THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **China MeiDong Auto Holdings Limited**, you should hand this circular at once to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

MEIDONG AUTO

China MeiDong Auto Holdings Limited
中國美東汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1268)

MAJOR TRANSACTION
ACQUISITION OF STARCHASE MOTORSPORTS LIMITED

6 April 2022

CONTENTS

Page

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

"Acquisition Agreement"	the sale and purchase agreement dated 13 December 2021 entered into between the Company (as purchaser) and the Seller in relation to the Proposed Acquisition, as supplemented by the Supplemental Deed
"Ancillary Restructuring"	the actions to be performed by the Seller ancillary to Corporate Restructuring in accordance with the restructuring plan set out in the Acquisition Agreement, including:

(i) the termination of cash pooling arrangement of the Target Companies within 7 business days from the completion of the Corporate Restructuring;

(ii) the repayment of bank loans of the Target Company designated in the Acquisition Agreement out of the Target Companies' financial resources;

(iii) the transfer of existing employees of the Target Company to an affiliate of the Seller;

(iv) the closure of the Singapore branch of the Target Company;

(v) the writing off of RMB40 million loans made by the Target Companies to the companies excluded or to be excluded from the Target Group pursuant to the Corporate Restructuring;

(vi) the writing off of around RMB50 million (with no more than 10% fluctuation) receivable of the Target Companies from the companies excluded or to be excluded from the Target Group pursuant to the Corporate Restructuring;

	(vii) the distribution of RMB90 million from the Target Companies to the Target Company as dividend payment and from the Target Company to the Seller as repayment of loans;
	(viii) the reimbursement by the Seller to the Target Companies for all taxes, 3rd party or agent consulting fees, and government registration costs resulted from the above (i) to (vii) and Corporate Restructuring caused or to be caused to the Target Companies.
"Apex Sail"	Apex Sail Limited, a controlling shareholder of the Company
"Board"	the board of Directors
"Business Day(s)"	a day (other than a Saturday or Sunday) on which banks are open for general business in Hong Kong, Singapore and the PRC
"Company"	China MeiDong Auto Holdings Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands, shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Proposed Acquisition in accordance with the terms of the Acquisition Agreement
"Completion Date"	date of Completion
"Completion Deadline"	4 p.m. of the first Business Day after the expiry of, whichever is earlier, (i) eight months and one weeks from the date of the Acquisition Agreement, or

(ii) the expiry of three months from the fifth Business Day after the Business Day on which the Company has informed the Seller about the satisfaction and/or waiver of all the conditions precedent under the Acquisition Agreement (or such other date as the Seller and the Company may mutually agree in writing),

or such later date as the Seller and the Company may agree in writing

"Completion Shortfalls" the deduction from the Consideration of the amount of the shortfall in (1) the agreed minimum balance of cash and net working capital of RMB1 billion of the Target Companies as at the Completion Date, provided that (i) if total bank loans outstanding of the Target Companies exceeds the cash balance at Completion for more than RMB20 million, the surplus will be deducted from the cash balance concerned, and (ii) cash outflows of no more than RMB100 million in aggregate for long-term assets construction and investment of the Target Companies can be added to the cash balance concerned; or (2) the agreed minimum net asset value of RMB530 million of the Target Companies (excluding any amount due and receivables from non-independent third parties which include the Seller, affiliate of the Seller, related party of the aforementioned or any of the Target Companies (in each case except for any member of the Target Companies) which would be written off on the Completion Date in accordance with the Acquisition Agreement) as at the Completion Date, whichever is higher, to be calculated in accordance with the provisions in the Acquisition Agreement and agreed by the Seller and the Company, or (in the event of disagreement between the Seller and the Company on the quantum of the deduction calculated) to be determined by an expert accountant pursuant to the provisions in the Acquisition Agreement

"Completion Statement"	the unaudited consolidated statements of the Target Companies' financial position that will be prepared in accordance with the provisions in the Acquisition Agreement for the purpose of determining the Completion Shortfalls
"Condition Deadline"	5 p.m. on the first Business Day after the expiry of five months and one week from the date of the Acquisition Agreement (or such later date as the Seller and the Company may agree in writing)
"Consideration"	the consideration for the Proposed Acquisition, being RMB3,700,000,000 less any Completion Shortfalls
"Corporate Restructuring"	the corporate restructuring to be procured by the Seller to be completed by the Company in accordance with the restructuring plan set out in with the Acquisition Agreement under which six companies would be disposed of and excluded from the Target Group
"Deposit"	RMB350,000,000
"Director(s)"	director(s) of the Company
"Enlarged Group"	the Group as enlarged by the Proposed Acquisition immediately after Completion
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Latest Practicable Date"	31 March 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"PRC"	the People's Republic of China, and for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Proposed Acquisition"	the proposed acquisition of all issued shares of the Target Company by the Company from the Seller, on terms and subject to the conditions set out in the Acquisition Agreement
"Restructuring"	Corporate Restructuring and Ancillary Restructuring
"RMB"	Renminbi, the lawful currency of the PRC
"Seller"	Wearnes-StarChase Limited, a company incorporated in Singapore with limited liability
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGD"	Singapore dollar(s), the lawful currency of Singapore
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Deed"	a deed dated 25 March 2022 executed by the Company and the Seller in relation to the stamping procedures of the Proposed Acquisition
"Target Companies"	the Target Company and its subsidiaries (immediately after the Corporate Restructuring)
"Target Company"	StarChase Motorsports Limited, a company incorporated under the laws of Hong Kong with limited liability

"Target Group"	the Target Company and its subsidiaries
"%"	per cent

Certain Chinese names of institutions, natural persons or other entities have been translated into English and included in this circular as unofficial translations for reference only. In the event of any inconsistency, the Chinese names shall prevail.

China MeiDong Auto Holdings Limited
中國美東汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1268)

Executive Directors:
Mr. YE Fan *(Chairman)*
Mr. YE Tao *(Chief Executive Officer)*
Ms. LUO Liuyu

Independent Non-executive Directors:
Mr. CHEN Guiyi
Mr. WANG, Michael Chou
Mr. JIP Ki Chi

Registered Office:
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
59/F., Bank of China
Tower 1 Garden Road
Hong Kong

6 April 2022

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
ACQUISITION OF STARCHASE MOTORSPORTS LIMITED

INTRODUCTION

Reference is made to the announcement of the Company dated 13 December 2021 in relation to the Proposed Acquisition. On 13 December 2021, the Company entered into the Acquisition Agreement with the Seller, pursuant to which the Company conditionally agreed to purchase all issued shares of the Target Company.

The purpose of this circular is, among other things, to provide you with, among other things, (i) further details of the Proposed Acquisition; (ii) financial information of the Target Group; and (iii) unaudited pro forma financial information of the Enlarged Group.

THE ACQUISITION AGREEMENT

Principal terms of the Acquisition Agreement are summarized as follows:

Date

13 December 2021

Parties

(1) Wearnes-Starchase Limited (the Seller)

(2) The Company (as purchaser)

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Seller and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

Subject matter to be acquired

All issued shares of the Target Company, free from any encumbrance and together with all rights and benefits attached to them at the date of Completion or subsequently becoming attached to them.

Consideration

The Consideration is RMB3,700,000,000 (less any Completion Shortfalls). The Consideration will be settled in cash according to the following schedule pursuant to the Acquisition Agreement:

1. a Deposit in the amount of RMB350,000,000 shall be payable to the Seller on the date of the Acquisition Agreement;

2. a part payment of RMB2,950,000,000 shall be payable to the Seller on the date of Completion; and

3. an amount of RMB400,000,000 less any Completion Shortfalls shall be payable to the Seller within five (5) Business Days after the final determination of the Completion Shortfalls pursuant to the Acquisition Agreement.

The said RMB400,000,000 as the final stage of payment of the Consideration represents approximately 10% of the Consideration and was arrived at after arm's length negotiation between the Company and the Seller. With reference to the due diligence conducted upon the Target Companies, the impact of the Restructuring steps on the Target Companies' financial positions, the estimated cash and net working capital level of the Target Companies required for the ordinary ongoing operations, the audit performed for preparing the Accountants' Report (as set forth in Appendix II to this circular), and the Company's periodic monitoring of the financials of the Target Companies before Completion, the Company considers it highly unlikely for the Completion Shortfalls to exceed RMB400,000,000.

Basis of determining the Consideration

The Consideration was arrived at after arm's length negotiation between the Company and the Seller after considering among other things, (i) potential managerial, operational and financial synergies between the Group and the Target Companies; (ii) enhancement of the Group's brand portfolio, particularly premium automobile brands; (iii) the geographical span and size of the business operation carried out by the Target Companies, and (iv) historical financial results and performance of the Target Companies.

