target Group if any of the following conditions applies:
 - (i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

1 Significant accounting policies (continued)

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

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

(u) *Segment reporting*

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

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

The Target Group manages its business mainly in a single segment, namely car-sale business. Accordingly, no operating segment information is presented.

The Target Group operates its business and maintains its assets in the PRC, therefore all of the Target Group's revenue and other income are from the PRC and all of the Target Group's non-current assets are located in the PRC. Accordingly, no geographic segment information is presented.

2 Accounting judgement and estimates

The key resources of estimation uncertainty in the preparation of the Financial Information are as follows:

(a) *Impairment of receivables*

The management maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the customers' debtors to make the required payments. The management bases the estimates on the ageing of the individual receivable balance, customer and debtor credit-worthiness and historical write-off experience. If the financial condition of the customers or debtors were to deteriorate, actual write-offs would be higher than estimated.

2 Accounting judgement and estimates (continued)*(b) Deferred tax*

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. In determining the amount of deferred tax assets to be recognised, significant judgement is required relating to the timing and level of future taxable profits, after taking into account future tax planning strategies. The amount of deferred tax assets recognised at future dates are adjusted if there are significant changes from these estimates.

3 Revenue

The principal activities of the Target Group are trading and sales of imported cars and providing related services, and the provision of agency services for trading of cars.

Revenue represents the sales value of goods supplied to customers, net of value added tax, and the commission income from agency services.

The amount of each category of revenue during the Relevant Periods is as follows:

	Years ended 31 December			Three months ended 31 March	
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i> (unaudited)	2016 <i>RMB'000</i>
Trading and sales of imported cars	–	6,430	642,838	178,306	156,229
Commission income from agency services	–	–	106	–	48
	–	6,430	642,944	178,306	156,277

3 Revenue (continued)

Information on revenue from customers contributing over 10% of the Target Group's revenue during the Relevant Periods is as follows:

	Years ended 31 December			Three months ended 31 March	
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
				(unaudited)	
Customer A	N/A	N/A	N/A	N/A	42,779
Customer B	N/A	N/A	N/A	N/A	31,615
Customer C	N/A	N/A	127,317	70,770	N/A
Customer D	N/A	N/A	171,252	37,087	N/A
Customer E	N/A	1,945	N/A	28,806	N/A
Customer F	N/A	1,234	N/A	N/A	N/A
Customer G	N/A	3,251	N/A	N/A	N/A

Details of concentrations of credit risk are set out in Section B Note 19(a).

4 Other income

	Years ended 31 December			Three months ended 31 March	
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
				(unaudited)	
Interest income	-	-	248	4	95
Net loss on disposal of property, plant and equipment	-	-	(60)	-	-
	-	-	188	4	95

5 (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging:

(a) Finance costs

	Years ended 31 December			Three months ended 31 March	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000	2016 RMB'000
				(unaudited)	
Interest on bank loans	–	–	43	–	47
Bank charges and other finance costs	–	3	2,604	86	7
Net foreign exchange loss	–	–	–	–	354
	–	3	2,647	86	408

No borrowing costs have been capitalised during the Relevant Periods.

(b) Staff costs

	Years ended 31 December			Three months ended 31 March	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000	2016 RMB'000
				(unaudited)	
Salaries, wages and other benefits	–	390	1,698	680	307
Contributions to a defined contribution retirement plans	–	10	171	38	46
	–	400	1,869	718	353

The employees of the companies comprising the Target Group established in the PRC participate in a defined contribution retirement benefit scheme managed by the local government authority, whereby these companies are required to contribute to the scheme at a rate of 20% employees' basic salaries. Employees of these companies are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC, from the above mentioned retirement scheme at their normal retirement age.

The Target Group has no further obligation for payment of other retirement benefits beyond the above contributions.

5 (Loss)/profit before taxation (continued)

(c) Other items

	Years ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Cost of inventories	–	6,414	608,111	170,377	140,820
Auditors' remuneration					
– statutory audit services	6	6	6	–	–
Depreciation (Section B Note 10)	1	18	100	27	21
Operating lease charges in respect of offices and warehouses	–	522	1,793	1,151	44
	<u>–</u>	<u>522</u>	<u>1,793</u>	<u>1,151</u>	<u>44</u>

6 Income tax in the combined statement of profit or loss and other comprehensive income

(a) Taxation in the combined statements of profit or loss and other comprehensive income represents:

	Years ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current taxation:					
– PRC Corporate Income Tax	–	–	7,080	1,490	3,679
Deferred taxation:					
– Origination and reversal of temporary differences (Section B Note 16(b))	–	(271)	276	276	–
	<u>–</u>	<u>(271)</u>	<u>7,356</u>	<u>1,766</u>	<u>3,679</u>

6 Income tax in the combined statement of profit or loss and other comprehensive income (continued)

(b) *Reconciliation between tax expenses and accounting (loss)/profit at applicable tax rates:*

	Years ended 31 December			Three months ended 31 March	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (unaudited)	2016 RMB'000
(Loss)/profit before taxation	(53)	(3,065)	30,949	5,149	14,362
Expected tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (<i>Notes (i), (ii) and (iii)</i>)	(5)	(759)	7,737	1,288	3,621
Tax effect of non-deductible expenses	5	26	69	23	58
Tax effect of unused tax losses not recognised (<i>Section B Note 16(c)</i>)	–	462	704	455	–
Tax effect of non-taxable income (<i>Note (iv)</i>)	–	–	(1,154)	–	–
Income tax	–	(271)	7,356	1,766	3,679

Notes:

- (i) The Target Company is not subject to any income tax pursuant to the rules and regulations of its country of incorporation.
- (ii) The Hong Kong Profits Tax rate during the Relevant Periods is 16.5%. No provision for Hong Kong Profits Tax has been made, as World Vast, which is incorporated in Hong Kong, did not have assessable profits subject to Hong Kong Profits Tax during the Relevant Periods.
- (iii) The companies comprising the Target Group established in the PRC are subject to PRC Corporate Income Tax rate of 25% during the Relevant Periods.
- (iv) Non-taxable income mainly represents the net gain arising from the disposal of investments in subsidiaries of the Target Group.

7 Director's remuneration

The sole director of Target Company, Ms. Cheng Weihong, did not receive any remuneration from the Target Group during the Relevant Periods.

There was no amount paid during the Relevant Periods to this director in connection with her retirement from employment or compensation for loss of office with the Target Group, or inducement to join. There was no arrangement under which the director waived or agreed to waive any remuneration during the Relevant Periods.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments for the Relevant Periods, none of them is a director. The aggregate of the emoluments in respect of these five individuals are as follows:

	Years ended 31 December			Three months ended 31 March	
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
Salaries and other emoluments	–	22	201	58	83
Retirement scheme contributions	–	4	36	10	15
	<u>–</u>	<u>26</u>	<u>237</u>	<u>68</u>	<u>98</u>

The emoluments of the individuals with the highest emoluments are within the following bands:

	Years ended 31 December			Three months ended 31 March	
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
Hong Kong Dollar (“HK\$”) Nil to HK\$1,000,000	–	5	5	5	5

9 Earnings per share

Earnings per share information is not presented as its inclusion, for the purpose of the Financial Information, is not considered meaningful due to the Reorganisation has not been completed as at 31 March 2016 and the preparation of the Financial Information of the Target Group during the Relevant Periods was on a combined basis.

10 Property, plant and equipment

	Furniture, fixtures and equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:			
At 1 January 2013 and 31 December 2013	4	–	4
	-----	-----	-----
Accumulated depreciation:			
At 1 January 2013	–	–	–
Charge for the year	(1)	–	(1)
	-----	-----	-----
At 31 December 2013	(1)	–	(1)
	-----	-----	-----
Net book value:			
At 31 December 2013	3	–	3
	=====	=====	=====
Cost:			
At 1 January 2014	4	–	4
Additions	226	202	428
	-----	-----	-----
At 31 December 2014	230	202	432
	-----	-----	-----
Accumulated depreciation:			
At 1 January 2014	(1)	–	(1)
Charge for the year	(7)	(11)	(18)
	-----	-----	-----
At 31 December 2014	(8)	(11)	(19)
	-----	-----	-----
Net book value:			
At 31 December 2014	222	191	413
	=====	=====	=====

10 Property, plant and equipment (continued)

	Furniture, fixtures and equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:			
At 1 January 2015	230	202	432
Additions	48	–	48
Decrease through disposal of subsidiaries	(113)	–	(113)
Disposals	(65)	–	(65)
At 31 December 2015	<u>100</u>	<u>202</u>	<u>302</u>
Accumulated depreciation:			
At 1 January 2015	(8)	(11)	(19)
Charge for the year	(33)	(67)	(100)
Decrease through disposal of subsidiaries	17	–	17
Written back on disposals	5	–	5
At 31 December 2015	<u>(19)</u>	<u>(78)</u>	<u>(97)</u>
Net book value:			
At 31 December 2015	<u>81</u>	<u>124</u>	<u>205</u>
Cost:			
At 1 January 2016 and 31 March 2016	<u>100</u>	<u>202</u>	<u>302</u>
Accumulated depreciation:			
At 1 January 2016	(19)	(78)	(97)
Charge for the period	(4)	(17)	(21)
At 31 March 2016	<u>(23)</u>	<u>(95)</u>	<u>(118)</u>
Net book value:			
At 31 March 2016	<u>77</u>	<u>107</u>	<u>184</u>

11 Inventories

(a) *Inventories in the combined statements of financial position comprise:*

	As at 31 December			At 31 March
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Imported vehicles	–	–	38,705	44,423

(b) *The analysis of the amount of inventories recognised as an expense and included in the combined statements of profit or loss and other comprehensive income during the Relevant Periods is as follows:*

	Years ended 31 December			Three months ended	
	2013	2014	2015	31 March	
	RMB'000	RMB'000	RMB'000	2015	2016
				RMB'000	RMB'000
				(unaudited)	
Carrying amount of inventories sold	–	6,414	608,111	170,377	140,820

12 Trade and other receivables

	As at 31 December			At 31 March
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables due from:				
– a third party	–	3,804	–	–
– a related company	–	2,276	–	–
	<u>–</u>	<u>6,080</u>	<u>–</u>	<u>–</u>
	–	6,080	–	–
Amounts due from related parties (Note (aa)):	9,850	12,643	–	–
	<u>9,850</u>	<u>12,643</u>	<u>–</u>	<u>–</u>
Prepayments, deposits and other receivables:				
– prepayments for purchase of inventories (Note (bb))	–	13,037	157,802	115,063
– prepayments for operating lease expenses (Note (cc))	–	1,736	–	74
– deposits for parallel importation of cars (Note (dd))	–	–	–	50,000
– advances to third parties	–	–	21,928	7,357
– others	279	800	1,118	851
	<u>279</u>	<u>15,573</u>	<u>180,848</u>	<u>173,345</u>
	10,129	34,296	180,848	173,345
	<u><u>10,129</u></u>	<u><u>34,296</u></u>	<u><u>180,848</u></u>	<u><u>173,345</u></u>

Notes:

- (aa) The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.
- (bb) Included in the balance are prepayments of RMBNil, RMB11.2 million, RMB145.4 million and RMB110.6 million at 31 December 2013, 2014, 2015 and 31 March 2016, respectively, made to related companies.
- (cc) Included in the balance are prepayments of RMBNil, RMBNil, RMBNil and RMB74,000 at 31 December 2013, 2014, 2015 and 31 March 2016, respectively, made to a related company.
- (dd) Included in the balance are deposits of RMBNil, RMBNil, RMBNil and RMB50.0 million at 31 December 2013, 2014, 2015 and 31 March 2016, respectively, made to a related company.

12 Trade and other receivables (continued)*(a) Ageing analysis*

At 31 December 2013, 2014, 2015 and 31 March 2016, the ageing analysis of trade receivables, based on the invoice date, is as follows:

	As at 31 December			At 31 March
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Within 1 month	–	6,080	–	–

The Target Group's credit policy is set out in Section B Note 19(a).

(b) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December			At 31 March
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Neither past due nor impaired	–	6,080	–	–

Receivables that were neither past due nor impaired relate to customers for whom there were no recent history of default.

13 Cash and cash equivalents and restricted bank deposits

	As at 31 December			At 31 March
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Cash and cash equivalents				
– Cash at bank and on hand	120	5,377	9,739	11,339
Restricted bank deposits				
– Pledged deposits for issuance of bank bills	–	–	17,144	13,585
– Pledged deposits for issuance of letter of credit	–	–	596	1,931
	–	–	17,740	15,516

13 Cash and cash equivalents and restricted bank deposits (continued)

The Target Group's operations in the PRC are conducted in RMB. RMB is not a freely convertible currency and the remittance of RMB out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

14 Trade and other payables

	2013	As at 31 December		At 31 March
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payable due to:				
– a third party	–	165	–	–
– a related company	–	6,065	–	–
Bills payables	–	–	57,143	45,284
	<u>–</u>	<u>–</u>	<u>57,143</u>	<u>45,284</u>
	–	6,230	57,143	45,284
	-----	-----	-----	-----
Accrued expenses and other payables:				
– deposits from customers	–	1,200	3,923	6,403
– payables for operating lease expenses (<i>Note (aa)</i>)	–	658	144	144
– payables for staff related costs	–	33	74	73
– payables for management service expenses (<i>Note (bb)</i>)	–	11	149	149
– payables for miscellaneous taxes	–	6	60	428
– payables for the purchase of equity interests (<i>Note (cc)</i>)	–	–	–	100,000
– others	38	125	41	41
	<u>38</u>	<u>125</u>	<u>41</u>	<u>41</u>
	38	2,033	4,391	107,238
	-----	-----	-----	-----
Financial liabilities measured at amortised cost	38	8,263	61,534	152,522
Advances received from customers (<i>Note (dd)</i>)	–	3,560	39,895	49,163
	<u>–</u>	<u>3,560</u>	<u>39,895</u>	<u>49,163</u>
	38	11,823	101,429	201,685
	<u><u>38</u></u>	<u><u>11,823</u></u>	<u><u>101,429</u></u>	<u><u>201,685</u></u>

14 Trade and other payables (continued)*Notes:*

- (aa) Included in the balance are payables of RMBNil, RMB29,000, RMB144,000 and RMB144,000 at 31 December 2013, 2014, 2015 and 31 March 2016, respectively, made to a related company.
- (bb) The balance represented payables of RMBNil, RMB11,000, RMB149,000 and RMB149,000 at 31 December 2013, 2014, 2015 and 31 March 2016, respectively, due to a related company.
- (cc) The balance represented total consideration payable to a related company amounted to RMB100,000,000 for the acquisition of 100% equity interests in Tianjin Calistar (see Section B Note 17(c)). Pursuant to the acquisition agreement dated 9 August 2016 and a supplemental agreement dated 29 September 2016 entered into by the Company and the Target Company for acquisition of the entire issued share capital of the Target Company, the amount will be contributed to Word Vast by the Controlling Shareholder before the completion of the Proposed Acquisition.
- (dd) Included in the balance are advances of RMBNil, RMBNil, RMB412,000 and RMB72,000 at 31 December 2013, 2014, 2015 and 31 March 2016 received from a company under common significant influence.

All of the trade and other payables are expected to be settled or recognised as revenue with one year or are repayable on demand.

(a) Ageing analysis

At 31 December 2013, 2014, 2015 and 31 March 2016, the ageing analysis of trade and bills payables, based on the invoice date, is as follows:

	As at 31 December			At 31 March
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Within 1 month	–	6,230	10,984	–
Over 1 month but within 3 months	–	–	46,159	–
Over 3 months but within 6 months	–	–	–	45,284
	<u>–</u>	<u>6,230</u>	<u>57,143</u>	<u>45,284</u>

15 Bank loans

	As at 31 December			At 31 March
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Bank loans				
– pledged by bills of merchandises' ownership	–	–	21,929	7,357
	<u>–</u>	<u>–</u>	<u>21,929</u>	<u>7,357</u>

15 Bank loans (continued)

At 31 December 2015 and 31 March 2016, all of the bank loans of the Target Group are pledged by bills of merchandises' ownership for the issuance of the Target Group's letters of credit.

At 31 December 2015 and 31 March 2016, Target Group's banking facilities amounted to RMB30.0 million were utilised to the extent of RMB21.9 million and RMB7.4 million, respectively. No banking facilities were granted to the Target Group at 31 December 2013 and 2014.

The above banking facilities are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Target Group were to breach the covenants, the loans would become payable on demand. The Target Group regularly monitors its compliance with these covenants. At 31 December 2015 and 31 March 2016, none of the covenants relating to the drawn down facilities had been breached.

