
CONNECTED TRANSACTION

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

We disposed of our entire equity interest in Yangzhou Sunfonda to Mr. Zhao in June 2013; therefore, Mr. Zhao holds the entire equity interest in Yangzhou Sunfonda. We believe that the business of Yangzhou Sunfonda would not compete directly or indirectly with the business of our Group. For details, please refer to “Business — Legal and Compliance — PRC Non-Compliance Incidents”. As Mr. Zhao is Ms. Chiu’s brother and Mr. Wu’s brother-in-law, Yangzhou Sunfonda will become our connected person as defined under Chapter 14A of the Listing Rules upon the Listing. Yangzhou Sunfonda purchases automobiles from our Group and is principally engaged in the sales and after-sales services of Volkswagen Imported automobiles.

We act as a non-exclusive regional distributor of certain models of automobiles under Volkswagen Imported in Shaanxi Province and Yangzhou, Suzhou and Wuxi in Jiangsu Province, and are allowed to sell the relevant automobiles to other authorized dealerships of Volkswagen Imported (including Yangzhou Sunfonda) and end-user customers in the authorized regions according to our dealership authorization agreement with Volkswagen dated November 1, 2012. Shaanxi Sunfonda Technology, one of our subsidiaries, has entered into an automobile sale and purchase agreement (“Automobile Sales Agreement”) dated February 24, 2014 with Yangzhou Sunfonda, pursuant to which Yangzhou Sunfonda is expected to purchase Volkswagen Imported automobiles from Shaanxi Sunfonda Technology for a term of three years commencing from the Listing Date.

Pricing

Pursuant to the Automobile Sales Agreement, Yangzhou Sunfonda will purchase Volkswagen Imported automobiles from us at the unit price equivalent to our purchase price, which is in compliance with our pricing policy for our wholesale business with other independent automobile dealers. Our wholesale business was not conducted through our outlets as compared to our typical sales to end-user customers, and it did not cost significant operating or financial resources. On this basis, we believe that it is commercially reasonable to set the selling price at or near the purchase price from automobile suppliers when the sales are made to dealerships given that we will receive rebates for the sold automobiles from the automobile suppliers, which normally represent positive margin.

Historical Figures

Yangzhou Sunfonda commenced operations in January 2012. The historical transaction figures for the automobile sale and purchase transactions between us and Yangzhou Sunfonda were as follows:

2010		2011		2012		Nine months ended September 30, 2013	
Volume of Sales	Amount of Sales	Volume of Sales	Amount of Sales	Volume of Sales	Amount of Sales	Volume of Sales	Amount of Sales
(Unit)	(RMB'000)	(Unit)	(RMB'000)	(Unit)	(RMB'000)	(Unit)	(RMB'000)
N/A	N/A	N/A	N/A	14	6,954	64	34,918

The average unit price of the automobiles supplied to Yangzhou Sunfonda for the year ended December 31, 2012 and the nine months ended September 30, 2013 were RMB496,714 and RMB545,594, respectively.

CONNECTED TRANSACTION

Annual Caps and Basis

For the three years ending December 31, 2014, 2015 and 2016, our Directors estimate that our Group will continue to sell the following units and amount of automobiles to Yangzhou Sunfonda upon Listing:

2014		2015		2016	
Volume of Sales	Amount of Sales	Volume of Sales	Amount of Sales	Volume of Sales	Amount of Sales
(Unit)	(RMB'000)	(Unit)	(RMB'000)	(Unit)	(RMB'000)
110	61,000	121	67,000	133	74,000

The above annual caps are determined by taking into account the estimated annual volume of automobiles of 100 units to be supplied to Yangzhou Sunfonda by us in 2013, which is projected based on the sales volume for the nine months ended September 30, 2013, and the unit price will be set at the pricing terms summarized above. According to ACMR, the annual growth rates of sales volume for Volkswagen Imported automobiles are estimated to be 26.9%, 22.8% and 18.5% in Yangzhou City and 15.0%, 15.0% and 15.0% in China for 2014, 2015 and 2016, respectively. Our estimated growth rates in the sales volume to Yangzhou Sunfonda have taken into account the type of automobile products to be sold to Yangzhou Sunfonda and the potential market demand. Such estimated growth rates in 2014, 2015 and 2016 are relatively moderate as compared to the estimated industry growth rates above, which we believe are reasonable. In addition, the average unit prices of automobiles to be sold to Yangzhou Sunfonda in 2014, 2015 and 2016 are expected to be similar to the same in the nine months ended September 30, 2013 because the automobiles to be sold to Yangzhou Sunfonda include certain models, and the purchase price to be paid by us to the automobile suppliers will normally not be raised as these models get more mature. As our sales to Yangzhou Sunfonda will be priced at or near the purchase price payable to our automobile suppliers, we believe that such selling price will not be raised as well. Therefore, we believe that it is reasonable to use the average unit price of automobiles sold to Yangzhou Sunfonda in the nine months ended September 30, 2013 as the basis for the annual caps.

Listing Rule Implications

Given that each of the applicable percentage ratios under Chapter 14A of the Listing Rules is on an annual basis more than 0.1% but less than 5%, the transactions under the Automobile Sales Agreement will be exempted from the independent Shareholders' approval requirements but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Waivers Sought

Our Directors (including the independent non-executive Directors) are of the view that the transactions under the Automobile Sales Agreement have been entered into in the ordinary and usual course of business of our Company, on an arm's length basis, with normal commercial terms, and are fair and reasonable and are in the interests of our Company as well as our Shareholders as a whole. Our Directors (including the independent non-executive Directors) also confirm that each of the proposed annual caps set out herein is fair and reasonable and is in the interests of our Company and our Shareholders as a whole.

CONNECTED TRANSACTION

We have applied to the Stock Exchange, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement requirements of the Listing Rules in respect of the transactions under the Automobile Sales Agreement, subject to the following conditions:

1. the aggregate value of the transactions under the Automobile Sales Agreement for each of the financial years ending December 31, 2014, 2015 and 2016 will not exceed the relevant annual cap amount set forth above; and
2. we will fully comply with the requirements under Chapter 14A of the Listing Rules for transactions between us and Yangzhou Sunfonda to be conducted for the financial years ending December 31, 2014, 2015 and 2016.

The independent non-executive Directors and auditors of our Company will review whether the relevant continuing connected transactions have been entered into based on the principal terms and pricing policies as disclosed in this prospectus. The confirmations of our independent non-executive Directors and auditors will be disclosed annually, as required by the Listing Rules.

Confirmation from the Sole Sponsor

The Sole Sponsor is of the view that the Automobile Sales Agreement has been entered into in the ordinary and usual course of business of our Company and on normal commercial terms, is fair and reasonable and is in the interests of our Company and our Shareholders as a whole, and that the proposed annual caps for the transactions under the Automobile Sales Agreement are fair and reasonable and are in the interests of our Company and our Shareholders as a whole.