The Company, as a constant part of its business, monitors, assesses and analyses the prevailing market and business condition of, and other key market players in, the automobile dealership industry (including without limitation, distribution network and dealers in Porsche-branded vehicles in the PRC, given the Group's dealership of Porsche-branded vehicles since 2012. It is also the Company's strategy to expand its dealership network of brands that the Group is familiar within China, and the Company has been exploring different expansion options (including its terms and costs) in the industry available to the Group. When considering the Proposed Acquisition and the Consideration, the Company looked into the Group's industry knowledge, recent performance of the Group, domestic demand, trends and prospects based on the Group's own data (e.g. sales and costs, foot counts of stores in different cities), industry statistic, available market information, and macroeconomic development (e.g. potential rate hike in mainland China), and the Company considered the market condition in which the Target Companies and the Group are operating would be stable and growing and would not be expecting any drastic adverse change in near future, assuming there will be no unpredictable and significant adverse change in the political, legal, taxation, fiscal, technological conditions in mainland China and in the localities in which the Target Companies operate. As the Target Companies and the Group are engaged in basically the same industry in mainland China with similar business model and extensive experience in the dealership of Porsche-branded vehicles, the Company regards the Proposed Acquisition represents a timely opportunity for the Group to expand in the profitable and privileged premium car dealership market via acquisition.

The Company has also performed investigations and due diligence (with the assistance of professional advisers engaged by it) on the Target Companies, including without limitation, its business operations and conditions, its key contracts and forecast, future prospects, financial performance and legal compliance. In these exercises, the Company noted that the Target Companies and the Group are subject to essentially the same permits, business certificates, licenses and legal approvals, and the Target Companies have obtained necessary permits, business certificates and legal approvals for its operation which are expected to be capable of being renewed upon expiry. The exercises also looked into the operational effectiveness of the Target Companies, which reveal that the Target Companies and the Group are subject to essentially the same fiscal policies, tax regulations, and the Target Companies have demonstrated in its accounts a healthy operation cash flow in the past three fiscal years. With reference to the results of such investigations and due diligence, and extensive discussions with the Target Companies' key operating and financial officers, the Company believes that the Target Companies have been operated by competent and experienced management, and that the Group also has comparable officials and dealership-level business processes and operational procedures to support smooth transition and manage the Target Companies after the Proposed Acquisition. Having considered the results of these exercises, the Company believes that the Target Companies should be able to operate as a going concern and the management, operation and business of the Target Companies should not deteriorate materially after the Proposed Acquisition.

Having regard to the abovementioned market and industry specific conditions, in valuing the Proposed Acquisition to the Company, the Company has also considered the synergies that may be achieved between the Target Companies and the Group after the Proposed Acquisition. The Target Companies are primarily focusing on the dealership of, and the Group has been very familiar with, Porsche-branded vehicles which is a strong fit of the Group's current brand profile, expansion strategy, and management style. After a careful evaluation of the Target Companies and the Group's expense structures, finance costs, terms of employment, terms with suppliers and relationship with other stakeholders, the Company believes that such familiarity and fitness shall result in managerial, operational and financial synergies between the Group and the Target Companies. The Proposed Acquisition allows an exchange of industry knowledge, data and experience between the managements of the Group and the Target Companies at not only top levels but also operational levels, laying a strong foundation for immediate and future expansion of the Group's distribution network, facilitating a more efficient and extensive use of the Group's financial resources on a larger scale of business after the Proposed Acquisition. The Proposed Acquisition is also expected to facilitate the economies of scale within the Enlarged Group by creating room for efficient application of administrative costs and finance costs, and streamlining the management structure, improving the value chain, and sparing invaluable and immediately available human resources to support the expansion of the Enlarged Group's business without having to go through costly training and integration process of new recruits, thereby improving the potential profitability and growing prospect of the Enlarged Group as a whole.

The Company has also considered the value of the Target Companies to the Group with regard to the scarcity of the brand portfolio of the Target Companies, and the geographical span and size of the business operation carried out by the Target Companies. The Group obtained its first dealership of Porsche-branded vehicles in 2012, and has been expanding its network of the brand since then. With its rich history and unique heritage, Porsche-branded vehicles are well-known and recognised in the PRC for its prestigious brand identity and product identity. On the other hand, organic growth of the dealership network in the PRC could be subject to restrictions due to factors such as vehicles brand's policy in building network and granting dealership (in particular in area which already has existing authorised dealers), time and costs required prior to a store can be placed for operations (e.g. construction, planning, licensing and training). The Proposed Acquisition represents an invaluable opportunity to expand the Group's highly privileged premium brand car dealership business promptly which can otherwise be difficult, or time and cost consuming to do so by organic growth in light of the scarcity of dealership licenses. The Proposed Acquisition will further strengthen the leading position of the Group in premium car dealership business, especially for Porsche-branded vehicles, expanding the Group's network of Porsche-branded vehicles stores from 9 stores (as of 31 December 2021) to 16 stores, with the addition of 7 stores which locates in area which the Group has been actively expanding in, and other locations which will effectively supplement (and will not compete with) the Group's existing dealership and service locations. The localities in which the Target Companies operate, which mostly covers locations not in close proximity to the Group's current dealership and service locations, size of the business operation carried out by the Target Companies, are valuable to the Group because the geographic coverage of the Target Companies' business are in line with the Group's expansion strategy of quickly responding to the shift into the consumption for premium vehicles in lower-tier cities and resonate with the Group's acquisition of Lexus store in Nanjing in 2021. The Proposed Acquisition provides a scarce opportunity and an efficient way for the Group to quickly expand its scale of Porsche dealership business in which the Group is confident on its prospects and profitability, and to focus on its premium vehicle dealership business as a whole.

To further assess the Consideration, the Company also evaluated the Consideration with reference to other available expansion options to the Group, and the value of other market peers. These include, among others, the market capitalization of eight comparable public entities listed in Hong Kong ("**Comparable Entities**", all engaging motor vehicle sales and servicing business in mainland China (similar to that of the Target Companies) with financials published, which, so far as the Company is aware of, are exhaustive based on the above selection criteria) with reference to the historical financial earnings of the Target Companies and the Comparable Entities as follows:

Comparable Entities	**Stock code**	**Principal business**	**Market capitalization as of 30 November 2021 divided by the net profit[1] attributable to owners of year 2020 reported in annual report (P/E)** *(approximate)*
Zhongsheng Group Holdings Limited	881	Sale and service of motor vehicles	27.97
China MeiDong Auto Holdings Limited	1268	4S automobile dealership business in PRC	62.77
Grand Baoxin Auto Group Ltd.	1293	Sale and service of motor vehicles	10.07
China Zhengtong Auto Services Holdings Ltd.	1728	4S dealership business, supply chain business, financial services and comprehensive properties business	N/A[2]
Sunfonda Group Holdings Ltd.	1771	Sale and service of motor vehicles in the PRC	9.46
Centenary United Holdings Ltd.	1959	Sale of motor vehicles and provision of services in the PRC	17.21
China Yongda Automobiles Services Holdings Ltd.	3669	Sale of automobiles and provision of after-sales services, provision of automobile operating lease services, and distribution of automobile insurance products and automobile financial products in the PRC	14.35
China Harmony Auto Holding Ltd.	3836	Sale of automobiles and provision of after-sales services in PRC	16.44
	Average[4] *(approximate)*		22.61
	Average (excluding the Company)[4] *(approximate)*		15.92
	Median[4] *(approximate)*		14.35
	Maximum *(approximate)*		62.77
	Minimum *(approximate)*		9.46

Sources: website of the Stock Exchange

	Consideration divided by the net profit[3] for the nine months ended 30 September 2021 (P/E)
Target Companies	18.62

1. Net profit means the profit for the year 2020 excluding other comprehensive income or loss
2 China Zhengtong Auto Services Holdings Ltd. did not have a reported profit for the year
3. Figures as disclosed in the announcement of the Company dated 13 December 2021
4. China Zhengtong Auto Services Holdings Ltd. was excluded in computing averages and median as it did not have a reported profit for the year

Having regard to the fact that the performance of the automobile dealership business depends less so on the scale of fixed assets as compared to capital or asset intensive industries like the real estate, banking and manufacturing industries, and the Company does not regard the Proposed Acquisition as an opportunistic venture to buy the inventory or other tangible assets of the Target Companies, the Company believes the P/E ratio of the Target Companies is of more relevance when compared to the price-to-book ratio (P/B ratio) in assessing the Consideration to the Company.

As the Company regards the Proposed Acquisition as an invaluable and scarce opportunity to acquire an established and profit-making distribution network of premium motor vehicles which fits in the Group's strategy, thereby achieving an efficient and sizable geographic expansion of the Group's business in premium vehicle dealership in areas with growing demand for premium vehicles, the Company believed the P/E ratio of the Target Companies is a good reflection of the fairness and reasonableness of the Consideration to the Company.

As the negotiation with the Seller on the Consideration was concluded in late 2021, the figures applied in calculating the P/E ratio of the Target Companies above relate to the net profit for the nine months ended 30 September 2021 (as the annual figures were not available), while annual figures covering a 12-month period were applied for other Comparable Entities. For illustrative purpose only, the P/E ratio of the Target Companies for the year ended 31 December 2021 (calculated by dividing the Consideration by the net profit for continuing operations for the year ended 31 December 2021) was approximately 12.81. In light of the different duration covered (i.e. 9 months for the Target Companies compared with 12 months for Comparable Entities), the business prospects of the Target Companies for the fourth quarter of 2021 with reference to the due diligence, the average P/E ratio of 22.61, or 15.91 (excluding the Company), and a range of

9.46 to 27.97 (excluding the Company) of the Comparable Entities, the Company is of the view that P/E ratio of the Target Companies was within the range of Comparable Entities and at a reasonable level.