16 Income tax in the combined statements of financial position

(a) *Movement of current taxation in the combined statement of financial position are as follows:*

	Years ended 31 December			At 31 March
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax payable at				
1 January	–	–	–	2,830
Provision for income tax				
on the estimated taxable				
profits for the year/period				
(Section B Note 6(a))	–	–	7,080	3,679
Income tax paid during				
the year/period	–	–	(4,250)	(2,830)
	<u>–</u>	<u>–</u>	<u>(4,250)</u>	<u>(2,830)</u>
Income tax payable at				
31 December/31 March	–	–	2,830	3,679
	<u>–</u>	<u>–</u>	<u>2,830</u>	<u>3,679</u>

16 Income tax in the combined statements of financial position (continued)*(b) Deferred tax assets recognised:*

The components of deferred tax assets recognised in the combined statements of financial position and the movements during the Relevant Periods are as follows:

Deferred tax arising from:	Unused tax losses <i>RMB'000</i>
At 1 January 2013 and 31 December 2013	5
Credited to the combined statements of profit or loss and other comprehensive income (<i>Section B Note 6(a)</i>)	271
	<hr/>
At 31 December 2014	276
Charged to the combined statements of profit or loss and other comprehensive income (<i>Section B Note 6(a)</i>)	(276)
	<hr/>
At 31 December 2015 and 31 March 2016	<u><u>–</u></u>

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Section B Note 1(o), the Target Group has not recognised deferred tax assets in respect of unused tax losses of RMBNil, RMB1.8 million, RMBNil and RMBNil at 31 December 2013, 2014, 2015 and 31 March 2016, respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

(d) Deferred tax liabilities not recognised

At 31 December 2013, 2014, 2015 and 31 March 2016, temporary differences relating to the retained profits of the companies comprising the Target Group established in the PRC amounted to RMBNil, RMBNil, RMB18,781,000 and RMB29,819,000, respectively. Deferred tax liabilities of RMBNil, RMBNil, RMB1,878,000 and RMB2,981,900, respectively, have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as neither the sole director of the Target Company nor the directors of the Company expect the profits will be distributed in the foreseeable future.

17 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Target Group's combined equity is set out in the combined statement of changes in equity.

Details of the changes in the Target Company's individual components of equity during the Relevant Periods are set out below:

	Share capital <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2013	318	(3)	(7)	308
Changes in equity for 2013:				
Loss for the year	–	–	(25)	(25)
Other comprehensive income	–	(9)	–	(9)
Total comprehensive income for the year	–	(9)	(25)	(34)
Balance at 31 December 2013 and 1 January 2014	318	(12)	(32)	274
Changes in equity for 2014:				
Loss for the year	–	–	(27)	(27)
Other comprehensive income	–	(33)	–	(33)
Total comprehensive income for the year	–	(33)	(27)	(60)
Balance at 31 December 2014 and 1 January 2015	318	(45)	(59)	214
Other comprehensive income	–	13	–	13
Total comprehensive income for the year	–	13	–	13
Balance at 31 December 2015 and 1 January 2016	318	(32)	(59)	227

17 Capital, reserves and dividends (continued)

	Share capital RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2016	318	(32)	(59)	227
Changes in equity for the three months ended 31 March 2016:				
Other comprehensive income	—	(1)	—	(1)
Total comprehensive income for the period	—	(1)	—	(1)
Balance at 31 March 2016	<u>318</u>	<u>(33)</u>	<u>(59)</u>	<u>226</u>
Balance at 1 January 2015	318	(45)	(59)	214
Changes in equity for the three months ended 31 March 2015 (unaudited):				
Other comprehensive income (unaudited)	—	1	—	1
Total comprehensive income for the period (unaudited)	—	1	—	1
Balance at 31 March 2015 (unaudited)	<u>318</u>	<u>(44)</u>	<u>(59)</u>	<u>215</u>

(b) Dividends

The Target Group did not declare any dividends during the Relevant Periods.

(c) Paid-in/Share capital

For the purpose of this Financial Information, the paid-in/share capital of the Target Group at 1 January 2013, 31 December 2013, 2014 and 2015 represented the aggregate of the paid-in capital or share capital of the companies comprising the Target Group as at the respective dates.

The capital injection during the Relevant Periods represents the paid-in capital injected into Tianjin Calistar by its then shareholders.

17 Capital, reserves and dividends (continued)

As part of the Reorganisation undertaken by the Target Group, World Vast acquired the entire equity interests in Tianjin Calistar in 1 March 2016 for an aggregate consideration of RMB100.0 million. The paid-in capital of Tianjin Calistar was eliminated as of 31 March 2016. The share capital of the Target Group at 31 March 2016 represented the aggregate of the share capital of the Target Company and World Vast.

(d) Statutory reserve

In accordance with the relevant rules and regulations in the PRC, the companies established in the PRC were required to set up certain statutory reserves, which were non-distributable. The transfer of these reserves are at discretion of the directors of the respective companies. The statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations which have a functional currency other than RMB into RMB. The reserve is dealt with in accordance with the accounting policy set out in Section B Note 1(r).

(f) Distributable reserves

The Target Company was incorporated on 22 November 2011 and has not carried on any business since the date of its incorporation save for the Reorganisation. Accordingly, there is no reserve for distribution to the equity shareholder of the Target Company as at 31 March 2016.

Upon completion of the acquisition of the Target Company by the Company, the payment of any future dividends will be determined by the directors of the Company. These dividends, if any, will depend upon the future earnings, capital requirements, and financial conditions and general business conditions of the Target Group as a whole.

(g) Capital management

The Target Group's primary objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern, so that it can continue to provide returns for the equity shareholder and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Target Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

17 Capital, reserves and dividends (continued)

The Target Group monitors its capital structure on the basis of an adjusted debt-to-capital ratio. For this purpose, the Target Group defines adjusted debt as total debt (which includes bank loans and trade and other payables) plus unaccrued proposed dividends/distributions, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends/distributions.

During the Relevant Periods, the Target Group's strategy was to maintain the adjusted debt-to-capital ratio at an acceptable level. In order to maintain or adjust the ratio, the Target Group may adjust the amount of dividends/distributions paid to equity holders, raise new capital, raise new debt financing or sell assets to reduce debt.

The adjusted debt-to-capital ratio at 31 December 2013, 2014, 2015 and 31 March 2016 is as follows:

	2013	As at 31 December		At 31 March
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans	–	–	21,929	7,357
Trade and other payables	38	11,823	101,429	201,685
Total debt	38	11,823	123,358	209,042
Less: cash and cash equivalents	120	5,377	9,739	11,339
Adjusted net debt	(82)	6,446	113,619	197,703
Total equity and adjusted capital	10,219	28,539	121,049	32,086
Adjusted debt-to-capital ratio	0%	23%	94%	616%

18 Disposal of subsidiaries

On 30 June 2015, Tianjin Calistar disposed of 95% and 5% of equity interests in six subsidiaries to a third party and Mr. Cheng Tao, one of the directors of a subsidiary of the Target Company, respectively. The total consideration for the disposal amounted to RMB11.5 million which were fully satisfied in cash.

The carrying amount of assets and liabilities in the subsidiaries as at the date of disposal are as follows:

	<i>RMB'000</i>
Property, plant and equipment	96
Trade and other receivables	6,649
Cash and cash equivalents	146
	<u>6,891</u>
Less: non-controlling interests	(44)
	<u>6,935</u>
Carrying amount of net assets disposed	6,935
Total consideration	11,552
Carrying amount of net assets disposed	(6,935)
	<u>4,617</u>
Net gain on disposal of subsidiaries recognised in the combined statements of profit or loss and other comprehensive income	4,617
	<u>4,617</u>
Net cash inflows arising on the disposal are as follows:	
	<i>RMB'000</i>
Total consideration received from the disposal	11,552
Cash and cash equivalents disposed	(146)
	<u>11,406</u>
Net cash inflow arising on the disposal	<u>11,406</u>

19 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Target Group's business. The Target Group's exposure to these risks and the financial risk management policies and practices used by the Target Group to manage these risks are described below.

(a) Credit risk

The Target Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

For trading and sales of imported cars, cash before delivery is generally required for all customers. Credit terms of one to three months from the date of billing or separately negotiated repayment schedules may be granted to few customers and debtors, depending on credit assessment carried out by management on an individual customer basis. Normally, the Target Group does not obtain collateral from customers and debtors.

The Target Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Target Group has significant exposure to individual customers. At 31 December 2014, 63% of trade receivables were due from the Target Group's largest debtor and 100% of trade receivables were due from the Target Group's five largest debtors. There were no balances of trade receivables at 31 December 2013 and 2015 and at 31 March 2016.

The Target Group does not provide any other guarantees which would expose the Target Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables during the Relevant Periods are set out in Section B Note 12.

(b) Liquidity risk

The Target Group centrally managed the short term investment of cash surpluses and the raising of financings to cover expected cash demands. The Target Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

19 Financial risk management and fair values (continued)

The following tables show the remaining contractual maturities at 31 December 2013, 2014, 2015 and 31 March 2016 of the Target Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of each reporting period) and the earliest dates the Target Group can be required to pay.

	At 31 December 2013		At 31 December 2014		At 31 December 2015		At 31 March 2016	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Carrying amount RMB'000	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Carrying amount RMB'000	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Carrying amount RMB'000	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Carrying amount RMB'000
Trade and other payables measured at amortised cost	38	38	7,813	7,813	61,534	61,534	152,522	152,522
Bank loans	-	-	-	-	22,145	21,929	7,396	7,357
	<u>38</u>	<u>38</u>	<u>7,813</u>	<u>7,813</u>	<u>83,679</u>	<u>83,463</u>	<u>159,918</u>	<u>159,879</u>

(c) Interest rate risk

The Target Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Target Group to cash flow interest rate risk and fair value interest rate risk, respectively.

The following table details the interest rate profile of the Target Group's interest-bearing borrowings at 31 March 2016 and 31 December 2015. There were no interest-bearing borrowings at 31 December 2013 and 2014.

	At 31 December 2015		At 31 March 2016	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank loans	4.80%-5.20%	<u>21,929</u>	4.80%	<u>7,357</u>
Fixed rate borrowings as a percentage of total borrowings		<u>100%</u>		<u>100%</u>

19 Financial risk management and fair values (continued)*(d) Currency risk*

The Target Group is exposed to currency risk primarily through borrowings which give rise to loans and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily USD and Euros. The Group manages this risk as follows:

(i) Recognised assets and liabilities

In respect of borrowings denominated in foreign currencies, the Target Group ensures that the exposure is kept to an acceptable level, by buying and selling foreign currencies at spot rates where necessary to address short-term imbalances.

(ii) Exposure to currency risk

The following table details the Target Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rates at the year/period end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Year ended 31 December 2015	
	Exposure to foreign currencies	
	USD	Euros
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	606	–
Bank loans	(20,044)	(1,885)
	<hr/>	<hr/>
Gross exposure arising from recognised assets and liabilities	<u>(19,438)</u>	<u>(1,885)</u>
	<hr/>	<hr/>
	Three months ended 31 March 2016	
	Exposure to foreign currencies	
	USD	Euros
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	898	252
Bank loans	(7,357)	–
	<hr/>	<hr/>
Gross exposure arising from recognised assets and liabilities	<u>(6,459)</u>	<u>252</u>
	<hr/>	<hr/>

19 Financial risk management and fair values (continued)

The Target Group is not exposed to significant currency risks as at 31 December 2013 and 2014.

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's results after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	Year ended 31 December 2015		Three months ended 31 March 2016	
	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase in profit after tax and retained profits <i>RMB'000</i>	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase in profit after tax and retained profits <i>RMB'000</i>
USD	10%	(1,458)	10%	(484)
	(10%)	1,458	(10%)	484
Euros	10%	(141)	10%	19
	(10%)	141	(10%)	(19)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' results after tax and retained profits measured in the respective functional currencies, translated into RMB at the exchange rates ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Target Group which expose the Target Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Target Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Target Group's presentation currency.

(e) Fair values

The carrying amounts of the Target Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2013, 2014, 2015 and 31 March 2016.

20 Commitments

At 31 December 2013, 2014, 2015 and 31 March 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			At 31 March
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Within 1 year	–	308	115	115
After 1 year but within 5 years	–	1,736	115	86
	<u>–</u>	<u>2,044</u>	<u>230</u>	<u>201</u>

21 Material related party transactions and balances

In addition to the balances disclosed elsewhere in the Financial Information, the Target Group entered into the following material related party transactions during the Relevant Periods:

(a) Transactions with related companies

	Note	Years ended 31 December			Three months ended 31 March	
		2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000	2016 RMB'000
Sales of goods		–	1,945	402,563	145,712	6,638
Purchases of goods		–	5,183	520,201	282,466	109,886
Deposits for parallel importation of cars		–	–	–	–	50,000
Operating lease expenses		–	29	115	29	29
Management service expenses		–	11	138	34	–
Net increase/(decrease) in non-interest bearing advances granted to related parties	(i)	<u>50</u>	<u>2,793</u>	<u>(12,643)</u>	<u>–</u>	<u>–</u>

Note (i): The advances were unsecured, non-interest bearing and have no fixed terms of repayment.

21 Material related party transactions and balances (continued)*(b) Key management personnel remuneration*

Remuneration for key management personnel of the Target Group during the Relevant Periods, including amounts paid to the Target Company's director as disclosed in Section B Note 7, and certain of the highest paid employees of the Target Group as disclosed in Section B Note 8, is as follows:

	Years ended 31 December			Three months ended 31 March	
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
Short-term employee benefits	–	6	68	17	17
Contributions to defined contribution retirement plan	–	1	12	3	3
	<u>–</u>	<u>7</u>	<u>80</u>	<u>20</u>	<u>20</u>
	<u>–</u>	<u>7</u>	<u>80</u>	<u>20</u>	<u>20</u>

Total remuneration is included in “staff costs” (see Section B Note 5(b)).

22 Immediate and ultimate holding company

For the purpose of the Financial Information, the director of the Target Company considers the immediate holding company and the ultimate holding company of the Target Company as at the date of this report to be Mighty Mark Investments Limited, a company incorporated in the British Virgin Islands. The parent entity does not produce financial statements available for public use.

23 Possible impact of new standards, amendments to standards and interpretations issued but not yet effective for the period beginning 1 January 2016

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments and new standards which are not yet effective for the period beginning 1 January 2016 and which have not been adopted in the Financial Information. These include the following which may be relevant to the Target Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, <i>Statement of cash flows: Disclosure initiative</i>	1 January 2017
Amendments to HKAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealised losses</i>	1 January 2017
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019

The Target Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the combined financial information.

24 Statutory audit

The detail information of the auditor of World Vast during the Relevant Periods is as below:

Name of company	Financial year	Statutory auditor
World Vast	Years ended 31 March 2013, 2014, 2015 and 2016	S. K. CHUI & CO.

Note:

- (i) The sole director of the Target Company confirmed that no statutory audits have been carried out for the Company and Tianjin Calistar for the years ended 31 December 2013, 2014 and 2015.

C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Target Company and companies comprising the Target Group in respect of any period subsequent to 31 March 2016.

Yours faithfully,

KPMG

Certified Public Accountants

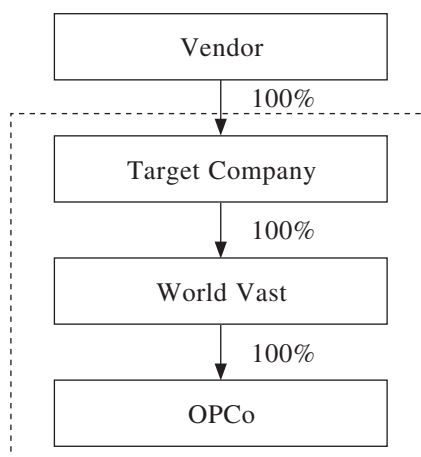
Hong Kong

Set out below is the management discussion and analysis on the Target Group for the three years ended 31 December 2015 and the three months ended 31 March 2016 (the “Reporting Period”).

HISTORY AND BACKGROUND OF THE TARGET GROUP

The Target Group comprises the Target Company and its subsidiaries, namely World Vast and the OPCo.

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



In accordance with the Acquisition Agreement, the Reorganisation shall be completed before the Completion.

The OPCo was established in the PRC on 7 August 2012 with a registered capital of RMB10 million and was owned as to 99% by Calistar Automobile Sales & Services and 1% by Mr. Yan Chao. In July 2013, Calistar Automobile Sales & Services transferred its 99% equity interest in the OPCo to Mr. Cheng Jun, the brother of Ms. Cheng Weihong, and Mr. Yan Chao transferred his 1% equity interest in the OPCo to Ms. Yang Lili. In August 2014, the registered capital of the OPCo was increased to RMB100 million, payable by the shareholders of the OPCo according to their respective shareholding. In November 2014, Mr. Cheng Jun and Ms. Yang Lili agreed to transfer all their equity interests in the OPCo to Tianjin Calistar Industrial, a company owned as to 99% by Ms. Cheng Weihong and 1% by Mr. Cheng Tao, a nephew of Ms. Cheng Weihong. As part of the Reorganisation, World Vast obtained control in the OPCo from Tianjin Calistar Industrial during March 2016, and completed the registration for relevant acquisition during April 2016. The total consideration for acquiring 100% equity interest in the OPCo by World Vast was amounting to RMB100,000,000, which was arrived at after taking into accounts the registered capital of the relevant shareholding. As at the Latest Practicable Date, the OPCo is a direct wholly-owned subsidiary of World Vast.

Over the Reporting Period, all companies of the Target Group were ultimately beneficially owned by Ms. Cheng Weihong. Among which, Ms. Cheng Weihong’s interests in World Vast and the OPCo were created through various entrustment agreements with the relevant shareholders; and Ms. Cheng Weihong’s interest in the Target Company was indirectly created through an entrustment agreement with the owner of the Vendor.

The existing shareholder of the Target Company is the Vendor, which is ultimately beneficially owned by Ms. Cheng Weihong. Upon incorporation, the registered shareholder of the Vendor was the son-in-law of Ms. Cheng Weihong, a nominee of Ms. Cheng Weihong. The reasons for entrusting him to hold the shares of the Vendor on behalf of Ms. Cheng Weihong are as follow: (1) he is an expatriate and the travel arrangement to and from Hong Kong is simpler; (2) it is also an internal shareholding arrangement between the members in Ms. Cheng Weihong's family. The aforesaid entrustment arrangement is not subject to legal restriction. As at the Latest Practicable Date, Ms. Cheng Weihong is an Independent Third Party. Following allotment and issue of the Tranche A Consideration Shares or the appointment of Mr. Tong as an executive Director, Ms. Cheng Weihong will become a connected person of the Company.

There is no entrustment arrangement in relation to the shareholding interest in the Target Company.

The nominee entrusted to hold the shareholding interest of World Vast is the son-in-law of Ms. Cheng Weihong. The entrustment arrangement between Ms. Cheng Weihong and the shareholder of World Vast is not subject to legal restriction. The reasons for such entrustment arrangement for her son-in law were because he is an expatriate, and able to make full use of the professional skills, bargaining power and relevant experience in Hong Kong to help the relevant companies to enhance their business strength and better position the relevant companies for future business development and investment. As of the Latest Practicable Date, the registered shareholder of World Vast is the son-in law of Ms. Cheng Weihong. All of the shares of World Vast will be transferred to the Target Company before the Completion.

The entrustment arrangement in relation to equity interest in the OPCo was initially made at its establishment where the nominee shareholders were Calistar Automobile Sales & Services and Mr. Yan Chao, respectively. In particular, the de facto controller of Calistar Automobile Sales & Services was Ms. Cheng Weihong and Mr. Yan Chao was an employee. Accordingly, Mr. Yan Chao was entrusted to hold a small amount of equity interest (1%) on her behalf, mainly taking into account the requirement of having at least two shareholders under the prevailing company registration system, and such entrustment arrangement also allows Mr. Yan Chao being an employee to make full use of the professional skills and participate in corporate management. Subsequently in July 2013, the nominees were changed to Mr. Cheng Jun (holding 99% of the equity interest on her behalf under an entrustment agreement as Cheng Jun is the brother of Ms. Cheng and the entrustment arrangement is an internal arrangement in Ms. Cheng's family) and Ms. Yang Lili (holding 1% of the equity interests on her behalf mainly to satisfy the requirement of having two shareholders).

During the term of the entrustment arrangement, the OPCo had not yet commenced its large-scale business of Parallel Import of cars. Prior to the OPCo conducting such large-scale business in 2015, the relevant entrustment arrangements had been terminated and the equity interest in the OPCo became indirectly held by Ms. Cheng Weihong. The business capacity of those persons that were originally entrusted or such shareholders under the said arrangements could be substituted, and the OPCo does not currently have any reliance on the said entrusted persons or shareholders in its conduct of business.

The Target Group is principally engaged in the importing and trading of Parallel Imported Cars in the PRC as well as provision of agency services for trading of cars. It has commenced its principal business operation since December 2014.

PARALLEL IMPORTED CARS IN THE PRC

Pursuant to the Several Opinions on Promoting the Pilot Initiative of Parallel Import of Automobiles (《關於促進汽車平行進口試點的若干意見》), which was jointly promulgated by Ministry of Commerce (商務部), Ministry of Industry and Information Technology (工業和信息化部), Ministry of Public Security (公安部), Ministry of Environmental Protection (環境保護部), Ministry of Transport (交通運輸部), General Administration of Customs (海關總署), General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局), Certification and Accreditation Administration (中國國家認證認可監督管理委員會) on 22 February 2016, launching the pilot initiative of parallel import of automobiles in pilot free trade zones is an important measure to advance supply-side structural reforms in the automotive sector, accelerate the innovation and development of the automobile circulation system, and stimulate the vitality of the automobile market.

The principal regulation governing Parallel Import of cars in TJFTZ is the Pilot Implementation Plan. It was jointly promulgated by Tianjin Commission of Commerce (天津市商務委員會), Tianjin Market and Quality Supervision Administration (天津市市場和質量監督管理委員會), the People's Government of Tianjin Binhai New Area (天津市濱海新區人民政府), Tianjin Customs (天津海關) and Tianjin Entry- Exit Inspection and Quarantine Bureau (天津出入境檢驗檢疫局) on 27 May 2015 and became effective on the same day. Pursuant to the Pilot Implementation Plan, Tianjin Municipality shall launch Parallel Import of cars in the TJFTZ on a pilot basis. Before the promulgation of the Pilot Implementation Plan, there were no specific laws, regulations or any other legal documents that regulates Parallel Import of cars business in the PRC.

According to the operation scale and business models of the entities, the pilot objects, which are companies engaging in Parallel Import of cars in TJFTZ, have been divided into Pilot Platforms (試點平台) and Pilot Enterprises (試點企業). The admittance conditions of the Pilot Platforms are as follows: (1) the registered capital of the enterprise shall be no less than RMB50 million; and its or its investor's automobile sales average revenue per year of the past two years shall be no less than RMB500 million; and the enterprise's fixed assets shall be no less than RMB400 million; and the enterprise shall have an area more than 30,000 sq m in Tianjin Municipality for the sales, exhibition and storage of Parallel Import cars. (2) the enterprise or its investor shall have a sound domestic sales, maintenance and services system. Its maintenance, services, and parts and components supply system shall have the capacity to serve for the member enterprises of the Pilot Platform. (3) the enterprise shall be in good standings, and have no misconduct records in its competent authorities, including but not limited to market and quality administration, inspection and quarantine, customs and audit etc. (4) the registration place of the enterprise shall be within TJFTZ. (5) the enterprise shall make the relevant application. The admittance conditions of the Pilot Enterprises are as follows: (1) The registered capital of the enterprise shall be no less than RMB20 million; and its or its investor's automobile sales revenue of the past fiscal year shall be no less than RMB200 million; and the enterprise shall have relevant fixed assets and established risk protection mechanism suitable for its business scale. (2) The enterprise shall have maintenance, services,

and parts and components supply system suitable for its business scale. An enterprise that is unable to satisfy this condition may rely on Pilot Platforms to provide appropriate services, and may participate in this pilot initiative after satisfying this condition. (3) The enterprise shall be in good standings, and have no misconduct records in its competent authorities, including but not limited to market and quality administration, inspection and quarantine, customs and audit etc. (4) The registration place of the enterprise shall be within TJFTZ. (5) The enterprise shall make the relevant application. The main difference between Pilot Platforms and Pilot Enterprises is that Pilot Platforms may serve as platforms to provide Parallel Import of cars related services to companies that are members of Pilot Platforms but not Pilot Enterprises, as the Pilot Implementation Plan has stipulated that the obligation of Pilot Platforms includes but not limited to (1) develop qualified member enterprises that conduct cars import and sales business; regulate and supervise the operation of the member enterprises; and (2) process the product certification and the application of the automatic import certification in a uniform matter in accordance with the purchase and sales plan submitted by the member enterprises.

Since the promulgation of the Pilot Implementation Plan, there has been one batch of Pilot Platforms and Pilot Enterprises announced in October 2015, which includes 5 Pilot Platforms, including Binhai Car City, Tianjin Bohai Car Supply, Tianjin Tianyuan Weiye International Trade Co., Ltd. (天津天元偉業國際貿易有限公司), Tianjin Konggang International Car Development Co., Ltd. (天津空港國際汽車園發展有限公司) and Tianjin Haowu Junchi International Trade Co., Ltd. (天津浩物駿馳國際貿易有限公司), and 30 Pilot Enterprises. Those Pilot Platforms and Pilot Enterprises are granted with licences and there is no validity period of being a Pilot Platform or Pilot Enterprise currently. On 7 September 2016, the Commission of Commerce of Tianjin Binhai New Area has published the Notice of the Application of Pilots (Second Batch) for Parallel Import of Cars in TJFTZ (《關於申報中國(天津)自由貿易試驗區(第二批)平行進口汽車試點的通知》) (the “**Notice**”). According to the Notice, the cutoff date of the application of the second batch of Pilot Platforms and Pilot Enterprises is 16 September 2016. The declaration process is as follows: (1) Enterprises shall submit paper application materials to their competent departments of the Administrative Committee of the relevant block boundaries (片區) in TJFTZ. (2) After preliminary examination by the competent departments of the Administrative Committee of the relevant block boundaries in TJFTZ, the opinion on the preliminary examination and the relevant application materials are to be submitted to the Supervisory Group for Parallel Import of Cars in Tianjin (天津市汽車平行進口領導小組). (3) The Supervisory Group for Parallel Import of Cars in Tianjin will then organize experts to make comprehensive assessment to the paper application materials, enterprise presentation, on-the-spot questioning, onsite inspection, etc. (4) After consulting relevant departments with regard to the enterprises that pass the comprehensive assessment, such enterprises are to be submitted to the Supervisory Group for Parallel Import of Cars in Tianjin and Ministry of Commerce for record-filing. (5) Make announcement with regard to the final Pilot Platforms and Pilot Enterprises. The Notice has not stipulated the expected number of acceptance. For the purpose of reducing transaction cost and obtaining the automatic import certification of its own accord instead of relying on Pilot Platforms, the OPCo has voluntarily made the application to obtain the status of Pilot Enterprise during September 2016 accordingly. The cutoff date of the application of the first batch of Pilot Platforms and Pilot Enterprises was 18 June 2015, and the first batch of Pilot Platforms and Pilot Enterprises was announced in October 2015. In view of the examination and approval time of the first batch of Pilot Platforms and Pilot Enterprises, OPCo is expected to obtain the status of Pilot Enterprise around January 2017.

OPCo is engaged in the business of Parallel Import of cars and is not in the list of first batch of Pilot Platforms and Pilot Enterprises. The Company's PRC legal adviser has interviewed with the director of Department of Mechanic Electronic and Hi-Tech Industry (機電科技產業處) of Tianjin Commission of Commerce, and has been informed that (1) as stipulated in the Pilot Implementation Plan, Pilot Platforms have the obligation to develop qualified member enterprises that conduct cars import and sales business, and process the product certification and the application of the automatic import certification in a uniform matter in accordance with the purchase and sales plan submitted by the member enterprises, which provides the legal basis of the following: provided that the enterprise has entered into cooperation contract with Pilot Platforms and has become a member enterprise of the Pilot Platforms, the enterprise may engage in the business of Parallel Import of cars. There is no specific requirement with regard to the content of the cooperation contract. The Pilot Platforms may decide the standard of member enterprises and the terms of the cooperation contract on their own. (2) Apart from the above, there is no other government permits or approvals required to conduct Parallel Import of cars business in the TJFTZ. (3) Although OPCo is not in the list of first batch of Pilot Platforms and Pilot Enterprises, its engagement in the business of Parallel Import of cars does not violate the Pilot Implementation Plan and other related laws, regulations and other legal documents. (4) As there were no specific laws, regulations or any other legal documents that regulates Parallel Import of cars business in the PRC before the promulgation of the Pilot Implementation Plan, the Parallel Import of cars was regulated by market force, from the perspective of the Tianjin Commission of Commerce, OPCo's engagement in the business of Parallel Import of cars since December 2014 does not violate any related laws, regulations and other documents. OPCo has never been charged with any penalty by Tianjin Commission of Commerce. The Company's PRC legal adviser, having considered (1) OPCo has entered into cooperation contract with Binhai Car City, which is in the list of first batch of Pilot Platforms, and has become a member enterprise of such Pilot Platform; (2) as stipulated in the Pilot Implementation Plan, Pilot Platforms have the obligation to develop qualified member enterprises that conduct cars import and sales business, and process the product certification and the application of the automatic import certification in a uniform matter in accordance with the purchase and sales plan submitted by the member enterprises; (3) OPCo has entered into a framework purchase agreement with Tianjin Bohai Car Supply; (4) it has interviewed with the relevant official of Tianjin Commission of Commerce and was advised that enterprises may conduct business of Parallel Import of cars provided that such enterprises have become a member enterprises of a Pilot Platform, and the OPCo's engagement in the business of Parallel Import of cars since December 2014 does not violate the Pilot Implementation Plan and other related laws, regulations and other legal documents; the Company's PRC legal adviser is in the opinion that (i) Department of Mechanic Electronic and Hi-Tech Industry of Tianjin Commission of Commerce is the competent authority with regard to Parallel Import of cars in TJFTZ since Tianjin Commission of Commerce is one of the five governmental authorities within the Supervisory Group for Parallel Import of Cars in Tianjin as stipulated in the Pilot Implementation Plan, whose duties include overall supervision, management and coordination in relation to the conduct of Parallel Imports of cars in TJFTZ as well as development of pilot plans and the implementation thereof, and (ii) the operation of OPCo does not violate the Pilot Implementation Plan and other related laws, regulations and other legal documents, and Tianjin Commission of Commerce has no basis to impose penalty on OPCo in this regard. In the course of its preparation for the application for the status of Pilot Enterprises, the OPCo has engaged a PRC legal adviser to provide legal opinion as to whether there is any legal impediments for it to make such application. The OPCo's PRC legal adviser, based on its due diligence work performed (including but not limited to) (i) inspected the application materials for Pilot Enterprises which were submitted by the OPCo and compared with the admittance

requirements under the Pilot Implementation Plan; (ii) obtained and reviewed the credit report issued by the Credit Reference Centre of the People's Bank of China in relation to OPCo's credit condition; (iii) researched on relevant information regarding administrative penalty, abnormal operations and significant violation of laws through the National Enterprise Credit Information Publicity System in order to inspect OPCo's record on administrative penalties and misconduct for industry and commerce, is of the view that the OPCo has satisfied the requirements stipulated under the Pilot Implementation Plan with basis as set out in below table, and is of the view that there will be no material legal impediment for the OPCo to become a Pilot Enterprise.

Admittance conditions for Pilot Enterprises as provided in Pilot Implementation Plan	Relevant basis considered by the OPCo's PRC legal adviser
<p>1. The registered capital of the enterprise shall be no less than RMB20 million; and its or its investor's automobile sales revenue of the past fiscal year shall be no less than RMB200 million; and the enterprise shall have relevant fixed assets and established risk protection mechanism suitable for its business scale.</p>	<ul style="list-style-type: none"> • the OPCo registered capital amounted to RMB100 million; • the OPCo recorded over RMB600 million for the year ended 31 December 2015 according to its audited report, a substantial part of which was generated from sale of automobile; and • OPCo, in its capacity as a member of Binhai Car City, is protected by the Binhai Car City for any responsibilities in relation to repair, replacement or refund of faulty Parallel Imported Cars and after-sales services as Binhai Car City will be the subject for any recourse from the customers as contemplated by the Pilot Implementation Plan.
<p>2. The enterprise shall have maintenance, services, and parts and components supply system suitable for its business scale. An enterprise that is unable to satisfy this condition may rely on Pilot Platforms to provide appropriate services, and may participate in this pilot initiative after satisfying this condition.</p>	<p>The OPCo, being a member of Binhai Car City, may rely on Binhai Car City to provide appropriate services to fulfil such condition.</p>
<p>3. The enterprise shall be in good standings, and have no misconduct records in its competent authorities, including but not limited to market and quality administration, inspection and quarantine, customs and audit etc.</p>	<ul style="list-style-type: none"> • there is no record of administrative penalties to or serious violations of law by the OPCo identified from the public enquiry system; and • there is no bad credit record of the OPCo as included in the Business Credit Record (企業徵信報告) issued by Credit Reference Center of the People's Bank of China.

4. The registration place of the enterprise shall be within TJFTZ.	The registered address of OPCo situates within TJFTZ.
5. The enterprise shall make the relevant application, there will be no material legal impediment for the OPCo to become a Pilot Enterprise.	OPCo has filed the application in September 2016.

During September 2016, the management of the OPCo has communicated with the Tianjin Commission of Commerce (天津市商務委員會) in relation to its application status for Pilot Enterprises. In relation to above, the Tianjin Commission of Commerce has confirmed to the OPCo that:

- (a) in relation to the application status for a Pilot Enterprise, the OPCo has submitted all of the application materials as required and in compliance under the Notice;
- (b) based on the preliminary review by the Tianjin Commission of Commerce, the OPCo has satisfied the admittance conditions for being a Pilot Enterprise;
- (c) amongst more than 90 applicants for the second batch of Pilot Enterprise in response to the Notice (the “**Pilot Enterprise Applicants**”), the OPCo is ranked in the top 10, which is evaluated in terms of its registered capital, automobile sales revenue of the past fiscal year and risk protection mechanism; and
- (d) the Tianjin Commission of Commerce was still in the process of examining the applications submitted by the Pilot Enterprise Applicants.

In view of above, the Directors and the OPCo’s management is optimistic in obtaining the status of Pilot Enterprise. In the unlikely situation where OPCo is not able to obtain its Pilot Enterprise status in 2017 for any unforeseen circumstances, the Directors and the OPCo’s management are of the view that OPCo can still carry on its import and trading of Parallel Imported Cars using its qualified member status and, as a result, the business of OPCo will not be materially affected.

Any investments conducted by the foreign investors and foreign enterprises in the PRC shall be subject to the Catalogue for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) (the “**Guidance Catalogue**”), the latest version of which was promulgated by the Ministry of Commerce (商務部) and the National Development and Reform Commission (國家發展和改革委員會) on 10 March 2015 and came into effect since 10 April 2015. The Guidance Catalogue was divided into the Encouraged Foreign Investment Industries, the Restricted Foreign Investment Industries and the Prohibited Foreign Investment Industries. Industries which are not listed in the Guidance Catalogue shall be classified as the Permitted Foreign Investment Industries. As advised by the Company’s PRC legal adviser, the business activities engaged by OPCo are not listed in the Guidance Catalogue and will be in compliance with the PRC legal requirements on foreign investment industrial policies and requirements under the Guidance Catalogue upon Completion.