Having considered the valuation of the Comparable Entities, the historical growth in profit of the Target Companies (from about RMB100 million for the year ended 31 December 2019 to almost RMB200 million for the first nine months of 2021), further growth that the Group may bring to the Target Companies after the Proposed Acquisition discussed above, the potential synergies, strategic value and benefits of the Proposed Acquisition to the Group as discussed above and in section headed "Reasons for and Benefits of the Proposed Acquisition" below, and other expansion alternatives, the Board believes the Consideration is fair and reasonable and the Proposed Acquisition at the Consideration is in the interest of the Company and its shareholders as a whole.

The Company intends to satisfy the Consideration with internal resources, bank borrowings, debt and/or equity fund raising and/or other means. The Company has been consistently generating strong cash flows from operations and benefit from a robust balance sheet with minimal financial leverage, which set the solid stage to support our growth strategy. In addition, the Company has access to a number of funding sources, both onshore in the PRC or offshore. As the Company has done in the past, the Company will continue to evaluate our capital position and funding sources from time to time as the Company deems appropriate to drive future growth and balance sheet efficiency.

Completion statement

Within one month after the Completion Date, the Seller shall prepare and deliver to the Company a draft Completion Statement containing its proposed calculations of the unaudited balance sheet of the Target Companies as at the close of business of Completion Date.

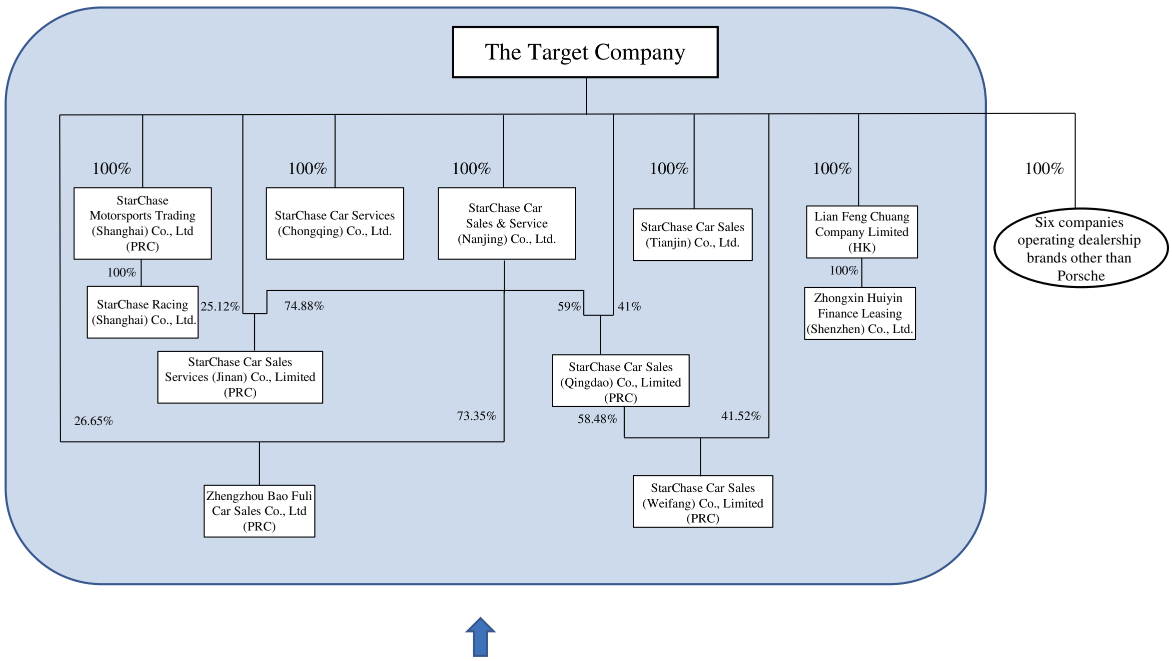
After the Seller's delivery of such draft Completion Statement, the Seller shall procure the Seller's accountants to, and the Company shall procure the Company's accountants to (i) review and verify the draft Completion Statement; (ii) give reasonable details of any disagreement and the adjustments which, in the opinion of the Seller's accountant or the Company's accountants (as applicable), should be made; and (iii) discuss any of such disagreement in order to seek to agree on any adjustments to the draft Completion Statement acceptable to both parties on a fair and amicable basis.

The Company shall, within two months after receipt of the draft Completion Statement, confirm with the Seller in writing whether or not it agrees with the draft Completion Statement (including the calculation of the Completion Shortfalls pursuant thereto), taking into any adjustments agreed upon between the Seller's accountants and the Company's accountants pursuant to the provisions in the Acquisition Agreement.

If the Company and the Seller are unable to reach an agreement on the amount of Completion Shortfalls calculated pursuant to the draft Completion Statement within two months after the Company's receipt of the draft Completion Statement, either party is entitled to refer the matter to the expert accountant for determination. Save in the case of fraud or manifest error, the decision of the expert accountant shall be final and binding upon the Seller and the Company.

Restructuring

The following chart shows the corporate and shareholding structure of the Target Group at the time as at the date of the Acquisition Agreement:



The Target Companies

As at the date of the Acquisition Agreement, other than Porsche, the Target Group also had dealership brands of Aston Martin and Genesis. As the Group's current expansion strategy is to focus on familiar brand, companies in the Target Group operating these non-Porsche dealership brands will be carved out of the Target Group under the Restructuring.

Pursuant to the Acquisition Agreement, the Seller is required to, before the completion of the Proposed Acquisition, perform the Restructuring, under which six companies would be disposed of and excluded from the Target Group ("**Excluded Companies**"). The Corporate Restructuring shall be completed, as a condition precedent to the Completion, within 12 weeks from the date of the Acquisition Agreement (or such later date as the Seller and the Company may agree in writing). Pursuant to the Acquisition Agreement, the Seller is also required to complete the Ancillary Restructuring before Completion (as a undertaking but not as a condition precedent to Completion). As at the Latest Practicable Date, the Corporate Restructuring has been completed and the Ancillary Restructuring is still in progress. Except for when Completion does not occur pursuant to the Acquisition Agreement due to the default on the part of the Company, all taxes and losses resulted from Restructuring or caused or to be caused to the Target Group arising in connection with the Restructuring shall be borne by Seller (not by any of the Target Group and/or

Target Group's shareholders, directors, officers or employees) or be reimbursed by the Seller to the Target Group concerned. In the event where Completion does not take place due to the default on the part of the Company, the Company shall reimburse the Seller on a dollar-to-dollar basis for all such losses and taxes actually paid by the Seller provided that such losses and taxes to be reimbursed by the Company shall be no more than RMB20,000,000, which represents a reasonable level of expected losses and taxes to be incurred by the Seller in the Restructuring as advised by the financial advisers of the Group.

Conditions precedents

Completion is conditional on the following conditions being satisfied (or duly waived by the Company at its sole discretion in writing after 12 weeks from the date of the Acquisition Agreement), on or before the Condition Deadline:

(1) Porsche (China) Motors Ltd (保時捷(中國)汽車銷售有限公司) having consented to or expressed no objection in writing to the Proposed Acquisition;

(2) necessary merger control filing and notification in respect of the Proposed Acquisition having been made to the PRC Anti-Monopoly Bureau and all approvals, consents, or clearances necessary for Completion having been duly obtained from the PRC Anti-Monopoly Bureau;

(3) the Company having despatched a shareholders' circular in respect of the Acquisition Agreement and the transactions contemplated therein, if required and in accordance with the Listing Rules; and

(4) the Corporate Restructuring being completed in twelve weeks from the date of the Acquisition Agreement.

If any of the above conditions is not satisfied or waived in accordance with the Acquisition Agreement on the Condition Deadline, then:

(i) subject to the Company and the Purchaser mutually agree in writing, the Condition Deadline shall be extended to a later date; or

(ii) in the absence of the mutual agreement under the Acquisition Agreement, the obligation to Completion shall terminate on the Condition Deadline.

As of the Latest Practicable Date, save for condition (3), which will be satisfied by the despatch of this circular, all other conditions set out above have been satisfied.

Completion

Upon all conditions being satisfied or waived in accordance with the Acquisition Agreement before the Condition Deadline, the Seller shall, or procure its solicitors to, timely initiate and follow up with the stamping procedure for the Proposed Acquisition in accordance with the terms of the Acquisition Agreement.

Completion shall take place on the fifth Business Day after the Business Day on which the Seller has notified the Company that the Stamp Office of the Inland Revenue Department of Hong Kong has released to the Seller the duly stamped instrument of transfer and bought and sold notes in relation to the Proposed Acquisition, but if such date does not fall on the last Business Day of a month, the Completion Date shall be the last Business Day of the month or at such other date or time as the Seller and the Company may agree in writing.

If Completion does not take place on or before the Completion Deadline, the Acquisition Agreement shall be terminated on the Completion Deadline in accordance with the terms of the Acquisition Agreement.

Refund of Deposit and Pre-paid stamp duty

The Deposit will be non-refundable and without recourse unless the Acquisition Agreement is terminated because the Seller fails to:

(1) perform any of its obligations in relation to certain stamping and completion handover stipulated under the Acquisition Agreement before the Completion Deadline while the Company has duly performed its obligations stipulated under the Acquisition Agreement in relation to certain document provision; or

(2) procure the completion of the Corporate Restructuring in 12 weeks from the date of the Acquisition Agreement (or such later date as the Seller and the Company may agree in writing).

In either of the above scenarios, the estimated stamp duty for the Proposed Acquisition in the amount of RMB10,000,000 pre-paid on the date of the Acquisition Agreement by the Company to the Seller shall be refunded to the Company by the Seller.

INFORMATION OF AND MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET COMPANY

The Target Company is incorporated in Hong Kong with limited liability.

The Target Companies is an automobile dealership group in the PRC and operates Porsche automobile brand. It has 7 4S dealership stores, 4 showrooms and 3 service points, totalling 14 points, in seven cities of in the PRC, namely, Nanjing, Qingdao, Tianjin, Chongqing, Weifang, Jinan and Zhengzhou. Each of the Target Companies' dealership store is a 4S dealership store that integrates four principal automobile-related businesses, i.e. sales, spare parts, service and survey. It offers a broad range of sales and services, including (i) sales of new automobiles, (ii) after-sales services, which include maintenance and repair services and sales of spare parts and accessories, and (iii) automobile agency services, which include automobile financing, insurance and registration agency services.

Financial information on the Target Companies

Set forth below is a summary of the financial information of the Target Company for the years ended 31 December 2019, 2020 and 2021, extracted from the accountants' report set out in Appendix II to this circular, and the number of new and used cars sold by the Target Companies during the relevant period:

	For the year ended 31 December		
	2019	**2020**	**2021**
	(Expressed in RMB'000)		
Continuing operations			
Revenue	5,046,978	5,623,274	6,408,919
Total number of new and used cars sold *(units)*	6,609	7,121	7,534
Profit before taxation	168,572	283,410	391,783
Profit for the year from continuing operations	121,790	206,084	288,869
Continuing and discontinued operations			
Profit for the year	109,971	194,734	268,302

	As of 31 December		
	2019	**2020**	**2021**
	(Expressed in RMB'000)		
Total assets	2,020,470	2,526,901	2,935,315
Current liabilities	1,348,124	1,739,114	1,979,941
Non-current liabilities	137,198	163,966	223,960
Net assets	535,148	623,821	731,414

As of 31 December 2021, certain entities would be disposed of by the Target Group before Completion as part of the Restructuring. The interests in these Excluded Companies have been presented as a disposal group held for sale as at 31 December 2021 and as part of discontinued operations for the year ended 31 December 2021 and comparative periods. Please refer to Note 23(a) of "Appendix II — Accountants' Report of the Target Company" to this circular for further information.

Management Discussion and Analysis

Set out below is the management discussion and analysis on the Target Company for the three years ended 31 December 2019, 2020 and 2021, based on the financial information of the Target Group as set out in "Appendix II — Accountants' Report of the Target Company" to this circular and information provided by the Target Group:

Revenue

The Target Group's revenue from continuing operations was derived mainly from the sales of passenger vehicles, and to a lesser extent, from after-sale services. Sales of passenger vehicles for the years ended 31 December 2019, 2020 and 2021 amounted to approximately RMB4,633 million, RMB5,182 million and RMB5,910 million, respectively, which represented approximately 91.80%, 92.15% and 92.21% of the Target Group's revenue from its continuing operations, respectively. The growth in revenue from continuing operations during the reporting period was primarily attributable to the increase in number of cars sold.

The total number of cars sold by the Target Group from continuing operations was 6,609, 7,121 and 7,534 for the years ended 31 December 2019, 2020 and 2021, respectively.

Revenue from after-sales services from continuing operations consists principally of revenue from maintenance and repair services, and sales of spare parts and accessories. Revenue from after-sale service from continuing operations increased steadily during the reporting period, amounted to approximately RMB414 million, RMB441 million and RMB499 million for the years ended 31 December 2019, 2020 and 2021.

Almost all of the Target Group's revenue from continuing operations was derived in mainland China during the years ended 31 December 2019, 2020 and 2021. The Target Group had a diversified customer base, and did not place substantive reliance over any single customers.

Cost of sales

The Target Group recorded cost of sales from continuing operations of approximately RMB4,588 million, RMB5,095 million and RMB5,725 million, respectively, for the years ended 31 December 2019, 2020, and 2021. This increase during the reporting period was mainly attributable to the increase in number of cars sold, in line with the growth in revenue for the reporting period.

Other revenue and other net income

Other revenue and other net income from continuing operations amounted to approximately RMB59 million, RMB96 million and RMB103 million for the years ended 31 December 2019, 2020 and 2021, respectively, out of which approximately RMB52 million, RMB64 million and RMB78 million, respectively, was derived from commission income. Such commission income was generated mainly from the Target Group's automobile agency services, including insurance commission from insurances companies, and commission from the Target Group's automobile financing services. Other components in other revenue and other net income from continuing operations comprise interests income, management service income, net foreign exchange (loss)/ gain, net loss on disposal of property, plant and equipment, net realised gains on financial assets measured at fair value through profit or loss and others during the reporting period.

Distribution costs and administrative expenses

Distribution costs from continuing operations amounted to approximately RMB208 million, RMB200 million and RMB236 million, respectively, for the years ended 31 December 2019, 2020 and 2021. Administrative expenses from continuing operations amounted to approximately RMB88 million, RMB83 million and RMB105 million, respectively, for the years ended 31 December 2019, 2020 and 2021. The increase in expenses was in line with the growth in revenue during the reporting period.

Gross profit and gross profit margin

For the years ended 31 December 2019, 2020, and 2021, the Target Group recorded gross profit from continuing operations of approximately RMB459 million, RMB528 million and RMB684 million, respectively.

The Target Group's overall gross profit margin (being gross profit/revenue x 100%) from continuing operations amounted to approximately 9.10%, 9.40% and 10.66% for the years ended 31 December 2019, 2020 and 2021, respectively. The gross profit margin for sales of passenger vehicles from continuing operations was approximately 5.93%, 6.28% and 7.65%, and that for after-sales services from continuing operations was approximately 44.62%, 46.02% and 46.34% for the years ended 31 December 2019, 2020 and 2021, respectively.

Discontinued operations

As referred to in the paragraph headed "Restructuring" in the Letter from the Board in this circular, the Target Group had other dealership brands (i.e. the excluded brands) other than Porsche, which are not the current expansion focus of the existing Group. Accordingly and pursuant to the Acquisition Agreement, entities operating these excluded brands were agreed to be disposed of by the Target Group. Interests in these entities, together with business disposed of by the Target Group during the reporting period were presented as discontinued operations for the years ended 31 December 2019, 2020 and 2021 in "Appendix II — Accountants' Report of the Target Company to this circular.

Liquidity and financial resources

The Target Group's principal source of funding was cash generated from its internal resources (including from sales of passengers vehicles and after-sales services) and cash generated from loans and borrowings during the reporting period. The primary liquidity requirements have been for working capital for its operations, repayment of bank loans, advances and related interests, and payment of dividends.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB million (approximate)	*RMB million (approximate)*	*RMB million (approximate)*
Net cash from operating activities	229	399	445
Net cash (used in)/generated from investing activities	(122)	5	(132)
Net cash (used in)/generated from financing activities	(159)	160	(127)
Net (decrease)/increase in cash and cash equivalent	(52)	564	186

Note: for both continuing and discontinued operations

Trade and other receivables

As at 31 December 2019, 2020 and 2021, the Target Group had trade receivables (net of loss allowance) from third parties and related parties of approximately RMB38 million, RMB32 million and RMB45 million, respectively. The Target Group's trade receivables balances from its continuing operations mainly represent mortgage granted by major financial institutions to customers of the Target Group, insurance commission receivables from insurance companies and warranty receivables from automobile manufacturers. The trade receivables from the Target Group's five largest debtors at 31 December 2019, 2020 and 2021 represented 34%, 49% and 44% of the total trade receivables respectively, while 30%, 43%, and 37% of the total trade receivables were due from the largest single debtor respectively.

As at 31 December 2019, 2020 and 2021, the Target Group had prepayments and other receivables and deposits (such as performance deposits, vendor rebates from automobile manufacturers, dealers' spare parts deposits, rental and other deposits (and in respect of 31 December 2020 and 2021, deposit as security of bank loans and borrowings granted to a related party, which has been released as of the Latest Practicable Date)) from third parties and related parties of approximately RMB232 million, RMB229 million and RMB170 million, respectively.

Such other receivables due from related parties included, among others, (i) loan provided by the Target Group through cash pool arrangement under a Renminbi Cash Pool Management Agreement signed by the Target Group and its related parties (being parties related to the Seller) with a commercial bank, which allows the bank to transfer the balance of their respective bank accounts into designated cash pooling account, as entrusted loans to or from the Target Group, during the reporting period. Through such arrangements, the Target Group provided the loan of RMB47,500,000, RMB11,300,000 and RMBNil as at 31 December 2019, 2020 and 2021, respectively (with effective annual interest rates charged on such loans to or from the Target Group at 4.8% to 5.0%) ; and (ii) certain short-term loans provided to related parties with interest rates varying from 3% to 6% per annum. Such cash pool arrangement with parties related to the Seller will be terminated before or upon Completion.