In forming the above legal opinion, the Company’s PRC legal adviser has performed on-site due diligence review (including but not limited to the areas of shareholding history, material assets, business, taxes, material contracts, litigation, arbitration and administrative punishment), reviewed relevant documents and information provided by the Target Company, inspected the industry and commerce record of the OPCo, discussed with senior management and relevant personnel of the OPCo, obtained written or oral representation and statement from the OPCo, and consulted and interviewed with relevant governmental authorities.

BUSINESS REVIEW

During the three years ended 31 December 2013, 2014 and 2015, the Target Group has achieved revenue of approximately RMBnil, RMB6.43 million, RMB642.94 million respectively. During the three months ended 31 March 2015 and 2016, it recorded revenue amounted to approximately RMB178.31 million and RMB156.28 million respectively.

During the two years ended 31 December 2013 and 2014, the Target Group incurred net loss after tax of approximately RMB0.053 million and RMB2.79 million. During the year ended 31 December 2015, the Target Group achieved net profit after tax of approximately RMB23.59 million. During the three months ended 31 March 2015 and 2016, the Target Group attained net profit after tax of approximately RMB3.38 million and RMB10.68 million respectively.

The Target Group sells substantially all of its Parallel Imported Cars to distributors on a wholesale basis, who in turn sell the Parallel Imported Cars to the end customers through retailing. To a lesser extent, the Target Group also sells Parallel Imported Cars directly to the end customers. The Target Group also provides agency services for trading of car, including procurement, application for letter of credit, inspection and customs declaration, etc, to its customers upon receiving specific requests from them. As at the Latest Practicable Date, the Target Group did not possess any outlets and operated one showroom in Tianjin, where most of its sales to the individual retail customers were made.

Unlike traditional 4S dealership's business model where extensive distribution network is generally present, companies engaged in the business of sales and trading of Parallel Imported Cars typically carry out their businesses in the port area and thereby avoid the high costs and capital expenditure associated with setting up and operating excessive physical outlets. As such, they are able to maintain their competitive edge over the 4S dealers by offering customers Parallel Imported Cars of quality comparable to those available in 4S dealership stores at competitive prices. Based on the Business Plan, the Directors consider that operating one showroom at the Tianjin port is sufficient for the Target Group in view of its business activity level in the short-to-medium term as it is highly efficient for the Target Group to reach its target customers, i.e. distributors who possess vast distribution network in the PRC and individual customers who prefer to shop at the showrooms at the Tianjin Port where an abundant amount of Parallel Imported Cars are available for sale.

The Directors are given the understanding that it is not a common practice for companies engaged in the sale and trading of Parallel Imported Cars to enter into long term customer or distributorship agreements. The Directors consider that the industry of Parallel Import of cars is emerging and fast growing and it is reasonable that the companies would like to maintain their flexibility to actively meet market changes induced by uncertain factors as far as possible. Further, it is crucial for Parallel Imported Cars sellers to offer competitive prices or differentiated products in order to maintain its competitiveness against traditional 4S dealers as well as other players in the industry. Accordingly prompt responses to the ever-changing market demand and suppliers' offers are of prime importance. It is also the Directors' observation that the sale of Parallel Imported Cars shares the same attributes as those of other durable consumer goods, where consumers' spending on them is more volatile than spending on non-durable goods, and tends to be more closely related to the economic environment. The Directors are therefore of the view that it is not advisable for Parallel Imported Cars sellers to enter into long term customer or distributorship agreements and conducting business by one-off sales contracts may enable the Target Group to optimize its product offering and pricing closely in line with the latest market trend and customer preference.

Further, as disclosed in the paragraph headed "Parallel Imported Cars in the PRC", there have only been 5 Pilot Platforms and 30 Pilot Enterprises announced by the relevant authorities since the promulgation of the Pilot Implementation Plan. As a result, companies not included in the list of the Pilot Platforms and Pilot Enterprises and engaged in the sale and trading of Parallel Imported Cars are required to enter into cooperative agreements with the Pilot Platforms.

The business model of the Target Group resembles normal market practice, in particular, (i) the Target Group only operates one showroom in Tianjin and carries out most of its business at the port of Tianjin; (ii) the Target Group disposed six subsidiaries which possess showrooms and outlets in 2015 to reduce costs and streamline its organization structure; (iii) the Target Group does not enter into long term customer or distributorship agreements and (iv) there exist cooperative agreements between the Target Group and two of the Pilot Platforms.

The Directors are of the view that the Target Group's business is sustainable in light of the following: (i) In addition to the Strategic Cooperative Agreement, the OPCo has entered into a framework purchase agreement with Tianjin Bohai Car Supply on 13 September 2016, by which the parties agreed on the specific quantities for automobile from various brands to be purchased by the OPCo from Tianjin Bohai Car Supply for the years ending 31 December 2016 and 2017. The Target Group has therefore secured supply of Parallel Imported Cars from two of the five named Pilot Platforms; (ii) the business model of the Target Group resembles normal market practice as elaborated above; (iii) the Target Group has only operated in less than two years and has recorded substantial growth in sales as well as number of customers and suppliers; (iv) the management of the OPCo is expected to leverage on their extensive business network and resources in the area of Parallel Import of cars in Tianjin and expand the customer base of the OPCo; and (v) the OPCo has applied for the status as one of the Pilot Enterprises during September 2016, and the OPCo's PRC legal adviser is of the view that there will be no material legal impediment for the OPCo to become a Pilot Enterprise in accordance with the Pilot Implementation Plan.

The Target Group offers a variety of high-end branded and mass-market cars, including Audi, BMW, Ford, Maserati, Mercedes Benz, Porsche and Toyota. The Target Group actively optimizes its product portfolio taking into account, among other things, the dynamic demand of imported cars in the PRC and the respective profit margin of each automobile brand.

Distributorship arrangement

As at 31 March 2016, the Target Group had established business relationship with 124 distributors, through which the sales network covered 22 provinces and municipalities in the PRC including Beijing, Hebei, Liaoning, Shandong and Guangdong. Most of the distributors are small-to-medium size car dealers having operations in Northern China. To foster better business plans and facilitate more efficient monitoring of its sales performance, at the beginning of each fiscal year, the Target Group conducts sales target planning meetings with each of its distributors and agrees on their respective estimated annual purchase amounts based on, among other things, (i) the respective business plans of the distributors; (ii) the sales capabilities of the distributors based on their respective track records; and (iii) the demand for Parallel Imported Cars from different areas where the distributors operate.

During the Reporting Period, the Target Group did not enter into any long-term or exclusive distribution arrangement with any of its distributors. Its sales to the distributors were one-off transaction-based and bounded by individual sales agreements. The table below sets out a summary of the principal terms of a standard sales agreement of OPCo:

Principal terms	Summary
Term of agreement	One-off
Subject matter	<p>The distributor agreed to purchase and the OPCo agreed to sell specific quantity of a specific model of Parallel Imported Cars at a specific price.</p> <p>Upon receiving the full purchase amount, the OPCo is obligated to handover the Parallel Imported Cars to the distributor along with all relevant documents including import certificates, inspection checklists and sales invoices.</p>
Payment	The distributor is generally required to pay approximately 20% deposit or full purchase amount on the date on which sales agreement is executed. For the cases where only 20% deposit is paid, the remaining balance has to be fully settled within 2 days upon receipt of the notice of product collection.
Termination	The sales agreement is terminable by the OPCo if the distributor fails to fully settle the purchase price within 2 days upon receipt of the notice of product collection. Any amount that has been paid by the distributor to the OPCo prior to such termination is not refundable and the OPCo has full authority to handle the relevant Parallel Imported Cars at its discretion.
Distribution within a designated geographical area	No such restriction
Minimum purchase amount	No such restriction
Delivery	<ul style="list-style-type: none"> • The distributor is responsible for transporting the purchased Parallel Imported Cars from the port of Tianjin to its designated warehouses or showrooms. • Upon request from the distributor, OPCo may coordinate the delivery of the Parallel Imported Cars. However, separate agreements shall be entered into between the distributor and relevant transportation company, and the OPCo is not liable for any delay in or loss caused during the transportation of such Parallel Imported Cars purchased by the distributor. • In any event, the transportation costs will be borne by the distributors.

Principal terms	Summary
Product liabilities	<ul style="list-style-type: none"> Inspection should be carried out by the distributor or its designated representative. Any concerns on the quality of the Parallel Imported Cars shall be raised immediately during the on-site inspection. Otherwise the Parallel Imported Cars will be deemed to be of satisfaction to the distributor and any loss incurred afterward due to product defeats will be borne by the distributor.
Return of unsold products	Not allowed

The consideration for each sales order is determined by the sales personnel based on a written pricing policy set out by the management of the OPCo. The pricing policy specifies the benchmark gross profit margin required to be attained and allows the sales personnel to make an upward adjustment on the gross profit margin at their discretion if the interests of customers and ultimate end-users are not impaired.

The distributors purchase Parallel Imported Cars from the Target Group and then sell the Parallel Imported Cars to individual retail customers under its own name in their respective locations of operation. The Target Group has no control on the distributors pricing policy.

The Target Group's revenue recognition policy in respect of dealing with distributors is that revenue is recognised when the distributors have accepted the goods after on-site inspection and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

The Target Group's relationship with distributors is seller/buyer due to the following reasons:

- 1) the Target Group has no control on the distributors pricing policy;
- 2) the distributors sell the Parallel Imported Cars under its own name; and
- 3) the Target Group has not retained any inventory risk after the distributors have accepted the goods after on-site inspection.

Business flow

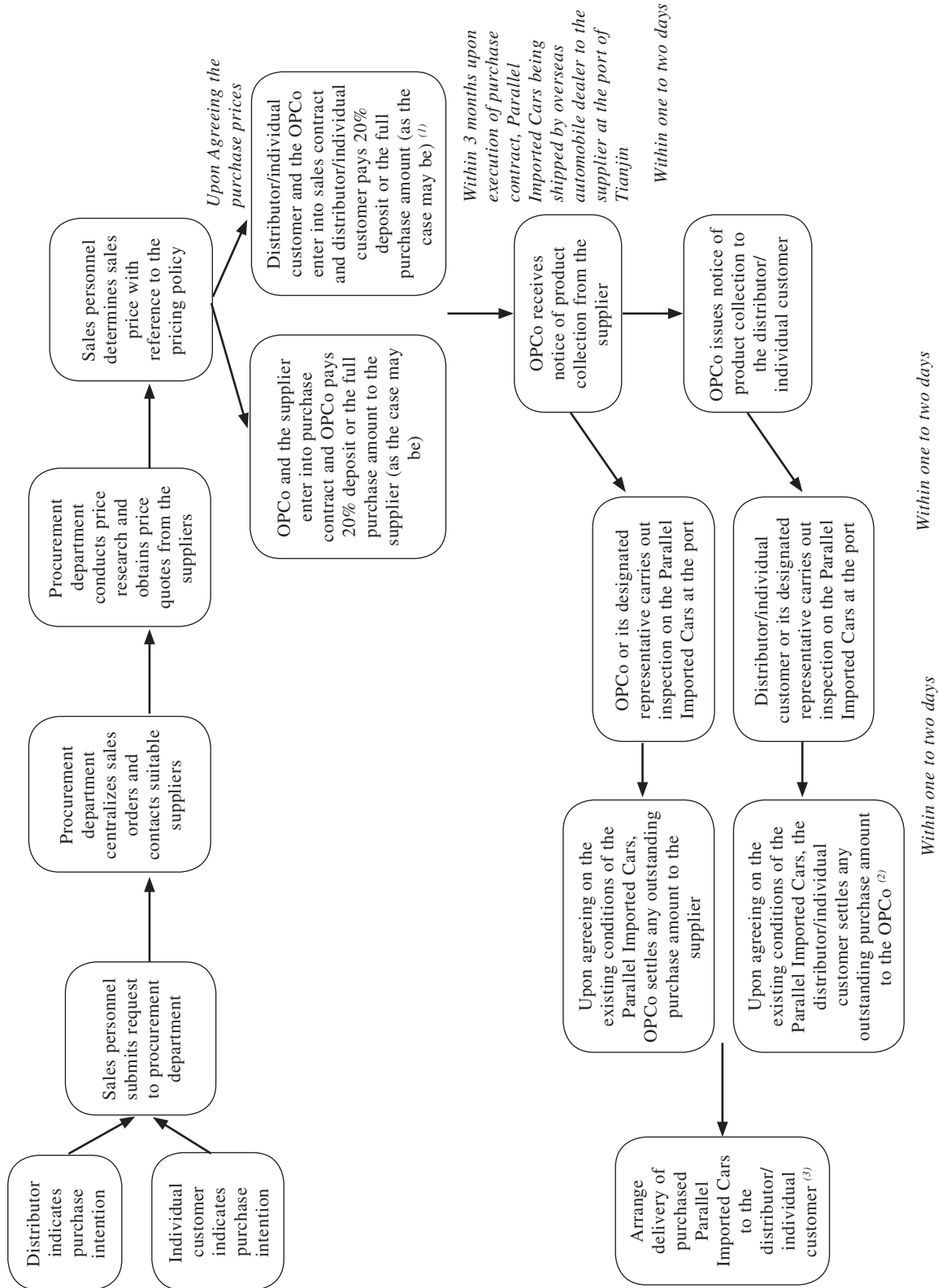
For a typical transaction I, the Parallel Imported Cars would be transported to the port of Tianjin within three months from the date of purchase orders to supplier. The supplier is responsible for completing necessary inspection, customs declaration and other formalities in relation thereto prior to delivering the Parallel Imported Cars to OPCo. OPCo then carries out inspection on the Parallel Imported Cars at the port. Distributor/individual customer or its representatives would then inspect the Parallel Imported Cars at the port and settle any outstanding purchase prices in accordance with the terms of the sales agreements before delivery of the Parallel Imported Cars. Target Group would then immediately settle the remaining payment to its suppliers.

In general, the Target Group demands approximately 20% deposit or the full settlement from its customers when the sale order is placed, and concurrently it pays approximately 20% deposit or the full purchase amount (as the case may be) to its suppliers when it places its purchase order within days of securing the relevant sales order. Once sales are made, the customers do not have the right to make any refund or exchange of the Parallel Imported Cars. However, credit terms of one to three months from the date of invoice or separately negotiated repayment schedules may be granted to a few customers, depending on credit assessment carried out by management of the Target Group on an individual customer basis. As such, the Target Group could adopt efficient utilization of its revolving credit facility and working capital.

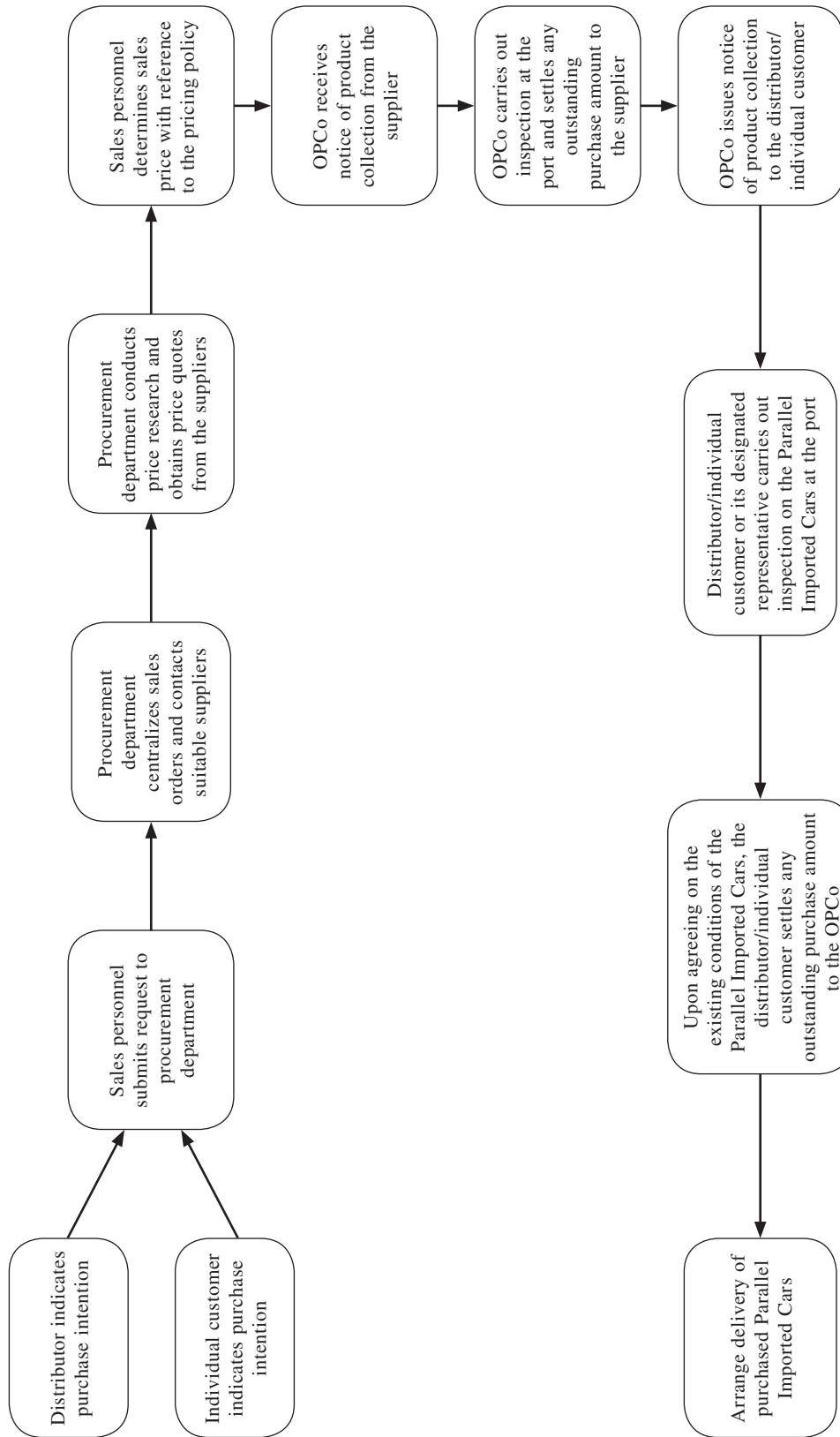
For a typical transaction II, after receiving distributor/individual customer's purchase intention, OPCo checked the inventory availability from various suppliers source and directly purchase Parallel Imported Cars from supplier at the port. OPCo carries out inspection at the port and settles any outstanding purchase amount to the supplier. Distributor/individual customer or its representatives would then inspect the Parallel Imported Cars at the port after receive notice of product collection from OPCo and settle any outstanding purchase prices in accordance with the terms of the sales agreements before delivery of the Parallel Imported Cars.

In view of the flow and the trading nature of the Target Group's business, the management of the Target Group does not expect that there will be any significant capital, operating expenditure, or material commitment to be incurred during the ordinary course of its business.

Set out below is an illustrative flow chart for a typical transaction I in the ordinary course of business of OPCo:



Set out below is an illustrative flow chart for a typical transaction II in the ordinary course of business of OPCo:



Notes:

- (1) The Target Group will debit cash at bank and credit advances received from customers when receive deposits from distributors/individual customer.
- (2) The Target Group will debit cash at bank and credit advances received from customers when receive settlement for outstanding purchase amount from distributors/individual customer.
- (3) The Target Group will debit advances received from customers, credit revenue and tax payable, debit cost of sales and credit inventory when vehicles are delivered to distributors/individual customer.

Major customers

The Target Group did not have any business operations in 2013 and commenced its business activities only in December 2014 with three customers for that year, all of which were distributors. The Target Group had 277 customers for the year ended 31 December 2015, among which 179 were individual retail customers and 98 were distributors. Sales to the Target Group's five largest customers, which are all distributors, accounted for approximately 62.83% and 56.02% of its total revenue for the year ended 31 December 2015 and the three months ended 31 March 2016, respectively. The business profile of Target Group's three customers for the year 2014 and its largest five customers for the year ended 31 December 2015 and the three months ended 31 March 2016 are set out below:

For the year ended 31 December 2014

Rank	Name of customer	Background of the customer	Relationship with Target Group	Principal business of the customer	Location of operation
1	天津精典汽車銷售資訊有限公司 (Tianjin Jingdian Automobile Sales Information Company Limited*)	independent third party of the Target Group	not applicable	Sale of imported cars to end customers	Tianjin, PRC
2	天津英之傑國際物流有限公司 (Tianjin Yingzhi Jie International Logistics Company Limited*)	connected person of the Target Group	controlling shareholder is the son-in-law of Ms. Cheng Weihong	Ditto	Tianjin, PRC
3	3 rd largest customer	independent third party of the Target Group	not applicable	Ditto	Shenzhen, PRC

For the year ended 31 December 2015

Rank	Name of customer	Background of the customer	Relationship with Target Group	Principal business of the customer	Location of operation
1	天津市世茂國際貿易有限公司 (Tianjin Shimao International Trading Company Limited*)	connected person of the Target Group	controlling shareholder is Mr. Cheng Jun, brother of Ms. Cheng Weihong	Sale of imported cars to end customers	Tianjin, PRC
2	新疆開利星空汽車銷售服務有限公司(Xinjiang Calistar Automobile Sales Services Company Limited*)	connected person of the Target Group	controlling shareholder is the son-in-law of Ms. Cheng Weihong	Ditto	Xinjiang, PRC
3	天津廣滙開利汽車銷售服務有限公司(Tianjin Guanghui Kaili Automobile Sales Services Company Limited*)	connected person of the Target Group	controlling shareholder is Ms. Cheng Weihong	Ditto	Tianjin, PRC
4	天津英之傑國際物流有限公司 (Tianjin Yingzhi Jie International Logistics Company Limited*)	connected person of the Target Group	controlling shareholder is the son-in-law of Ms. Cheng Weihong	Ditto	Tianjin, PRC
5	5 th largest customer	independent third party of the Target Group	not applicable	Ditto	Hunan, PRC

For the three months ended 31 March 2016

Rank	Name of customer	Background of the customer	Relationship with Target Group	Principal business of the customer	Location of operation
1	東莞開利星空汽車貿易有限公司 (Dongguan Calistar Automobile Trading Company Limited*)	independent third party of the Target Group	not applicable	Sale of imported cars to end customers	Guangdong, PRC
2	2 nd largest customer	independent third party of the Target Group	not applicable	Ditto	Beijing, PRC
3	新疆開利星空汽車銷售服務有限公司(Xinjiang Calistar Automobile Sales Services Company Limited*)	connected person of the Target Group	controlling shareholder is Ms. Cheng Weihong	Ditto	Xinjiang, PRC
4	4 th largest customer	independent third party of the Target Group	not applicable	Ditto	Hebei, PRC
5	5 th largest customer	independent third party of the Target Group	not applicable	Ditto	Tianjin, PRC

The largest customer for the year ended 31 December 2014, 天津精典汽車銷售資訊有限公司 (Tianjin Jingdian Automobile Sales Information Company Limited*), is an independent third party of the Target Group and sales to it accounted for approximately 50.56% of the Target Group's total revenue for the year 2014. The four largest customers for the year ended 31 December 2015, namely 天津市世茂國際貿易有限公司 (Tianjin Shimao International Trading Company Limited*), 新疆開利星空汽車銷售服務有限公司 (Xinjiang Calistar Automobile Sales Services Company Limited*)、天津廣滙開利汽車銷售服務有限公司 (Tianjin Guanghui Kaili Automobile Sales Services Company Limited*) and 天津英之傑國際物流有限公司 (Tianjin Yingzhi Jie International Logistics Company Limited*) are connected persons of the Target Group. Sales to them accounted for approximately 26.64%, 19.81%, 5.91%, 5.90% of the Target Group's total revenue for the year 2015, respectively. For the three months ended 31 March 2016, the largest customer of the Target Group, 東莞開利星空汽車貿易有限公司 (Dongguan Calistar Automobile Trading Company Limited*), is an independent third party and the corresponding sales to such customer accounted for approximately 27.37% of the total sales over such period. The third largest customer of the Target Group for the three months ended 31 March 2016 was 新疆開利星空汽車銷售服務有限公司 (Xinjiang Calistar Automobile Sales Services Company Limited*), a connected person to the Target Group, and the corresponding sales to such customer accounted for approximately 4.25% of the total sales over such period. The relevant sale transactions with connected persons of the Target Group during the Reporting Period were conducted on the prevailing normal commercial terms. Since April 2016, the Target Group has ceased its sales to connected persons. Sales to connected persons of the Target Group amounted to RMB6,638,000 for the year ending 31 December 2016 and it is expected that such sales will account for approximately 0.78% of total sales for the years ending 31 December 2016 according to the Business Plan. No sales to connected persons will be made by the Target Group for the years ending 31 December 2017 and 2018.

Major suppliers

As at 31 March 2016, the Target Group had established business relationship with 75 suppliers, the majority of which supply Parallel Imported Cars within the section of Parallel Import of cars in Tianjin. The Target Group's suppliers accept payments by bank's acceptance bill or bank transfer in general. The Target Group had not commenced its principal business operation in 2013. For the years ended 31 December 2014 and 2015, the Target Group had two suppliers and 38 suppliers, respectively. For the year ended 31 December 2015 and three months ended 31 March 2016, purchases from the Target Group's top five suppliers together accounted for 90.52% and 78.10% of its total purchase, respectively. The business profile of Target Group's two suppliers for the year 2014 and its largest five suppliers for the year ended 31 December and the three months ended 31 March 2016 are set out as follow:

For the year ended 31 December 2014

Rank	Name of supplier	Background of the supplier	Principal business of the supplier	Location of operation
1	Largest supplier	connected person to the Target Group	Importing and trading of cars	Tianjin, PRC
2	2nd largest supplier	independent third party to the Target Group	Ditto	Sichuan, PRC

For the year ended 31 December 2015

Rank	Name of supplier	Background of the supplier	Principal business of the supplier	Location of operation
1	Binhai Car City	connected person to the Target Group	Importing and trading of cars	Tianjin, PRC
2	2nd largest supplier	connected person to the Target Group	Ditto	Tianjin, PRC
3	3rd largest supplier	independent third party to the Target Group	Ditto	Beijing, PRC
4	4th largest supplier	independent third party to the Target Group	Ditto	Zhejiang, PRC
5	5th largest supplier	connected person to the Target Group	Ditto	Tianjin, PRC

For the three months ended 31 March 2016

Rank	Name of supplier	Background of the supplier	Principal business of the supplier	Location of operation
1	Binhai Car City	connected person to the Target Group	Importing and trading of cars	Tianjin, PRC
2	2nd largest supplier	connected person to the Target Group	Ditto	Tianjin, PRC
3	3rd largest supplier	connected person to the Target Group	Ditto	Tianjin, PRC
4	4th largest supplier	independent third party to the Target Group	Ditto	Tianjin, PRC
5	5th largest supplier	independent third party to the Target Group	Ditto	Tianjin, PRC

The largest supplier for the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, Binhai Car City, is a connected person of the Target Group and purchases from it accounted for 80.81%, 40.10% and 60.89% of the total purchases for the respective periods. The relevant purchase transactions with connected persons of the Target Group during the Reporting Period were conducted on the prevailing normal commercial terms.

Supply chain management

The Target Group's procurement of Parallel Imported Cars is initiated upon either securing the relevant sales orders from customers or the monthly inventory level of Parallel Imported Cars falling below a certain predetermined level (i.e. RMB48 million for 2016 and RMB60 million for 2017). The procurement department of the OPCo then contacts a number of readily available suppliers with reference to its requirements on the products. The OPCo centralizes the procurement of cars of different brands and models for multiple sales orders in one purchase order to take advantage of economies of scale and strengthen its negotiation power with the suppliers. The management of the OPCo believes a centralized procurement system enables the OPCo to enhance its cost efficiency.

The OPCo selects its suppliers based on criteria such as reputation and business scale of the suppliers, and product quality and price of the cars supplied. Each new supplier is required to pass the OPCo's quality assessment procedure, which involves collection of business registration information of the potential suppliers, research on any historical misconduct or disputes and interview with the management of the potential suppliers. The OPCo only purchases from suppliers who can satisfy all its selection criteria. Each supplier is subject to annual evaluation of quality and prices of cars supplied. During the Reporting Period, the Target Group did not encounter any shortage of supply of Parallel Imported Cars.

During the Reporting Period, the Target Group made all purchases from its suppliers at the Tianjin port. The OPCo did not enter into any long-term purchase agreements with any of its suppliers. Its purchases from suppliers were one-off transaction-based and bounded by individual purchase agreements. The table below sets out a summary of the principal terms of a standard purchase agreement of OPCo:

Principal terms	Summary
Term of agreement	One-off
Subject Matter	<p>The supply agreed to sell and the OPCo agreed to purchase specific quantity of a specific model of Parallel Imported Cars at a specific price.</p> <p>Upon receiving the full purchase amount, the supplier is obligated to handover the Parallel Imported Cars to the OPCo along with all relevant documents including import certificates, inspection checklists and sales invoices.</p>
Payment	The OPCo is generally required to pay approximately 20% deposit or full purchase amount on the date on which purchase agreement is executed. For the cases where only 20% deposit is paid, the OPCo has to fully settle the remaining balance within 2 days upon receipt of the notice of product collection.
Termination	The purchase agreement is terminable by the supplier if the OPCo fails to fully settle the purchase price within 2 days of upon receipt of the notice of product collection. Any amount that has been paid by the OPCo to the supplier prior to such termination is not refundable and the supplier has full authority to handle the relevant Parallel Imported Cars at its discretion.
Distribution within a designated geographical area	No such restriction
Minimum purchase amount	No such restriction
Delivery	<p>The supplier is responsible for transporting the Parallel Imported Cars ordered by the OPCo to the designated port in Tianjin.</p> <p>The transportation costs will be borne by the supplier.</p>
Inspection of products	Inspection should be carried out by the OPCo or its designated representative. Any concerns on the quality of the Parallel Imported Cars shall be raised immediately during the on-site inspection. Otherwise the Parallel Imported Cars will be deemed to be of satisfaction to the OPCo and any loss incurred afterward due to product defeats will be borne by the OPCo.
Return of unsold products	Not allowed

To further improve profitability, the Target Group is planning to commence overseas purchase from around January 2017 after the OPCo has obtained the status of Pilot Enterprise. The procurement department of the OPCo will shortlist several overseas reliable quality suppliers, from which the OPCo will directly purchase branded passenger cars. The selection of new overseas suppliers will also be subject to the quality assessment procedure as mentioned above.

Sales and marketing plan

The management of the Target Group believes that an effective sales and marketing plan is imperative in expanding business of the Target Group.

Further, it is of the opinion that the Target Group's competitive edges are founded by, among other things, (i) OPCo's well-established presence in the Parallel Import of cars industry in Tianjin, (ii) good customer relationship; and (iii) high quality of Parallel Imported Cars offered by the OPCo.

To escalate its competitiveness, the Target Group has, during the Reporting Period, dedicated to (i) actively participated in sales and marketing activities such as business conferences, trade show and forums hosted by active industry players and/or government authorities in relation to the Parallel Import of cars business and automobile sector; and (ii) fostered good business relationship by assigning designated sales personnel to its major customers in order to improve their purchase experience and facilitate sales. The Target Group also operated a showroom in Tianjin where the latest collection of its products ranging from luxurious automobiles to value-for-money branded ones were showcased to the distributors and individual retail customers.

FINANCIAL REVIEW

Revenue

The Target Group primarily involves in the importing and trading of cars and provision of related services; and the provision of agency services for trading of cars.

Revenue of the Target Group represents the sales value of goods supplied to customers net of value added tax and the commission income from agency services. Set out below is a breakdown of the Target Group's revenue for the Reporting Period:

	Years ended 31 December			Three months ended 31 March	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000	2016 RMB'000
Trading and sales of imported cars	–	6,430	642,838	178,306	156,229
Commission income from agency services	–	–	106	–	48
	<u>–</u>	<u>6,430</u>	<u>642,944</u>	<u>178,306</u>	<u>156,277</u>

(unaudited)

Revenue were approximately RMBnil, RMB6.43 million and RMB642.94 million for the three years ended 31 December 2013, 2014 and 2015, respectively. The Target Group did not have any business operation for the year 2013. In 2014, the Target Group operated for only around one month since December 2014 and generated revenue of approximately RMB6.43 million. The increase of revenue of 9,899.07% from 2014 to 2015 was mainly attributable to the full-year operation of the Target Group, the positive market sentiment fueled by favourable governmental measures, including the Pilot Implementation Plan of TJFTZ for Parallel Imported Cars, and the expansion of business by successful market positioning of the Target Group for the year ended 2015.

Revenue was approximately RMB156.28 million for the three months ended 31 March 2016, down 12.35% as compared to the corresponding period in 2015. The decrease was mainly attributable to a change in product mix from having a majority of more high-end branded cars to mass-market ones, which is driven by the overall market trend in the PRC; and a decreased sales volume resulted from the higher proportion of sales being made to individual retail customers instead of distributors in the first quarter of 2016 as compared to the corresponding period in 2015, which typically renders a smaller quantity of purchases.

Commission income is recognised when the related agency services are rendered by the Target Group in the capacity of an agent rather than as the principal in a transaction. The Target Group started the provision of agency services in 2015 so as to generate a new source of income with low operational risk.

Cost of sales

Cost of sales of the Target Group comprises the purchase cost of the Parallel Imported Cars and relevant costs in relation to the provision of car trading agency services.

Cost of sales for the three years ended 31 December 2013, 2014 and 2015 were approximately RMBnil, RMB6.41 million and RMB608.14 million, respectively. The Target Group did not have any business operation for the year 2013. In 2014, the Target Group operated for only around one month since December 2014 and incurred cost of sales of approximately RMB6.41 million. The increase of cost of sales of 9,387.36% from 2014 to 2015 was mainly attributable to the increase in the number of Parallel Imported Cars purchased by the Target Group coupled with the increased sales volume.

Cost of sales for the three months ended 31 March 2015 and 2016 were approximately RMB170.39 million and 140.92 million, respectively. The decrease of 17.30% was mainly attributable to a decrease in sales volume due to the higher proportion of sales being made to individual retail customers instead of distributors, on top of a change in product portfolio being sold.