Inventories, and property, plant and equipment

A major component of Target Group's inventories was motor vehicles, with a carrying value of approximately RMB448 million, RMB433 million and RMB406 million as at 31 December 2019, 2020 and 2021, respectively.

Property, plant and equipment comprised land and buildings, leasehold improvements, plant and machinery, passenger vehicles and office equipment and furniture. The Target Group's property, plant and equipment are primarily located in the PRC. Property, plant and equipment with net book value of RMBNil, RMB756,000 and RMB1,581,000 were pledged as security for bank loans as at 31 December 2019, 2020 and 2021, respectively.

Trade and other payables

As at 31 December 2019, 2020 and 2021, the Target Group had trade and bills payables to third parties and parties related to the Seller of approximately RMB25 million, RMB29 million and RMB33 million, respectively. All trade and bill payables were expected to be settled within one year.

As at 31 December 2019, 2020 and 2021, the Target Group had contract liabilities and other payables and accruals of due to third parties and related parties of approximately RMB237 million, RMB335 million and RMB468 million, respectively, out of which approximately RMB139 million, RMB226 million and RMB273 million were contract liabilities due to third parties, which was recognised when the customer pays non-refundable consideration before the Target Group recognises the related revenue.

Contingent liabilities

As at 31 December 2019, 2020 and 2021, the Target Group did not have any significant contingent liabilities.

There was no material capital commitment outstanding not provided for as at 31 December 2019, 2020 and 2021.

Capital structure and cash

Share capital comprised 50,000 issued ordinary shares with no par value and were fully paid at each of 31 December 2019, 2020 and 2021.

As at 31 December 2019, 2020 and 2021, the Target Group had cash at bank and on hands of approximately RMB395 million, RMB946 million, and RMB1,024 million, respectively, and had pledged bank deposits (in favour of its loans and borrowings, and bills payable) of approximately RMB35 million, RMB25 million and RMB22 million, respectively. Cash at bank and pledged bank deposits were with fixed interest rates ranging from 0.01% to 2.1% per annum as at 31 December 2019, 2020 and 2021, respectively. Cash at bank and on hand were primarily in RMB and Singapore Dollars during the reporting period, together with other currencies like Euro, US dollars, Hong Kong dollars and Great British Pound.

Borrowings, loans and gearing ratio

As at 31 December 2019, 2020 and 2021, the Target Group had loans and other borrowings of approximately RMB1,043 million, RMB1,357 million and RMB1,350 million, respectively primarily in RMB and Singapore dollars. Out of these bank and other borrowings, approximately RMB919 million, RMB1,317 million and RMB1,321 million were secured by the Target Group's inventories, trade and other receivables, property, plant and equipment, and pledged bank deposits. Loans and borrowings of the Target Group of approximately RMB529 million, RMB442 million and RMB306 million were guaranteed by a related party as at 31 December 2019, 2020 and 2021, respectively. A majority of these guarantees have been or will be released or repaid before Completion.

As of 31 December 2019, 2020 and 2021, the Target Group's interest-bearing borrowings and lease liabilities at fixed rate amount to approximately RMB197 million, RMB164 million and RMB215 million, respectively (with effective fixed interest rate varying from 4.25% to 9.90%), while interests bearing bank loans with at variable interest rates amounted to approximately RMB998 million, RMB1,331 million and RMB1,264 million.

As of 31 December 2021, approximately RMB1,259 million of such loans and borrowings were repayable within 1 year or on demand, with the remaining loans and borrowings of approximately RMB90 million due after 2 years but within 5 years.

As at 31 December 2019, 2020 and 2021, the Target Group had a gearing ratio (being total loans and other borrowings divided by total equity) of approximately 194.98%, 217.52% and 184.52%, respectively. The Target Group's was provided with credit facilities (as part of its loans and borrowings) during the reporting period. Also, the Target Group was required to maintain cash and deposits with the lending bank and financial institutions for its loans and borrowings, limiting the use of its working capital (and the amount of loan and borrowings which could actually be applied to its operations and business activities). As a result of these arrangements combined, the Target Group maintained a higher level of cash and bank balances, and a relatively higher level of loans and other borrowings during the reporting period, and these contributed to a relatively high gearing ratio of the Target Group as at 31 December 2019, 2020 and 2021.

Foreign currency

The Target Group operations were principally in the PRC, and Target Group's transactions with its customers were mostly denominated in Renminbi. The Target Group was exposed to currency risk primarily through financing activities which give rise to cash and cash equivalents and loans and borrowings that are denominated in foreign currency, primarily Singapore dollars for the years ended 31 December 2019, 2020 and 2021, details of which are referred to in note 24(d) in "Appendix II — Accountants' Report of the Target Company" to this circular. Except for the above, the Company considers that the Target Group had no significant exposure on currency risk. The denomination of loans and borrowing in Singapore dollars during the reporting period was partly linked to the background of the Seller, who is based in Singapore. It is expected that the level of loans in Singapore dollars will decrease following Completion.

During the reporting period, the Target Group did not have any formal hedging policies and no financial instrument was used for hedging purpose.

Significant investments, material acquisitions and disposals

During the years ended 31 December 2019, 2020 and 2021, the Target Group had the following significant investments, material acquisitions and disposals:

(i) In March 2021, the Target Group acquired two subsidiaries from related parties which are ultimately controlled by the same controlling shareholder of the Target Group. Pursuant to the Restructuring, the entire interests in those two subsidiaries were disposed of by the Target Group to related parties which are ultimately controlled by the same controlling shareholder of the Target Group in July 2021 and November 2021, respectively;

(ii) As referred to in the paragraph headed "Restructuring" above, pursuant to the Acquisition Agreement, entities operating excluded brands were agreed to be disposed of by the Target Group. Accordingly, the Target Company signed agreements with a related party which is ultimately controlled by the same controlling shareholder of the Target Group in December 2021 to dispose its entire interests in entities operating dealership brands is other than Porsche with a total cash consideration of RMB69 million. As of the Latest Practicable Date, the Corporate Restructuring has been completed.

Save as aforementioned, the Target Group did not have any significant investment, material acquisition or material disposal during the reporting period.

Charge on assets

As at 31 December 2019, 2020 and 2021, assets of the Target Group with a carrying value of approximately RMB35 million, RMB25 million and RMB34 million have been pledged, among which mostly were pledged bank deposits (amounting to approximately RMB35 million, RMB25 million and RMB22 million, respectively), and (as of 31 December 2021) inventories.

Save as disclosed above, the Target Group did not have any other material pledges of assets as at 31 December 2019, 2020 and 2021.

Employees and remuneration policy

As at 31 December 2019, 2020 and 2021, the Target Group had 640, 595 and 618 employees, respectively. During the years ended 31 December 2019, 2020 and 2021, staff costs of the Target Group from its continuing operations were approximately RMB130 million, RMB127 million and RMB158 million, respectively.

The Target Group remunerated its employees based on the job nature, their qualifications, experience, skills, individual performance and market trends. Other employee benefits include bonuses, retirement scheme.

Future plans for material investments or capital assets

Save for the continuing upgrading of the Target Group's corporate image and facilities in its normal course of business, the Target Group did not have any future plans for material investments or capital assets as at 31 December 2021.

Segmental information

During the reporting period, the Target Group operated with one reporting operating segment which is the sales of passenger vehicles and provision of after-sales services. As such, there was no segmental information for the years ended 31 December 2019, 2020 and 2021.

Prospects

Following the completion of the acquisition of the Target Company, the Company has commenced the adjustment and improvement of the existing business structure and mid-to-long-term business capabilities of the Target Group. The collaboration and integration between the Company's business teams and the existing teams of the Target Group is steadily in progress.

FINANCIAL EFFECT OF THE PROPOSED ACQUISITION

Upon Completion, the Target Company will become a 100%-owned subsidiary of the Company and accordingly, the assets, liabilities and financial results of the Target Group will be consolidated into the consolidated financial statements of the Group.

As referred to in "Appendix III — Unaudited Pro Forma Financial Information of the Enlarged Group" to this circular, on the basis of the notes set out therein for the purposes of illustrating the effects of the Proposed Acquisition, the financial effects of the Proposed Acquisition on the Group if the Proposed Acquisition had taken place and had been completed on 31 December 2021 would be as follows

(a) the unaudited consolidated total assets of the Group would have increased by approximately RMB6,552 million from approximately RMB9,802 million as of 31 December 2021 to approximately RMB16,354 million. Such changes would be mainly attributable to the addition of the Target Group's consolidated total assets, after excluding the assets held for sale of Excluded Companies, making fair value adjustments, and the recognition of pro forma goodwill arising on the Proposed Acquisition; and

(b) the unaudited consolidated total liabilities of the Group would have been increased by approximately RMB6,538 million from approximately RMB5,686 million as of 31 December 2021 to approximately RMB12,224 million. Such changes would be mainly attributable to the additional total liabilities of the Target Group excluding the liabilities held for sale of Excluded Companies (including the Target Group's loans and borrowings of approximately RMB1,350 million), the increase in current liabilities of approximately RMB3,700 million (assuming no adjustment to the Consideration) with respect to the Consideration in relation to the Proposed Acquisition.