Gross profit margin

The Target Group did not have business operation in 2013 and recorded gross profit margin for the years ended 31 December 2014 and 2015 of approximately 0.25% and 5.41% respectively. The management considers the gross profit margin in 2014 did not reflect the Target Group profitability since it only commenced business during the last month of the year. The gross profit margin increased to 9.83% for the three months ended 31 March 2016 from 4.44% as recorded in the three months ended 31 March 2015. Such increase was mainly attributable to (i) a higher proportion of sales being made to individual retail customers instead of distributors in the first quarter of 2016 as compared to the corresponding period in 2015, which typically renders a higher gross profit margin; and (ii) the product portfolio being sold in the first quarter of 2016 bore higher gross profit margin as compared to those sold in the corresponding period in 2015.

Selling and distribution expenses

Selling and distribution expenses mainly comprised of expenses incurred by sales personnel, including the salaries and wages, travel expenses, and other sale-related expenses.

Selling and distribution expenses were approximately RMBnil, RMB1.31 million and RMB1.72 million for the three years ended 31 December 2013, 2014 and 2015, respectively. There were no sale activities carried out by the Target Group in 2013. The increase of 31.30% from 2014 to 2015 was mainly attributable to the increase in staff cost, office supplies and stationery and other sales-related expenses in connection to Target Group's expansion of business for the year ended 2015.

Selling and distribution expenses were approximately RMB0.60 million and RMB0.35 million for the three months ended 31 March 2015 and 2016. The decrease of 41.67% was mainly attributable to the reduction in related selling expenses and staff cost as a result of the disposal of six subsidiaries by the Target Group in June 2015 as detailed in the section headed "Gain on disposal of subsidiaries" below.

Administrative expenses

Administrative expenses mainly comprise staff cost in relation to administrative personnel, stamp-duty, travel expenses, hospitality expenses, office rent and other general administrative expenses incurred during the ordinary course of business.

Administrative expenses for the year ended 31 December 2013, 2014 and 2015 were approximately RMB0.05 million, RMB1.76 million and RMB4.29 million, respectively. The increase of 3,420.00% from 2013 to 2014 was mainly due to increase in general administrative expense in connection to the commencing of operation. The increase of 143.75% from 2014 to 2015 was mainly due to the increase in staff cost, office rent and other general administrative expenses in connection to the expansion of business by the Target Group in 2015.

Administrative expenses for the three months ended 31 March 2015 and 2016 were approximately RMB2.08 million and RMB0.34 million. The decrease of 83.65% was mainly attributable to the reduction in rental expenses and staff cost as a result of the disposal of six subsidiaries by the Target Group in June 2015 as detailed in the section headed "Gain on disposal of subsidiaries" below.

Finance costs

Finance costs comprise interest on bank loans, bank charges and other finance costs. Set out below is a breakdown of the Target Group's finance costs for the Reporting Period:

	Years ended 31 December			Three months ended 31 March	
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i> (unaudited)	2016 <i>RMB'000</i>
Interest on bank loans	–	–	43	–	47
Bank charges and other finance costs	–	3	2,604	86	7
Net foreign exchange loss	–	–	–	–	354
	<u>–</u>	<u>3</u>	<u>2,647</u>	<u>86</u>	<u>408</u>

Finance costs for the three years ended 31 December 2013, 2014 and 2015 were approximately RMBnil, RMB0.003 million and RMB2.65 million, respectively. The Target Group started to incur finance costs in 2014 as a result of the commencement of its principal business operation. The increase of finance costs of 88,233.33% from 2014 to 2015 was mainly due to the increase in interest expenses for the drawdown of banking facilities in order to meet the higher working capital requirement of the Target Group as a result of the increased sales level.

Finance costs for the three months ended 31 March 2015 and 2016 were approximately RMB0.09 million and RMB0.41 million, respectively. The increase was mainly attributable to the increase in net foreign exchange loss as a result of the depreciation of RMB against foreign currencies (mainly, HK\$, US\$ and Euro), in which certain Target Group's assets and liabilities were denominated in.

Gain on disposal of subsidiary

On 30 June 2015, OPCo disposed of six subsidiaries (the “**Disposed Subsidiaries**”) to a third party and Mr. Cheng Tao, one of the directors of a subsidiary of the Target Company at the time of the transaction, for the equity interests of 95% and 5%, respectively. During the Reporting Period, two of the Disposed Subsidiaries were primarily engaged in the retailing of Parallel Imported Cars in Wuhan and Heilongjiang while the other four were dormant. None of the Disposed Subsidiaries generated profit during the Reporting Period and the aggregated losses for the Disposed Subsidiaries approximately amounted to RMB1.85 million for the year ended 31 December 2014 and RMB2.82 million for the six months ended 30 June 2015. The management of the Target Group considers the disposal may streamline its organization structure and is a good opportunity for the Target Group to realise its investment in the loss-making Disposed Subsidiaries. After such disposal, the Target Group would then be able to divert its resources and management efforts from the Disposed Subsidiaries to its business of importing and trading of Parallel Imported Cars in Tianjin, which would generate better returns in view of the relevant

favorable governmental policies. The total consideration for the disposal amounted to approximately RMB11.55 million, which was determined with reference to the register capital of the respective disposing subsidiaries and fully satisfied in cash. The carrying value of the net assets disposed of amounted to approximately RMB6.93 million. Accordingly, the Target Group has recognised a gain of approximately RMB4.62 million which represents the difference between the consideration and the carrying value of the net assets disposed of as at the date of disposal.

Income tax expenses

The Target Group had no income tax expenses for the year ended 31 December 2013 and recognised deferred tax assets amounted to approximately RMB0.27 million for the year ended 31 December 2014.

Income tax expenses was approximately RMB7.36 million for the year ended 31 December 2015. The increase was mainly attributable to the increase in taxable profits of the Target Group.

Income tax expenses were approximately RMB1.77 million and RMB3.68 million for the three months ended 31 March 2015 and 2016, respectively. The increase was mainly attributable to Target Group's increased taxable profits due to enhanced profitability. Target Group had reversed deferred tax of approximately RMB0.28 million for the three months ended 31 March 2015.

Financial information subsequent to Reporting Period

Based on the unaudited management accounts for the six months ended 30 June 2016, the Target Group's unaudited revenue for the six months ended 30 June 2016 was approximately 35% lower than that for the six months ended 30 June 2015. During the six months ended 30 June 2016, the Target Group sold approximately 376 cars in aggregate. Comparatively, the Target Group sold approximately 622 cars during the six months ended 30 June 2015. The Directors expect the Target Group to record a decrease in revenue for the six months ended 30 June 2016 as compared to six months ended 30 June 2015 which was mainly due to decrease in sales volume. Along with the expansion of its business, the directors of the OPCo strategically develop business with high gross profit margin customers, such as individual customers, to improve its profitability. As a result, the sales volume decreased but the gross profit margin has improved from 5% for the six months ended 30 June 2015 to 10% for the six months ended 30 June 2016, which was mainly due to a higher proportion of sales being made to individual customers instead of distributors, which typically renders a higher gross profit margin. The revenue contribution from distributors constituted 100%, 83% and 68% for the year ended 31 December 2014, 2015 and for the three months ended 2016 respectively. The revenue contribution from individual customers constituted 0%, 17% and 32% for the year ended 31 December 2014, 2015 and for the three months ended 2016 respectively.

The improving profitability for the six months ended 30 June 2016 as compared to that for the six months ended 30 June 2015 was mainly attributable to enhanced gross profit margin. During the six months ended 30 June 2015, the Target Group was in its earlier stage of operation and had been selling the Parallel Imported Cars with relatively lower gross profit margin in order to expand market share.

The Directors expect that the Target Group will record higher total revenue, gross profit margin and net profit for the year ending 31 December 2016 as compared to those in the year ended 31 December 2015, primarily due to the following factors: (i) based on the sales orders received from customers from 1 January 2016 up to 31 August 2016, there is stronger demand for Parallel Imported Cars in the market, which will lead to increased revenue for the six months ending 31 December 2016; and (ii) the Target Group's bargaining power will be improved in line with its business expansion and gross profit margin for the six months ending 31 December 2016 is expected to maintain stable as compared to the first half of 2016.

The Directors have confirmed that, subsequent to 31 March 2016 and up to the Latest Practicable Date, there had been no material adverse change in the pricing strategies or mark-up under the cost-plus business model of the Target Group.

LIQUIDITY AND FINANCIAL RESOURCES

Borrowing and Pledge of Assets

As at 31 December 2013 and 2014, the Target Group had no borrowings. As at 31 December 2015 and 31 March 2016, the Target Group's borrowings comprised bank loans amounted to approximately RMB21.93 million and RMB7.36 million, respectively, all of which are pledged by bills of merchandises' ownership for the issuance of the Target Group's letters of credit.

As at 31 December 2015 and 31 March 2016, Target Group's banking facilities amounted to RMB30.00 million were utilized to the extent of approximately RMB21.93 million and RMB7.36 million, respectively. No banking facilities were granted to the Target Group as at 31 December 2013 and 2014.

The above banking facilities are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Target Group were to breach the covenants, the drawn down facilities would become payable on demand. Target Group regularly monitors its compliance with these covenants. As at 31 December 2015 and 31 March 2016, none of the covenants relating to the drawn down facilities had been breached.

Funding and Treasury Policies

As at 31 December 2013, 2014 and 2015, cash and cash equivalents amounted to approximately RMB0.12 million, RMB5.38 million and RMB9.74 million, respectively. As at 31 March 2016, cash and cash equivalents amounted to approximately RMB11.34 million.

The operation of the Target Group were mainly funded by cash flow from its operations and bank borrowings. The Target Group will perform periodical review on its business plan and funding requirements and will consider to seek for debt/equity financing as and when appropriate. It is expected that the Target Group will have a better access to capital markets subsequent to the Completion.

Taking into account the revenue generating model of the Target Group as disclosed in the above section headed “Business flow” and its efficient utilization of bank borrowings, the management of the Group is of the view that there will be no material potential impact to the Group’s liquidity and cash flow upon Completion. As such, the management of the Group does not expect that the Group will make any material capital injection or provide any significant financial assistance to the Target Group after Completion.

Working capital analysis

Inventory Turnover

For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, information on inventory turnover of the Target Group are set out as follows:

	Years ended 31 December		Three months ended
	2014	2015	31 March
	RMB'000	RMB'000	2016
			RMB'000
Beginning inventories	–	–	38,705
Ending inventories	–	38,705	44,423
Average inventories	–	19,353	41,564
Cost of import	6,414	602,649	140,819
	<u> </u>	<u> </u>	<u> </u>
Inventory turnover (days)	<u> </u> –	<u> </u> 11.72	<u> </u> 26.93

In 2014, the Target Group did not have any inventories. The increase in days in inventory turnover from approximately 11.72 days in 2015 to approximately 26.93 days in the first quarter of 2016 was mainly due to an increased inventory level for the expected surge in sales as a result of Target Group’s business expansion.

Account Receivables Turnover

For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, information on account receivables turnover of the Target Group are set out as follows:

	Years ended 31 December		Three months ended
	2014	2015	31 March 2016
	RMB'000	RMB'000	RMB'000
Beginning account receivables	–	6,080	–
Ending account receivables	6,080	–	–
Average account receivables	3,040	3,040	–
Revenue	6,430	642,944	156,277
Account receivables turnover (days)	<u>14.18</u>	<u>1.73</u>	<u>–</u>

In 2014, the Target Group recorded account receivables turnover of approximately 14.18 days, since most of its sales were credit sales. The account receivables turnover days decreased to 1.73 days in 2015, as the Target Group had not made any sales on credit terms during the year of 2015. For the same reason, the account receivable balance as at 31 March 2016 was nil.

Trade and Bills Payables Turnover

For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, information on trade and bills payables turnover of the Target Group are set out as follows:

	Years ended 31 December		Three months ended
	2014	2015	31 March 2016
	RMB'000	RMB'000	RMB'000
Beginning trade and bills payables	–	6,230	57,143
Ending trade and bills payables	6,230	57,143	45,284
Average trade and bills payables	3,115	31,686	51,213
Purchases	6,414	641,355	146,537
Trade and bills payables turnover (days)	<u>14.57</u>	<u>18.03</u>	<u>31.80</u>

In 2014, the Target Group recorded trade and bills payables turnover of approximately 14.57 days, since most of its purchases were credit purchases. The trade and bills payables turnover increased to 18.03 days in 2015. The OPCo has obtained a revolving credit facility in 2015, which substantially increased its bills payable to RMB57,143,000.

Liquidity Risk, Interest Rate Risk and Currency Risk Management*Liquidity risk*

The Target Group centrally managed the short term investment of cash surpluses and the raising of financings to cover expected cash demands. The Target Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Details of the liquidity exposure are set out in the note 19(b) of Accountants' Report of the Target Group in Appendix II to this circular.

Interest rate risk

The Target Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Target Group to cash flow interest rate risk and fair value interest rate risk, respectively.

There were no interest-bearing borrowings at 31 December 2013 and 2014. As at 31 December 2015, all borrowings of the Target Group were fixed rate borrowings with effective interest rates ranging from 4.80% to 5.20%. As at 31 March 2016, all borrowings of the Target Group were fixed rate borrowing with effective interest rate of 4.80%.

The Target Group has no specific requirements on the exact proportion of interest that should be fixed or floating. The position is reviewed periodically whereby various factors are considered including existing debt covenant restrictions, forecast debt levels and prevailing market conditions. Based on such review, management of the Target Group may consider to manage its interest rate risk by using interest rate swaps should the need arise.

Currency risk

For presentation purposes, the Target Group's financial statements are shown in RMB. The companies within the Target Group, whose functional currencies are different from RMB, have translated their financial statements into RMB for combined purpose.

The Target Group is exposed to currency risk primarily through borrowings which give rise to loans and cash balances that denominated in foreign currency. The currencies giving rise to this risk are primarily USD and Euros. Details of the currency exposure are set out in the note 19(d) of Accountants' Report of the Target Group in Appendix II to this circular.

In respect of borrowing denominated in foreign currencies, the Target Group ensures that the exposure is kept to an acceptable level, by buying and selling foreign currencies at spot rates where necessary to address short-term imbalances.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2013, 2014 and 2015 and 31 March 2016, the Target Group had 0 employee, 14 employees, 25 employees and 23 employees, respectively. The breakdown of total number of employees by major department are set as follows:

	As at			
	31 December 2013	31 December 2014	31 December 2015	31 March 2016
Senior management	0	1	1	2
Administration department	0	2	2	2
Sales and procurement department	0	9	16	8
Finance department	0	2	4	5
Logistics department	0	0	2	6
	<hr/>	<hr/>	<hr/>	<hr/>
Total number of employees	0	14	25	23
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The increase in number of employees in 2015 is primarily due to the commencement of operation of the Target Group since December 2014 and the expansion of business thereafter. The slight decline in number of employees in the first three months of 2016 is mainly attributable to the disposal of six subsidiaries by the Target Group in June 2015, offset by an increase in number of newly hired staff to cope with the business expansion in Tianjin.

The remuneration for employees of the Target Group comprises basic salaries, wages and other benefits and contribution to defined contribution retirement plan. The Target Group employs, promotes and remunerates employees based on their qualifications, job nature, individual performance, working experiences and contribution. Remuneration is also determined with reference to, among others, the market trend. The total staff costs of the Target Group for the years ended 31 December 2013, 2014 and 2015 were approximately RMBnil, RMB0.40 million and RMB1.87 million, respectively. The increase in staff costs is primarily due to the increase in number of employees and the increase in average remuneration of employees for the three years ended 31 December 2015. The total staff costs of the Target Group for the three months ended 31 March 2015 and 2016 were approximately RMB0.72 million and RMB0.35 million. The decrease of 51.39% in staff costs was mainly attributable to the reduced number of employees as above-mentioned.

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the subsidiaries of the Target Group established in the PRC participate in a defined contribution retirement benefit scheme managed by the local government authority, whereby these subsidiaries are required to contribute to the scheme at a rate of 20% employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC, from the above mentioned retirement scheme at their normal retirement age.

The Target Group has no further obligation for payment of other retirement benefits of employees beyond the above contributions.

No share option scheme has been adopted by the Target Group for its employees.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

Save for the disposal of six subsidiaries in June 2015 as detailed in note 18 of Accountants' Report of the Target Group in Appendix II to this circular and the Reorganisation, the Target Group did not have any significant investments or carried out any material acquisition and disposal during the years ended 31 December 2013, 2014 and 2015 and the three months ended 31 March 2016.

ADJUSTED DEBT-TO-CAPITAL RATIO

The adjusted debt-to-capital ratio of the Target Group as at 31 December 2013, 2014 and 2015 and 31 March 2016 are as follows:

	As at 31 December			At
	2013	2014	2015	31 March
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	–	–	21,929	7,357
Trade and other payables	38	11,823	101,429	201,685
Total debt	38	11,823	123,358	209,042
Less: cash and cash equivalents	120	5,377	9,739	11,339
Adjusted net debt	(82)	6,446	113,619	197,703
Total equity and adjusted capital	<u>10,219</u>	<u>28,539</u>	<u>121,049</u>	<u>32,086</u>
Adjusted debt-to-capital ratio	<u>0%</u>	<u>23%</u>	<u>94%</u>	<u>616%</u>

For the year ended 31 December 2015 and the three months ended 31 March 2016, the Target Group had not made any purchases on credit terms.

As at 31 March 2016, trade and other payables of the Target Group amounted to RMB201.69 million, among which RMB100 million was consideration payable for the acquisition of 100% equity interest in the OPCo by World Vast as part of the Reorganization. Such consideration payable is outside of the ordinary course of business of the Target and is not recurring in nature. It is expected that the amount will be settled by Ms. Cheng Weihong by way of capital investment in World Vast in her capacity as the ultimate controlling shareholder before the Completion.

As at 31 July 2016, the Target Group had unutilized banking facilities of approximately RMB 13,091,000. Based on the letter of support issued by two commercial banks in the PRC, the amounts of banking facilities to be further obtained in 2016 and in 2017 by the Target Group (which are of similar terms to the existing banking facilities granted to the Target Group) are expected to be RMB100,000,000 and RMB200,000,000, respectively. The Directors are of the opinion that after taking into account the foregoing, cash flows from the Group's operations, available banking facilities and the Target Group's current and anticipated levels of operation and conditions in the markets and industry, the Target Group has sufficient working capital to settle its outstanding liabilities as they fall due.

PROVISIONS AND PLEDGE OF ASSETS

Provisions

As at 31 December 2013, 2014 and 2015 and 31 March 2016, no provisions were made by the Target Group.

Pledge of assets

As at 31 December 2013 and 2014, the Target Group did not pledge any of its assets. As at 31 December 2015 and 31 March 2016, deposits amounted to approximately RMB17.14 million and RMB13.59 million were pledged for issuance of bank bills, respectively; approximately RMB0.60 million and RMB1.93 million were pledged for issuance of letter of credit, respectively.

LEASES COMMITMENT

As at 31 December 2013, 2014 and 2015 and 31 March 2016, leases commitments of the Target Group outstanding were as follows:

	As at 31 December			At
	2013	2014	2015	31 March
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Within 1 year	–	308	115	115
After 1 year but within 5 years	–	1,736	115	86
	<u>–</u>	<u>2,044</u>	<u>230</u>	<u>201</u>

All of the leases commitments of the Target Group were future minimum lease payments under non-cancellable operating leases entered into by the Target Group. Save for the leases commitments, the Target Group does not have any material commitment.

CONTINGENT LIABILITIES

As at 31 December 2013, 2014 and 2015 and 31 March 2016, there were no material contingent liabilities of the Target Group.

BUSINESS PROSPECT AND OUTLOOK FOR FUTURE DEVELOPMENT

According to National Bureau of Statistics of China, the per capita disposable income of Chinese urban households has increased rapidly to RMB31,195 in 2015 from RMB19,109 in 2010, representing a compound annual growth rate of 10.30%. Riding on the rising spending on consumer products in the PRC, the sales of passenger cars, in particular those of foreign-branded passenger cars which are more expensive in general, are expected to grow in a fast pace. The demand of Parallel Imported Cars is therefore expected to escalate. The Target Group is eyeing at the growth opportunity to be driven by the mid-to-high income class customers by offering less costly alternatives as compared to those available from traditional 4S shops.

Tianjin is one of the major ports for car imports in the PRC. Having established a profound business connection with suppliers, purchase agents and customers within the Parallel Import of car sector in the TJFTZ, the Target Group recorded speedy growth over the past year. Further, the Pilot Implementation Plan of TJFTZ was promulgated in May 2015, and this enhanced the prospects for parallel car importers looking to tap business opportunities through TJFTZ. Eyeing the opportunities arisen from this favorable governmental policy, the management of the Target Group is expecting to expand its customer bases as well as deepen its business relationship with the existing customers. At the same time, the Target Group is looking forward to increase its market share by extending its customer base in other cities in the PRC such as Hunan and Xinjiang. This is the Target Group's intention to commence purchasing directly from overseas suppliers from around January 2017 after the OPCo has obtained the status of Pilot Enterprise, striving to further improve its profitability. Managements of Target Group expects that the Target Group is able to leverage its expertise and resources to expand the business at a steady and healthy pace.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

A. PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**1. Introduction**

The following unaudited pro forma financial information of the Enlarged Group, being Lisi (Group) Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”), together with Mega Convention Group Limited (the “Target Company”), World Vast International Enterprise Limited (“World Vast”) and Tianjin Calistar Automall Operation Management Co., Ltd. (“Tianjin Calistar”) (collectively the “Target Group”), comprising the unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 March 2016, has been prepared by the directors of the Company in accordance with paragraphs 4.29 and 14.67(6)(a)(ii) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the purpose of illustrating the effect of the proposed acquisition of entire equity interests in the Target Group by the Group (the “Proposed Acquisition”), to provide information about how the Proposed Acquisition might have affected the Group’s financial position as at 31 March 2016, as if the Proposed Acquisition had taken place at 31 March 2016.

The unaudited pro forma financial information has been prepared using accounting policies materially consistent with that of the Group and based on the consolidated statement of financial position of the Group at 31 March 2016 as extracted from the Group’s consolidated financial statements for the year ended 31 March 2016 as set out in the published annual report for the year ended 31 March 2016 as mentioned in the “Financial Information of the Group” in Appendix I to this Circular after making certain pro forma adjustments as described below. A narrative description of the pro forma adjustments of the Proposed Acquisition that are (i) directly attributable to the Proposed Acquisition concerned and not relating to future events or decisions; and (ii) factually supportable, is summarised in the notes below.

The unaudited pro forma financial information has been prepared 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 Proposed Acquisition been completed as at the specified dates or any future date.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group for the year ended 31 March 2016, the combined statement of financial position of the Target Group at 31 March 2016 as set out in the “Accountants’ Report of the Target Group” in Appendix II to this Circular, and other financial information included elsewhere in this circular. The unaudited pro forma financial information of the Enlarged Group does not take into account of any trading or other transactions subsequent to the date of the financial statements included in the unaudited pro forma financial information of the Enlarged Group.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

**2. Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at
31 March 2016
(Expressed in RMB)**

	Consolidated statement of financial position of the Group <i>RMB'000</i> <i>Note3(a)</i>	Combined statement of financial position of the Target Group <i>RMB'000</i> <i>Note3(b)</i>	Other Pro forma Adjustments			Unaudited pro forma consolidated statement of financial position the Enlarged Group <i>RMB'000</i>
			<i>RMB'000</i> <i>Note3(c)</i>	<i>RMB'000</i> <i>Note3(d)</i>	<i>RMB'000</i> <i>Note3(e)</i>	
Non-current assets						
Property, plant and equipment	865,488	184	–	–	–	865,672
Investment properties	425,390	–	–	–	–	425,390
Goodwill	43,313	–	–	744,001	–	787,314
Intangible assets	7,001	–	–	7,470	–	14,471
Interest in an associate	26,184	–	–	–	–	26,184
Available-for-sale financial assets	72,194	–	–	–	–	72,194
Deferred tax assets	32,892	–	–	–	–	32,892
	<u>1,472,462</u>	<u>184</u>	<u>–</u>	<u>751,471</u>	<u>–</u>	<u>2,224,117</u>
Current assets						
Available-for-sale financial assets	644,924	–	–	–	–	644,924
Inventories	148,087	44,423	–	–	–	192,510
Trade and other receivables	718,671	173,345	–	–	–	892,016
Restricted bank deposits	319,416	15,516	–	–	–	334,932
Cash and cash equivalents	258,198	11,339	–	–	–	269,537
	<u>2,089,296</u>	<u>244,623</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,333,919</u>
Current liabilities						
Trade and other payables	506,345	201,685	(100,000)	91,595	6,000	705,625
Bank and other loans	790,227	7,357	–	–	–	797,584
Income tax payable	4,314	3,679	–	–	–	7,993
	<u>1,300,886</u>	<u>212,721</u>	<u>(100,000)</u>	<u>91,595</u>	<u>6,000</u>	<u>1,511,202</u>
Net current assets	<u>788,410</u>	<u>31,902</u>	<u>100,000</u>	<u>(91,595)</u>	<u>(6,000)</u>	<u>822,717</u>
Total assets less current liabilities	<u>2,260,872</u>	<u>32,086</u>	<u>100,000</u>	<u>659,876</u>	<u>(6,000)</u>	<u>3,046,834</u>

	Consolidated statement of financial position of the Group RMB'000 Note3(a)	Combined statement of financial position of the Target Group RMB'000 Note3(b)	Other Pro forma Adjustments			Unaudited pro forma consolidated statement of financial position the Enlarged Group RMB'000
			RMB'000 Note3(c)	RMB'000 Note3(d)	RMB'000 Note3(e)	
Non-current liabilities						
Bank and other loans	271,615	–	–	–	–	271,615
Long term payable	–	–	–	499,146	–	499,146
Deferred tax liabilities	249,472	–	–	1,868	–	251,340
	<u>521,087</u>	<u>–</u>	<u>–</u>	<u>501,014</u>	<u>–</u>	<u>1,022,101</u>
NET ASSETS	<u>1,739,785</u>	<u>32,086</u>	<u>100,000</u>	<u>158,862</u>	<u>(6,000)</u>	<u>2,024,733</u>
Capital and reserves						
Share capital	39,374	326	(8)	6,956	–	46,648
Reserves	1,631,191	31,760	100,008	151,906	(6,000)	1,908,865
Total equity attributable to equity shareholders of the Company	<u>1,670,565</u>	<u>32,086</u>	<u>100,000</u>	<u>158,862</u>	<u>(6,000)</u>	<u>1,955,513</u>
Non-controlling interests	<u>69,220</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>69,220</u>
TOTAL EQUITY	<u>1,739,785</u>	<u>32,086</u>	<u>100,000</u>	<u>158,862</u>	<u>(6,000)</u>	<u>2,024,733</u>

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3. Notes to the Unaudited Pro Forma Financial Information

- (a) The consolidated statement of financial position of the Group as at 31 March 2016 was extracted from the Group’s consolidated financial statements for the year ended 31 March 2016 as set out in the published annual report for the year ended 31 March 2016.
- (b) The combined statement of financial position of the Target Group for as at 31 March 2016 was derived from the Accountants’ Report of the Target Group in Appendix II to this Circular.
- (c) Reorganisation of the Target Group

The Reorganisation of the Target Group has not been completed as at 31 March 2016. As discussed in “Letter from the Board”, completion of the Reorganisation by the Target Group is a condition precedent of the Proposed Acquisition.

Consequently, the Target Company would have acquired 100% equity interests in World Vast and World Vast would have obtained capital contribution from its controlling shareholder, Ms Cheng Weihong and settled the outstanding consideration payable of RMB100.0 million as at 31 March 2016 for acquisition of 100% equity interests in Tianjin Calistar had the Proposed Acquisition was taken place as at 31 March 2016.

The pro forma adjustment reflects the settlement of the Target Group’s trade and other payables of RMB100.0 million and the elimination of the World Vast’s share capital of RMB0.01 million upon the completion of the Reorganisation of the Target Group.

- (d) The identifiable assets and liabilities of the Target Group to be acquired by the Group will be accounted for in the consolidated financial statements of the Group at fair value under the acquisition accounting in accordance with International Financial Reporting Standard (“IFRS”) 3, *Business Combinations*.

Pro forma adjustments made represent:

	<i>Notes</i>	<i>RMB’000</i>
Consideration:		
Fair value of consideration shares to be issued upon completion	<i>(i)</i>	290,948
Fair value of contingent consideration	<i>(i)</i>	590,741
Less: fair value of the net assets acquired	<i>(ii)</i>	<u>(137,688)</u>
Goodwill arising from the Proposed Acquisition	<i>(iii)</i>	<u><u>744,001</u></u>

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- (i) The consideration for the Proposed Acquisition will be satisfied by issuance of consideration shares by the Company.

The Tranche A consideration shares will be issued on the completion date the Proposed Acquisition, and the number of consideration shares to be issued is equal to RMB270.0 million, after being converted into equivalent amount in Hong Kong dollar at the exchange rate of the date of special general meeting held by the Company to approve the Proposed Acquisition and divided by the issue price of HK\$0.3712.

The Tranche B consideration shares are conditional and will only be issued if the audited net profit of the Target Group for the year ending 31 December 2016 is no less than RMB30.0 million. The number of Tranche B consideration shares to be issued will be equal to RMB85.0 million after being converted into equivalent amount in Hong Kong dollar at the exchange rate of the date of audit report of the Target Group for the year ending 31 December 2016 and divided by the issue price of HK\$0.3712.

The Tranche C consideration shares are conditional and will only be issued if the audited net profit of the Target Group for the year ending 31 December 2017 is no less than RMB80.0 million. The number of Tranche C consideration shares to be issued will be equal to difference between the actual audited net profit of the Target Group for the year ending 31 December 2017 and RMB30.0 million, multiplied by 8.5, subject to a maximum amount being RMB66.0 million multiplied by 8.5, after being converted into equivalent amount in Hong Kong dollar at the exchange rate of the date of audit report of the Target Group for the year ending 31 December 2017 and divided by the issue price of HK\$0.3712.

For the purpose of this pro forma adjustment, the exchange rates for conversion of RMB to HKD are 0.8329 for the Tranche A consideration shares, being the exchange rate at 31 March 2016, as if the Proposed Acquisition had been completed on that date. The exchange rates for conversion of RMB to HKD are 0.8539 and 0.8827, for the Tranche B and Tranche C consideration shares, respectively, being the twelve and twenty-four months forward exchange rate at 31 March 2016, as the expected issuance date of those shares.

By applying the exchange rates, the Tranche A consideration shares to be issued will be 873,257,005 shares. The Tranche B conditional consideration shares to be issued will be 268,170,068 shares, and the Tranche C conditional consideration shares to be issued will be ranging from 1,297,122,955 shares to 1,712,202,300 shares if the audited net profit of the Target Group is no less than RMB30.0 million and RMB80.0 million for the years ending 31 December 2016 and 2017, respectively.

For the purpose of this unaudited pro forma financial information, the fair value of Tranche A consideration shares to be issued is estimated as RMB290.9 million, based on the 873,257,005 shares to be issued by the Company upon completion of the Proposed Acquisition and closing share price of HK\$0.400 per share as at 31 March 2016 and is recognised as share capital and share premium of the Company.

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For the purpose of this unaudited pro forma financial information, the fair value of the Tranche B and Tranche C consideration shares to be issued is estimated as RMB590.7 million. The estimated fair value of the consideration shares to be issued is calculated based on the expected number of Tranche B and Tranche C consideration shares to be issued and share price of HK\$0.400 per share (which is the closing price as at 31 March 2016). The fair value of the consideration shares are estimated in accordance with IFRS 13 *Fair value measurement* and is consistent with the accounting policies adopted by the Group.

The estimated contingent consideration of RMB590.7 million is recognised as a financial liability in accordance with IAS32, *Financial Instrument, Presentation*.

(ii) Fair value of net assets to be acquired represents:

	Carrying Amount	Reorganisation adjustment	Fair value adjustment	Fair value
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Intangible assets	–	–	7,470	7,470
Property, plant and equipment	184	–	–	184
Inventories	44,423	–	–	44,423
Trade and other receivables	173,345	–	–	173,345
Cash at cash equivalents	11,339	–	–	11,339
Restricted bank deposits	15,516	–	–	15,516
Trade and other payables	(201,685)	100,000	–	(101,685)
Bank loans	(7,357)	–	–	(7,357)
Income tax payable	(3,679)	–	–	(3,679)
Deferred tax liabilities	–	–	(1,868)	(1,868)
	<u>32,086</u>	<u>100,000</u>	<u>5,602</u>	<u>137,688</u>

The reorganisation adjustment represents the settlement of the outstanding consideration payable of RMB100.0 million as at 31 March 2016 for the acquisition of 100% equity interests in Tianjin Calistar upon the completion of the Reorganisation as set out in note 3(c).

The fair value adjustment represents the recognition of intangible assets of customer relationship with an amount of RMB7.5 million in accordance with IFRS 13, *Fair Value Measurement* and IAS 38, *Intangible Assets*. The customer relationship is valued by an independent qualified valuer, using the multi-period excess earnings method. The customer relationship is subject to amortisation of two years in a straight line basis. In addition, deferred tax liabilities of RMB1.9 million are also recognised, representing the related tax liabilities on the fair value adjustment on the intangible assets and are calculated at the applicable PRC Corporate Income Tax rate of 25%.

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For the purposes of the unaudited pro forma financial information, the allocation of the purchase price is determined based on the Directors' estimates of the fair value of the identifiable assets and liabilities being acquired on 31 March 2016, after making the pro forma adjustment of increasing the Target Group's net assets by RMB100.0 million (See Note 3(c)), and by referencing to a valuer's report issued by an independent qualified valuer, as if the Proposed Acquisition was completed on the same date. The valuation was carried out on a fair value basis in accordance with the Hong Kong Valuation Standards ("HKVS") issued by the Hong Kong Valuation Standards Committee.

- (iii) The excess of amount of the consideration, including the contingent consideration over the fair value of the net identifiable assets of the Target Group is recognized as goodwill.

Since the fair value of consideration (including the contingent consideration), the identifiable assets (including intangible assets) and liabilities of the Target Group at the date of completion of the Proposed Acquisition may be substantially different from the fair value used in the preparation of this unaudited pro forma financial information of the Enlarged Group, the final amount of identifiable assets (including intangible assets), liabilities and contingent liabilities, as well as goodwill to be recognised in connection with the Proposed Acquisition could be different from the estimated amount stated herein.