The Company believes that the Target Company will enhance the revenue stream of the Group upon Completion. The Group's earnings are expected to increase as a result of the Proposed Acquisition, after taking into account the historical revenue and financial performance of the

Target Group. The Company does not envisage that the Proposed Acquisition shall have any material adverse impact on the earnings of the Group. For details of the Target Company, please also refer to "Appendix II — Accountants' Report of the Target Company" to this circular, and the paragraph headed "Information of and management discussion and analysis on the Target Company" above.

INFORMATION OF THE SELLER

The Seller is a company incorporated in Singapore with limited liability. Based on the information available to the Company, the Seller is ultimately owned as to 65% by Mr. Yaw Chee Ming, and two other shareholders hold a total of 35% equity interests of the Seller (each of these two shareholders and their respective ultimate beneficial owners holds not more than 30% of the Seller's equity interests). So far as the Company is aware of having made reasonable enquiry, the Seller was an investment holding company as of the Latest Practicable Date. To the best of the Directors' knowledge, information, and belief, having made all reasonable enquiries, the Seller and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

INFORMATION OF THE COMPANY

The Company is a limited liability company incorporated in the Cayman Islands. The Group is principally engaged in automobile dealership business authorised by the respective automobile manufacturers of a particular brand in the PRC including the sale of new passenger cars and spare parts, provision of after-sales service and survey services.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The Proposed Acquisition is in line with the Group's operational strategy of efficiency enhancement. It will significantly increase the Group's new car sale and expand the Group's existing customer coverage. The Proposed Acquisition will strengthen the Group's market position in Porsche brand in the PRC, which the Directors believe will benefit from the transformation changes in automobile industry. As at the Latest Practicable Date, the Group is principally engaged in the dealership business of branded vehicles of Porsche, BMW, Lexus, Toyota, Hyundai, and Audi. The Proposed Acquisition is also in line with the Group's expansion strategy of focusing on (1) familiar brands; (2) familiar locations; and (3) reasonable valuation to accelerate its network expansion, with an emphasis on luxury brands to deliver stable growth in the long run In addition, the dealership network of the Target Group will complement the Group's existing network and give rise to synergy effects, by increasing the number of 4S dealership stores, showrooms and service points of the Group and thereby establishing or enhancing the Group's presence in seven cities in the PRC, namely, Nanjing, Qingdao, Tianjin, Chongqing, Weifang, Jinan and Zhengzhou.

By operating 4S dealership stores in these locations, the Group can gain valuable local knowledge and experience and gather local customer data which will lay a solid foundation for the Group to expand in the adjacent cities, and provide more context for the Group's potential future acquisitions, if identified, in the areas.

In view of the above, the Directors believe that the terms of the Acquisition Agreement are fair and reasonable, and that the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Proposed Acquisition in accordance with the Listing Rules exceed 25% but all of them are less than 100%, the Proposed Acquisition constitutes a major transaction of the Company, and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the extent that the Company is aware having made all reasonable enquiries, as no Shareholder has material interest in the Acquisition Agreement and the transaction contemplated thereunder, none of the Shareholders is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition Agreement and the transaction contemplated thereunder. The Company has obtained a written approval from Apex Sail, which, as at the Latest Practicable Date, held 702,712,000 Shares (representing approximately 55.32% of the issued share capital of the Company) for the approval of the Acquisition Agreement and the transaction contemplated thereunder in lieu of a resolution to be passed at a general meeting of the Company pursuant to Rule 14.44 of the Listing Rules. As such, no extraordinary general meeting will be convened by the Company to approve the Acquisition Agreement and the transaction contemplated thereunder.

GENERAL

Completion of the Proposed Acquisition is subject to, among other things, satisfaction or waiver of the conditions precedent under the Acquisition Agreement. **The Proposed Acquisition may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.**

RECOMMENDATION

The Board considers that the transaction contemplated under the Acquisition Agreement to be fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Although a general meeting will not be convened by the Company to approve the Proposed Acquisition, if such a general meeting were to be convened by the Company, the Board would recommend the Shareholders to vote in favour of the resolution to approve the Acquisition Agreement and the transaction contemplated thereunder.

ADDITIONAL INFORMATION

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

By order of the Board
China MeiDong Auto Holdings Limited
YE Tao
Chief Executive Officer

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the financial years ended 31 December 2018, 2019, 2020 and 2021 were disclosed in the following documents:

The audited consolidated financial statements of the Group for the year ended 31 December 2018 has been set out in pages 49 to 155 of the 2018 annual report of the Company which was posted on 16 April 2019 on the Stock Exchange's website (**https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0416/ltn20190416309.pdf**).

The audited consolidated financial statements of the Group for the year ended 31 December 2019 has been set out in pages 48 to 161 of the 2019 annual report of the Company which was posted on 9 April 2020 on the Stock Exchange's website (**https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0409/2020040901057.pdf**).

The audited consolidated financial statements of the Group for the year ended 31 December 2020 has been set out in pages 50 to 163 of the 2020 annual report of the Company which was posted on 13 April 2021 on the Stock Exchange's website (**https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0413/2021041300823.pdf**).

The unaudited consolidated financial statements of the Group for the six months ended 30 June 2021 has been set out in pages 25 to 60 of the 2021 interim report of the Company which was posted on 15 September 2021 on the Stock Exchange's website (**https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0915/2021091500686.pdf**).

The annual results announcement of the Company for the year ended 31 December 2021 has been published on 30 March 2022 on the Stock Exchange's website (**https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0330/2022033001900.pdf**).

2. INDEBTEDNESS STATEMENT

As at the close of business on 28 February 2022, being the date of this indebtedness statement prior to the printing of this circular, the Enlarged Group had a total loans and borrowings of approximately RMB2,244 million, all of which are secured and/or guaranteed. Such loans and borrowings. These comprise:

(i) loans and borrowing of approximately RMB1.016 million were secured. They were secured by property, plant and equipment, right-of-use assets, inventories, trade and other receivables, and/or total pledged bank deposits of the Group, and part of these secured loans were also backed by corporate guarantee provided by members of the Group and/or by personal guarantee provided by Mr. Ye Fan (being a Director of the Company), and

(ii) the remaining loans and borrowing of approximately RMB1,228 million were backed by guarantees. Such guarantees include corporate guarantee provided by members of the Enlarged Group and personal guarantee provided Mr. Ye Fan (being a Director of the Company) or Mr. Yaw Chee Ming (being a director of the Target Company).

There were no unsecured and unguaranteed loans and borrowings as of 28 February 2022.

As at 28 February 2022, one subsidiary of the Enlarged Group issued financial guarantee to financial institution and bank in respect of financial facilities granted to a related party of the Group, which amounted to approximately RMB21 million, and the Target Group issued financial guarantees to a bank in respect of bank loans and borrowings granted to a related party of the Seller amounting to approximately Great British Pound 1.5 million (equivalent to approximately RMB13 million). As at 28 February 2022, the Directors do not consider it probable that a claim will be made pursuant to the above guarantees.

As at 28 February 2022, the Enlarged Group has a bill payable of approximately RMB999 million, an outstanding unsecured convertible bonds with a principal amount of approximately HK$2,750 million (equivalent to approximately RMB2,236 million) in aggregate, and lease liabilities with carrying amount of approximately RMB1,460 million.

Foreign currency amounts have been, for the purposes of this indebtedness statement, translated into Renminbi at the approximate rates of exchange applicable at the close of business on 28 February 2022.

Save as aforesaid and apart from intra-group liabilities and normal trade and bills payables in the ordinary course of business, at the close of business on 28 February 2022, the Enlarged Group did not have any other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, lease liabilities under finance lease and operating lease or hire purchase lease commitments, liabilities under acceptance or acceptance credit, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources available to the Enlarged Group including the internally generated funds, available banking facilities, proceeds from the recent issue of convertible bonds, and issuance of subscription of shares by the Company completed in January 2022, as well as the effect of the Proposed Acquisition, the Enlarged Group has sufficient working capital for its preset requirements and to satisfy its requirements for at least the next 12 months from the date of this circular in the absence of unforeseen circumstances.

The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

4. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The Company believes that the Target Group's dealership network could complement the Group's existing network and give rise to synergy effect, and could strengthen the Enlarged Group's market position in Porsche brand in the PRC by increasing new car sales and expanding existing consumer coverage of the Group.

In the future, the Enlarged Group will continue to improve its operational efficiency, optimize its revenue structure and strictly manage its assets and liabilities as well as cash flow through efficient data management, so as to grasp the overall market development opportunities. The Enlarged Group will also continue to adopt a prudent management approach to gradually implement the merger and acquisition strategy based on factors such as (1) familiar brands, (2) reasonable valuation, and (3) appropriate locations, to accelerate the Enlarged Group's network expansion, in addition to the growth from new stores.