For the purpose of the unaudited pro forma financial information, the Directors have assessed whether there is any impairment in respect of the intangible assets and goodwill expected to arise from the Proposed Acquisition with reference to the principles set out IAS36, *Impairment of Assets*. Based on the Directors' assessment, the Directors consider that there is no impairment indicator on the intangible assets and goodwill with assumed values set out above. The Directors confirmed that they will apply consistent accounting policies, principal assumptions and valuation method to assess impairment of the intangible assets and goodwill in accordance with the requirement of IAS 36, *Impairment of Assets*, in the preparation of the consolidated financial statements of the Group in subsequent reporting periods.

- (e) The Directors estimated that acquisition-related costs (including fee to legal advisers, financial adviser, reporting accountants, valuer, printer and other expenses) shall be approximately RMB6.0 million.
- (f) The Directors assume that the exchange rate HKD against RMB used in the unaudited pro forma financial information of the Enlarged Group was stated specifically in Note 3(d). No representation is made that RMB amounts have been, could have been or could be converted to HK\$, or vice versa, at that rate or at any other rates or at all.
- (g) No adjustments has been made to the unaudited pro forma financial information to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 March 2016.

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**B INDEPENDENT REPORTING ACCOUNTANTS’ ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group’s pro forma financial information for the purpose in this circular.



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

30 September 2016

TO THE DIRECTORS OF LISI GROUP (HOLDINGS) LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Lisi Group (Holdings) Limited (the “Company”) and its subsidiaries (collectively the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 March 2016 and related notes as set out in Part A of Appendix IV to the circular dated 30 September 2016 (the “Circular”) issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of entire issued share capital in Mega Convention Group Limited (the “Proposed Acquisition”) on the Group’s financial position as at 31 March 2016 as if the Proposed Acquisition had taken place at 31 March 2016. As part of this process, information about the Group’s financial position as at 31 March 2016 has been extracted by the Directors from the consolidated financial statements of the Company for the year then ended, on which an audit report has been published.

Directors’ Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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.

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The firm applies Hong Kong Standard on Quality Control 1 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 pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 March 2016 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

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The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group, and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date were, and immediately after the issue of the Consideration Shares will be, as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>10,000,000,000</u> Shares as at the Latest Practicable Date	<u>100,000,000</u>
<i>Issued and fully paid:</i>	
4,581,631,935 Shares in issue as at the Latest Practicable Date	45,816,319.35
3,183,523,942 Maximum amount of Consideration Shares to be issued (calculated with reference to the Illustrative Exchange Rate for illustrative purposes only)	31,835,239.42
<u>7,765,155,877</u> Shares	<u>77,651,558.77</u>

All the existing Shares in issue are fully paid and rank pari passu in all respects including all rights as to voting, dividends and interests in capital. The Consideration Shares to be issued will rank pari passu in all respects with all other Shares in issue as at the date of allotment and issue of the Consideration Shares.

As at the Latest Practicable Date, the Company did not have any outstanding options, warrants, derivatives or securities convertible into Shares.

3. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at the Latest Practicable Date, save as disclosed below, none of the Directors or the chief executive of the Company or their associates had or was deemed to have any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 which the Directors or the chief executives of the Company or their associates were deemed or taken to have under provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Name of Director	Capacity	Number of shares/ underlying shares <i>(Note 1)</i>	Approximate percentage of the issued share capital of the Company
Mr. Li Lixin	<i>Note 2</i>	2,843,631,680 (L)	62.07%
		2,814,550,681 (S)	61.43%

Notes:

1: (L) denotes long position (s) denotes short positions

2: Mr. Li Lixin's interest in 2,843,631,680 shares is held as to 9,822,000 shares personally, 19,258,000 shares through his spouse Jin Yaer, 1,332,139,014 shares through Big-Max Manufacturing Co., Limited ("Big-Max") and 1,482,412,666 shares through Shi Hui Holdings Limited which is wholly-owned by Big-Max. The issued share capital of Big-Max is beneficially owned as to 90% by Mr. Li Lixin and as to 10% by his spouse, Jin Yaer.

Save as disclosed above, none of the Directors or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at the Latest Practicable Date.

(b) Substantial Shareholders' interests and short positions

As at the Latest Practicable Date, save as disclosed below, so far as was known to any Director or chief executive of the Company, no other person or company (other than the Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Name of Shareholder	Capacity	Number of shares/ underlying shares (Note)	Approximate percentage of the issued share capital of the Company
Big-Max Manufacturing Co., Limited (Note 1)	Beneficial Interest	1,332,139,014 (L)	29.08% (L)
		1,332,139,014 (S)	29.08% (S)
Shi Hui Holdings Limited (Note 1)	Beneficial Interest	1,482,412,666 (L)	32.36% (L)
		1,482,411,667 (S)	32.36% (S)
Central Huijin Investment Ltd.	Person having a security interest in shares/interest in controlled corporation	1,979,370,480 (L)	43.20%
China Construction Bank Corporation	Person having a security interest in shares/interest in controlled corporation	1,979,370,480 (L)	43.20%
浙江省財務開發公司 (Zhejiang Province Financial Development Company*)	Person having a security interest in shares	999,999,001	21.83%
財通證券股份有限公司 (Caitong Securities Co., Ltd.*)	Person having a security interest in shares	999,999,001	21.83%

Notes:

- Mr Li Lixin, chairman and executive Director, is a director of Big-Max Manufacturing Co., Limited and Shi Hui Holdings Limited.
- (L) denotes long positions; (S) denotes short positions.

Save as disclosed above, the Company had not been notified and is not aware of any other persons who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at the Latest Practicable Date.

4. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, save as disclosed below, so far as the Directors are aware of, none of the Directors nor their respective close associates had any interest in any business which competes or is likely to compete, or is in conflict or is likely to be in conflict, either directly or indirectly, with the business of Enlarged Group.

Mr. Li Lixin, the chairman, an executive Director and a controlling Shareholder of the Company, together with his spouse beneficially owns 98.15% equity interest of 利時集團股份有限公司 (Lisi Group Co. Ltd) ("**Lisi Co.**"). Mr. Cheng Jianhe, an executive Director, is also a director of Lisi Co. As at the Latest Practicable Date, the principal businesses of Lisi Co. and its subsidiaries ("**Lisi Group**") include the manufacturing and sale of plastic and hardware products, the operation of department stores and supermarket chain, and investments in property development in the PRC.

Lisi Group operates four department stores (the "**Excluded Department Stores**") and one supermarket (the "**Excluded Supermarket**"). Two out of the four Excluded Department Stores and the Excluded Supermarket are located in Ningbo City and the remaining two Excluded Department Stores are located in Tonglu County, Hangzhou City and Haiyan County, Jiaqing City in Zhejiang Province, respectively. All four Excluded Department Stores commenced business in 2010 or 2011 and recorded net losses for each of the two financial years ended 31 December 2012. Since the Excluded Department Stores are still in their startup stage of operation and are loss making, the Directors decided not to acquire the Excluded Department Stores at the material time.

The Excluded Supermarket is situated at the basement of one of the Excluded Department Stores and forms part of that Excluded Department and as such, the Directors decided not to include the Excluded Supermarket into the target group acquired by the Group from Lisi Group in August 2013.

The Directors believed that the Group was capable of carrying on its business independently of, and at arm's length from, the Excluded Department Stores and the Excluded Supermarket owned by Lisi Group after completion of the acquisition of the entire issued share capital of Wealthy Honor Holdings Limited by the Company on the basis that, among other factors:

- (a) while two of the Excluded Department Stores are situated in Ningbo City, the districts in which they are located are different from those in which the two department stores owned by the Group namely, New JoySun department store and Xiangshan Lisi Department Store, are located. The other two Excluded Department Stores are located in Tonglu County, Hangzhou City and Haiyan County, Jiaqing City; and

- (b) the Company entered into a non-competition deed (the “**Non-competition Deed**”) with Shi Hui, the guarantors and Lisi Co (the “**Covenantors**”) on 31 August 2013. Under the Non- Competition Deed, the Covenantors has undertaken not to engage, other than through the Excluded Department Stores and the Excluded Supermarket, in any businesses of manufacture and sale of household products as well as the retail trade in merchandise in department stores and supermarkets in Ningbo City. The non-competition restrictions under the Non-Competition Deed shall terminate on the earlier of (i) the date on which the Covenantors cease to be a controlling Shareholder; and (ii) the date on which the Shares ceased to be listed on the Stock Exchange. As such, Lisi Group will not open, own or operate any new department stores or supermarkets in Ningbo City other than the Excluded Department Stores and the Excluded Supermarket so long as the Non-Competition Deed is in effect. Under the Non-Competition Deed, the Covenantors granted the Company an option to purchase the whole or part of the interest in the Excluded Department Stores or the Excluded Supermarket. The price at which the option will be exercised shall be negotiated and agreed between the Company and Lisi Co. at the time of exercise. If the parties fail to agree on the exercise price, an independent internationally recognised firm of valuers will be appointed to determine the exercise price. The Covenantors also granted the Company a right of first refusal in the event that Lisi Co. wishes to sell the whole or part of its interest in the Excluded Department Stores or the Excluded Supermarket to any third party. Decisions as to whether or not to exercise the right of first refusal shall be subject to the review and approval of the independent non-executive Directors. If the Company decides not to acquire such interest, an announcement will be issued by the Company setting out the reasons for not exercising such right and Lisi Co. may proceed to sell to the third party, provided that the price may not be lower than the price which was offered to the Company.

5. DIRECTORS’ INTERESTS IN ASSETS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors had any interest, either directly or indirectly, in any assets which has since 31 March 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up), up to the Latest Practicable Date, been acquired or disposed of by or leased to, any member of the Enlarged Group or are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group.

6. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Enlarged Group which does not expire or is not determinable by such member of the Enlarged Group within one year without payment of compensation (other than statutory compensation).

7. DIRECTORS’ INTERESTS IN CONTRACT OR ARRANGEMENT OF SIGNIFICANCE

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date and which is significant in relation to the businesses of any member of the Enlarged Group.

8. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 March 2016, being the date to which the latest published audited financial statements of the Company were made up.

10. EXPERTS AND CONSENT

The following are the qualifications of the experts who have given opinion contained in this circular:

Name	Qualification
Vinco Capital	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified Public Accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, advice, opinion and/or report dated 30 September 2016 and references to its name in the form and context in which they respectively appeared.

As at the Latest Practicable Date, each of the experts above did not have any direct or indirect interest in any assets which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 March 2016, the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

11. MATERIAL CONTRACTS

Saved as disclosed below, no material contracts (not being contract entered into in the ordinary course of business carried out by the Group), have been entered into by any member of the Enlarged Group within the two years immediately preceding the Latest Practicable Date:

- (a) the Acquisition Agreement;
- (b) the Supplemental Acquisition Agreement;

- (c) the Strategic Cooperative Agreement;
- (d) the Supplemental Strategic Cooperative Agreement;
- (e) the Non-Competition Undertaking;
- (f) the Conflict Check Undertaking;
- (g) the Customer Referral Undertaking;
- (h) the trust agreement dated 31 March 2016 made between 寧波新江廈股份有限公司 (New JoySun Corp.), a wholly-owned subsidiary of the Company (“**New JoySun**”) and 國民信託有限公司 (The National Trust Limited) (“**National Trust**”) pursuant to which New JoySun entrusted National Trust to manage a cash fund in the principal amount of RMB100 million for and on behalf of New JoySun;
- (i) the trust agreement dated 15 December 2015 made between New JoySun and National Trust pursuant to which New JoySun entrusted National Trust to manage cash funds in the principal amount of RMB270 million for and on behalf of New JoySun;
- (j) the trust agreement dated 26 August 2015 made between New JoySun and National Trust pursuant to which New JoySun entrusted National Trust to manage cash funds in the principal amount of RMB150 million for and on behalf of New JoySun;
- (k) the wealth management agreement dated 28 July 2015 which was renewed at 29 July 2016 made between New JoySun and 寧波通商銀行股份有限公司 (Ningbo Commerce Bank Co. Ltd.) pursuant to which New JoySun agreed to subscribe for a wealth management product in the principal amount of RMB100 million; and
- (l) the wealth management agreement dated 20 January 2015 made between New JoySun and 寧波鄞州農村合作銀行 (Ningbo Yinzhou Rural Cooperative Bank) (“**Yinzhou Bank**”) pursuant to which New JoySun agreed to subscribe for a wealth management product in the principal amount of RMB70 million.

12. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Lau Kin Hon. He is a Hong Kong practicing solicitor. He is currently a non-executive Director.
- (b) The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM11, Bermuda.
- (c) The principal place of business of the Company is Workshop 06 & 07, 36th Floor, King Palace Plaza, No. 52A Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at Workshop 06 & 07, 36th Floor, King Palace Plaza, No. 52A Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong during normal business hours from 9:00 a.m. to 6:00 p.m. on any Business Day for a period of 14 days from the date of this circular:

- (a) the Acquisition Agreement;
- (b) the Supplemental Acquisition Agreement;
- (c) the Strategic Cooperative Agreement;
- (d) the Supplemental Strategic Cooperative Agreement;
- (e) the Non-Competition Undertaking;
- (f) the Conflict Check Undertaking;
- (g) the Customer Referral Undertaking;
- (h) the Memorandum of Association and Bye-laws of the Company;
- (i) the annual reports of the Company for the years ended 31 March 2014, 31 March 2015 and 31 March 2016;
- (j) the accountants' report on the Target Group prepared by KPMG, the full text of which is set out in Appendix II to this circular;

- (k) the material contracts referred to in the section headed “Material Contracts” of this appendix;
- (l) the letter from the Independent Board Committee, the text of which is set out on page 48 of this circular;
- (m) the letter from Vinco Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 49 to 98 of this circular;
- (n) the report from KPMG in respect of the unaudited pro forma financial information of the Enlarged Group, the full text of which is set out in Appendix IV to this circular;
- (o) the written consent referred to in the paragraph headed “Experts and Consent” in this appendix;
- (p) the circular of the Company dated 22 January 2016; and
- (q) a copy of this circular.

* *For identification purposes only*

NOTICE OF SPECIAL GENERAL MEETING



LISI GROUP (HOLDINGS) LIMITED

利時集團（控股）有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 526)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting (the “**SGM**”) of Lisi Group (Holdings) Limited (the “**Company**”) will be held at Suite 2418, 24/F, Jardine House, 1 Connaught Place, Central, Hong Kong on Tuesday, 18 October 2016 at 3:00 p.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the Acquisition Agreement (as defined and described in the circular of the Company dated 30 September 2016 (the “**Circular**”), a copy of which is tabled at the meeting and marked “A” and signed by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one director of the Company be and is hereby authorised to, on behalf of the Company, do all such acts and sign, seal, execute and deliver all such documents and take all such actions as he/she may consider necessary or desirable for the purpose of or in connection with or to give effect to the Acquisition Agreement and the transactions contemplated thereunder.”

2. “**THAT**

- (a) the allotment and issue of the Consideration Shares (as defined and described in the Circular) in the principal amount of up to RMB916,000,000 at the issue price of HK\$0.3712 per Consideration Share to Mighty Mark Investments Limited and/or its designated party be and are hereby approved;

NOTICE OF SPECIAL GENERAL MEETING

- (b) subject to the listing committee of The Stock Exchange of Hong Kong Limited having granted the listing of, and permission to deal in the Consideration Shares, the Directors be and are hereby granted the specific mandate (the “**Specific Mandate**”) which shall entitle the directors of the Company to exercise all the powers of the Company to allot, issue and credited as fully paid, the Consideration Shares, on and subject to the terms and conditions of the Acquisition Agreement, providing that the Specific Mandate shall be in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution; and
 - (c) any one director of the Company be and is hereby authorised to, on behalf of the Company, do all such acts and sign, seal, execute and deliver all such documents and take all such actions as he/she may consider necessary or desirable for the purpose of or in connection with or to give effect to the allotment and issue of the Consideration Shares.”
3. **“THAT**
- (a) the Strategic Cooperative Agreement (as defined and described in the Circular, a copy of which is tabled at the meeting and marked “B” and signed by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
 - (b) the annual caps (as set out in the Circular, of which this notice forms part) of the transaction under the Strategic Cooperative Agreement for each of the three years ending 31 December 2018 be and are hereby approved; and
 - (c) any one director of the Company be and is hereby authorised to, on behalf of the Company, do all such acts and sign, seal, execute and deliver all such documents and take all such actions as he/she may consider necessary or desirable for the purpose of or in connection with or to give effect to the Strategic Cooperative Agreement and the transactions contemplated thereunder.”
- 4 **“THAT** Mr. Tong Xin be and is hereby appointed as an executive director of the Company subject to completion of the Acquisition (as defined and described in the Circular) and with effect from the completion date of the Acquisition Agreement and the board of directors of the Company be and is hereby authorized to fix his director’s remuneration.”

By Order of the Board
Lisi Group (Holdings) Limited
Mr. Lau Kin Hon
Company Secretary

Hong Kong, 30 September 2016

NOTICE OF SPECIAL GENERAL MEETING

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or, if he is the holder of two or more shares, more than one proxy to attend and vote in his stead. A proxy need not be a member of the Company.
2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. Completion and return of the accompanying form of proxy will not preclude members of the Company from attending and voting in person at the meeting or any adjournment thereof should they so wish.

As at the date of this notice, the Board comprises Mr. Li Lixin (Chairman), Mr. Cheng Jianhe and Ms Jin Yaxue being executive Directors, Mr. Lau Kin Hon being non-executive Director, Mr. He Chengying, Mr. Cheung Kiu Cho Vincent and Mr. Shin Yick Fabian being independent non-executive Directors.