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

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF STARCHASE MOTORSPORTS LIMITED TO THE DIRECTORS OF CHINA MEIDONG AUTO HOLDINGS LIMITED

Introduction

We report on the historical financial information of Starchase Motors Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-86, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2019, 2020 and 2021, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended 31 December 2019, 2020 and 2021 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-86 forms an integral part of this report, which has been prepared for inclusion in the circular of China Meidong Auto Holdings Limited (the "**Company**") dated 6 April 2022 (the "**Circular**") in connection with the proposed acquisition of the Target Company and its certain subsidiaries set out in Note 1 to the Historical Financial Information by the Company.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of the Target Group as defined on page II-4, on which the Historical Financial Information is based, were prepared by the directors of the Target Company. The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants

("**HKICPA**"), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2019, 2020 and 2021 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
6 April 2022

HISTORICAL FINANCIAL INFORMATION

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

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG under separate terms of engagement with the Target Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**")

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in RMB'000)

		Year ended 31 December		
	Note	**2019**	**2020**	**2021**
Continuing operations				
Revenue	*4*	5,046,978	5,623,274	6,408,919
Cost of sales		(4,587,554)	(5,094,879)	(5,725,416)
Gross profit		459,424	528,395	683,503
Other revenue and other net income	*5*	59,154	96,464	102,984
Distribution costs		(208,287)	(199,539)	(235,812)
Administrative expenses		(87,634)	(83,412)	(104,856)
Profit from operations		222,657	341,908	445,819
Finance costs	*6(a)*	(54,085)	(58,498)	(54,036)
Profit before taxation	*6*	168,572	283,410	391,783
Income tax	*7(a)*	(46,782)	(77,326)	(102,914)
Profit for the year from continuing operations		121,790	206,084	288,869
Discontinued operations				
Loss for the year from discontinued operations, net of tax	*23(a)*	(11,819)	(11,350)	(20,567)
Profit for the year		109,971	194,734	268,302
Profit for the year attributable to:				
Equity shareholders of the Target Company				
— from continuing operations		121,790	206,084	288,869
— from discontinued operations		(11,819)	(11,350)	(20,567)
Profit for the year		109,971	194,734	268,302

	Note	Year ended 31 December 2019	2020	2021
Other comprehensive income for the year (after tax):				
Items that will not be reclassified to profit or loss:				
Exchange difference on translation of:				
financial statements of entities outside the Mainland China		5,021	(6,023)	(1,415)
Other comprehensive income for the year		5,021	(6,023)	(1,415)
Profit and total comprehensive income for the year		114,992	188,711	266,887
Attributable to:				
Equity shareholders of the Target Company				
— from continuing operations		126,811	200,061	287,454
— from discontinued operations		(11,819)	(11,350)	(20,567)
Profit and total comprehensive income for the year		114,992	188,711	266,887

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in RMB'000)

		At 31 December		
	Note	**2019**	**2020**	**2021**
Non-current assets				
Property, plant and equipment	*10*	584,606	582,385	669,493
Right-of-use assets	*11*	204,252	181,682	176,311
Intangible assets	*12*	880	498	284
Other non-current assets	*13*	41,418	60,260	73,387
Deferred tax assets	*21(b)*	6,772	9,167	12,313
		837,928	833,992	931,788
Current assets				
Inventories	*14*	482,923	461,048	440,141
Trade and other receivables	*15*	269,387	260,973	215,011
Pledged bank deposits	*16*	35,478	24,642	22,473
Cash and cash equivalents	*17*	394,754	946,246	1,023,860
Assets held for sale	*23(b)*	—	—	302,042
		1,182,542	1,692,909	2,003,527
Current liabilities				
Loans and borrowings	*18*	1,043,429	1,325,082	1,259,146
Trade and other payables	*19*	262,248	363,889	501,493
Lease liabilities	*20*	25,487	20,017	17,172
Income tax payables	*21(a)*	16,960	30,126	33,730
Liabilities held for sale	*23(b)*	—	—	168,400
		1,348,124	1,739,114	1,979,941
Net current (liabilities)/assets		(165,582)	(46,205)	23,586
Total assets less current liabilities		672,346	787,787	955,374
Non-current liabilities				
Loans and borrowings	*18*	—	31,846	90,474
Lease liabilities	*20*	126,650	117,999	112,138
Deferred tax liabilities	*21(b)*	10,548	14,121	21,348
		137,198	163,966	223,960
NET ASSETS		535,148	623,821	731,414
EQUITY				
Share capital		355	355	355
Reserves	*22*	534,793	623,466	731,059
TOTAL EQUITY		535,148	623,821	731,414

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in RMB'000)

	Share capital	PRC statutory reserves	Exchange reserve	Retained earnings	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note 22(c)(i))	*(note 22(c)(ii))*		
Balance at 1 January 2019	355	57,598	(2,034)	423,681	479,600
Profit for the year	—	—	—	109,971	109,971
Other comprehensive income	—	—	5,021	—	5,021
Total comprehensive income	—	—	5,021	109,971	114,992
Appropriation to reserves	—	7,361	—	(7,361)	—
Dividends paid *(note 22(b))*	—	—	—	(59,444)	(59,444)
Balance at 31 December 2019 and 1 January 2020	355	64,959	2,987	466,847	535,148
Profit for the year	—	—	—	194,734	194,734
Other comprehensive income	—	—	(6,023)	—	(6,023)
Total comprehensive income	—	—	(6,023)	194,734	188,711
Appropriation to reserves	—	10,142	—	(10,142)	—
Dividends paid *(note 22(b))*	—	—	—	(100,038)	(100,038)
Balance at 31 December 2020 and 1 January 2021	355	75,101	(3,036)	551,401	623,821
Profit for the year	—	—	—	268,302	268,302
Other comprehensive income	—	—	(1,415)	—	(1,415)
Total comprehensive income	—	—	(1,415)	268,302	266,887
Appropriation to reserves	—	9,852	—	(9,852)	—
Business combinations under common control and its disposal to related parties *(note 23)*	—	—	—	8,710	8,710
Dividends declared *(note 22(b))*	—	—	—	(168,004)	(168,004)
Balance at 31 December 2021	355	84,953	(4,451)	650,557	731,414

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in RMB'000)

	Note	Year ended 31 December 2019	2020	2021
Operating activities:				
Cash generated from operations	*17(b)*	275,717	455,933	534,530
Income tax paid	*21(a)*	(46,976)	(56,823)	(89,108)
Net cash generated from operating activities		228,741	399,110	445,422
Investing activities:				
Payment for the purchase of property, plant and equipment		(73,966)	(36,797)	(168,544)
Proceeds from disposal of property, plant and equipment		3,371	880	5,308
Prepayments for purchase of right-of-use assets		—	(20,000)	—
Payment for purchase of intangible assets		(22)	—	(123)
Interest received		3,105	3,485	9,257
Proceeds from disposal of financial assets measured at fair value through profit or loss		1,614	3,687	183
Advances to related parties		(864)	(10,504)	(3,470)
Repayments of advances to related parties		10,637	20,463	146
Loans to related parties		(70,107)	(51,706)	(12,902)
Repayment of loans to related parties		4,600	94,919	29,804
Cash outflows due to cash and cash equivalent from the disposals of subsidiaries	*23*	—	—	(15,557)
Cash inflows due to cash and cash equivalent from the acquisitions of subsidiaries	*23*	—	—	23,683
Net cash (used in)/generated from investing activities		(121,632)	4,427	(132,215)
Financing activities:				
Capital element of lease rentals paid	*17(c)*	(33,347)	(23,309)	(47,950)
Interest element of lease rentals paid	*17(c)*	(8,191)	(7,509)	(6,360)
Proceeds from loans and borrowings	*17(c)*	1,982,467	2,386,029	2,992,099
Repayments of loans and borrowings	*17(c)*	(1,991,342)	(2,066,819)	(2,890,924)
Decrease in pledged bank deposits	*16*	6,835	10,836	7,207
Interest paid	*17(c)*	(55,819)	(52,458)	(55,403)
Dividend paid to equity shareholders of the Target Company		(59,444)	(100,038)	(112,327)
Advances from related parties	*17(c)*	—	13,663	9,605
Repayments of advances from related parties	*17(c)*	—	—	(22,712)
Net cash (used in)/generated from financing activities		(158,841)	160,395	(126,765)
Net (decrease)/increase in cash and cash equivalents		(51,732)	563,932	186,442
Cash and cash equivalents at 1 January	*17(a)*	441,056	394,754	946,246
Effect of foreign exchange rate changes		5,430	(12,440)	(6,519)
Cash and cash equivalents at 31 December	*17(a)*	394,754	946,246	1,126,169

Note:

Consolidated cash flow statement for the year ended 31 December 2019, 2020 and 2021 include cash flows from both continuing and discontinued operations.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 Basis of preparation and presentation of Historical Financial Information

StarChase Motorsports Limited (the "**Target Company**") is a private limited company incorporated in Hong Kong on 3 June 2009. The address of the registered office and the principal place of business of the Target Company is Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The Target Company is an investment holding company. The Target Company and its subsidiaries (together, "**the Target Group**") are principally engaged in 4S dealership business in the People's Republic of China (the "**PRC**"). During 2021, the Target Group underwent the following transactions:

Pursuant to the sale and purchase agreement dated 13 December 2021 ("**Acquisition Agreement**") entered into between China Meidong Auto Holdings Limited (the "**Company**") and the Target Company's parent company, Wearnes-StarChase Limited, the Company has conditionally agreed to acquire all issued shares of the Target Company at a total consideration of RMB3.7 billion, subject to the terms and conditions of the Acquisition Agreement.

Pursuant to the Acquisition Agreement, six subsidiaries operating dealership brands other than Porsche ("**Excluded Companies**") of the Target Group as at the date of the Acquisition Agreement were not intended to be acquired by the Company and will be disposed of the Target Group before completion of the proposed acquisition.

Accordingly, the Target Company signed agreements with a related party which is ultimately controlled by the same controlling shareholder of the Target Group, StarChase Singapore Pte. Ltd., on 15 December 2021 to sell its entire interests in the Excluded Companies with a total cash consideration of RMB69 million.

Consequently, the interests in the Excluded Companies have been presented as a disposal group held for sale as at 31 December 2021 and as part of discontinued operations for the current year and comparative periods in accordance with the accounting policy set out in Note 2(v).

In March 2021, the Target Group acquired two subsidiaries from related parties and disposed its entire interests in those two subsidiaries to related parties in July and November 2021, respectively (see note 23). Results of these two subsidiaries for the period between March and July, November 2021 respectively, were presented in respect of the loss from discontinued operations in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 in accordance with the accounting policy set out in Note 2(v).

The financial statements of the Target Company and the subsidiaries of the Target Group for which there are statutory requirements were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated and/or established.

During the Relevant Periods, the Target Company has direct or indirect interests in the following principal subsidiaries, all of which are private companies:

			Proportion of ownership interest			
Name of company	Place and date of incorporation/ establishment	Particulars of issued and paid-up capital	Group's effective interest	Held by the target company	Held by a subsidiary	Principal activity
StarChase Motorsports Trading(Shanghai) Co., Ltd. (追星汽車貿易(上海)有限公司)(i)(iii)	The PRC 20 March 2016	USD150,000/ USD150,000	100%	100%	—	Trading business
StarChase Racing (Shanghai) Co., Ltd. (追星賽車(上海)有限公司)(iii)(vi)	The PRC 15 November 2021	RMB100,000/ RMB100,000	100%	100%	—	Trading business
StarChase Car Sales Services (Jinan) Co., Ltd (追星汽車銷售服務(濟南)有限公司)(i) (iii)	The PRC 16 December 2009	USD6,050,000/ USD6,050,000	100%	25%	75%	Automobile dealership
Zhengzhou Bao Fuli Car Sales Co., Ltd. (鄭州保福利汽車銷售有限公司)(i)(iii)	The PRC 15 July 2008	RMB32,900,000/ RMB32,900,000	100%	27%	73%	Automobile dealership
StarChase Car Services (Chongqing) Co., Ltd. (追星汽車服務(重慶)有限公司)(i)(iii)	The PRC 3 September 2012	USD5,300,000/ USD5,300,000	100%	100%	—	Automobile dealership
StarChase Car Sales (Nanjing) Co., Ltd. (追星汽車銷售服務(南京)有限公司)(i)(iii)	The PRC 25 October 2006	RMB32,260,000/ RMB32,260,000	100%	100%	—	Automobile dealership
StarChase Car Sales (Qingdao) Co., Ltd. (追星汽車銷售(青島)有限公司)(i)(iii)	The PRC 6 July 2009	USD5,100,000/ USD5,100,000	100%	41%	59%	Automobile dealership
StarChase Car Sales (Weifang) Co., Ltd. (追星汽車銷售服務(濰坊)有限公司)(i) (iii)	The PRC 9 November 2010	USD10,630,000/ USD10,630,000	100%	64%	36%	Automobile dealership
StarChase Car Sales (Tianjin) Co., Ltd. (追星汽車銷售(天津)有限公司)(i)(iii)	The PRC 17 January 2014	USD11,050,000/ USD11,050,000	100%	100%	—	Automobile dealership

Name of company	Place and date of incorporation/ establishment	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the target company	Held by a subsidiary	Principal activity
Lian Feng Chuang Company Limited (聯豐創有限公司)(iii)(vi)	Hong Kong 22 April 2014	HKD130,000/nil	100%	100%	—	Leasing business
StarChase Leasing (Shenzhen) Co., Ltd. (中鑫匯銀融資租賃(深圳)有限公司)(iii)(vi)	The PRC 13 May 2016	USD30,000,000/ USD2,300,000	100%	100%	—	Leasing business
Wearnes Motors (Qingdao) Co., Ltd. (青島維星車輛銷售有限責任公司)(ii)(iv)	The PRC 7 March 2017	RMB18,323,000/ RMB18,323,000	100%	100%	—	Automobile dealership
Wearnes Motors (Jinan) Co., Ltd. (濟南維星車輛銷售有限責任公司)(ii)(iv)	The PRC 18 April 2018	RMB14,023,800/ RMB12,023,800	100%	100%	—	Automobile dealership
Wearnes Motors (Zhengzhou) Co., Ltd. (鄭州維星車輛銷售有限責任公司)(ii)(iv)	The PRC 27 September 2018	RMB14,920,000/ RMB14,920,000	100%	100%	—	Automobile dealership
Wearnes Motors (Xi'an) Co., Ltd. (西安維星汽車銷售有限責任公司)(ii)(iv)	The PRC 26 November 2019	RMB8,000,000/ RMB8,000,000	100%	100%	—	Automobile dealership
Wearnes Motors (Guangzhou) Co., Ltd. (維星汽車銷售服務(廣州)有限公司)(ii)(iv)	The PRC 21 May 2021	RMB22,631,500/ RMB22,631,500	100%	100%	—	Automobile dealership
StarChase Motorsports (Nanjing) Co.,Ltd. (追星捷信銷售服務(南京)有限公司)(iii)(iv)	The PRC 14 September 2021	RMB20,000,000/ RMB10,000,000	100%	100%	—	Automobile dealership
Wearnes Motors (HK) Limited.(v)	Hong Kong 18 June 2003	HKD500,000/ HKD500,000	100%	100%	—	Automobile dealership
StarChase North Motorsports Pte Ltd.(v)	Singapore 9 February 2021	SGD1/SGD1	100%	100%	—	Trading business

Notes:

(i) The statutory auditor for the year ended 31 December 2019 and 2020 was Deloitte Touche Tohmatsu Certified Public Accountants LLP. (德勤華永會計師事務所(特殊普通合夥)).

(ii) The statutory auditor for the year ended 31 December 2019 and 2020 was Shanghai Shenzhou Datong Certified Public Accountants Co., Ltd. (上海申洲大通會計師事務所有限公司).

(iii) These companies together with the Target Company are companies to be acquired by the Company pursuant to the Acquisition Agreement.

(iv) These companies are Excluded Companies which will be disposed of the Target Group under a restructuring pursuant to the Acquisition Agreement (see note 23).

(v) These companies were disposed of to related parties which are ultimately controlled by the same controlling shareholder of the Target Group during July and November 2021.

(vi) No audited financial statements are available for these companies as of the date of this report.

(vii) The English translation of all above companies is for reference only. The official names of the companies established in the PRC are in Chinese.

All companies now comprising the Target Group have adopted 31 December as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). Further details of the significant accounting policies adopted are set out in Note 2, which are materially consistent with those of the Company and its subsidiaries.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Target Group has adopted all applicable new and revised HKFRSs that are effective during the Relevant Periods. The Target Group has not adopted any new standards or interpretations that are not yet effective for the Relevant Periods. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in Note 30.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

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

2 Significant accounting policies

(a) Basis of measurement

The Historical Financial Information are presented in Renminbi ("**RMB**"), rounded to the nearest thousand. The functional currency of the Target Company is Singapore Dollars. The functional currency of the Target Company's subsidiaries established in the mainland China, Hong Kong and Singapore are RMB, Hong Kong Dollars and Singapore Dollars, respectively.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the financial assets and liabilities are stated at their fair value as explained in the accounting policies set out below.

(b) Use of estimates and judgments

The preparation of Historical 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.

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 Historical Financial Information and major sources of estimation uncertainty are discussed in note 3.

(c) Business combination under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Target Group's shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within the Target Group's equity and any difference between the net assets acquired and the consideration paid is recognised directly in equity. Comparatives and current reporting period of the Target Group's consolidated financial statements are not re-presented as if the combination had occurred before the start of the earliest period presented.

(d) Subsidiaries

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 included into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical 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.

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

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

In the Target Company's statement of finance position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)(iii)).

(e) Other investments in debt and equity securities

The Target Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Target Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Target Group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(s)(iii)).

— fair value through profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(f) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses (see note 2(i)(iii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(u)).

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

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

— Buildings	30 years
— Leasehold improvements	over the shorter of the unexpired term of the lease and the estimated useful lives
— Plant and machinery	10 years
— Passenger vehicles	5 years
— Office equipment and furniture	5 years

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

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(i)(iii)). Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(g) Intangible assets

Intangible assets that are acquired by the Target Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(i)(iii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Software is amortised from the date it is available for use over its estimated useful life of 2–10 years. Both the period and method of amortisation are reviewed annually.

(h) Right-of-use assets

At inception of a contract, the Target Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Target Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Target Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Target Group are primarily temporary exhibition halls, parking lots and staff dormitories. When the Target Group enters into a lease in respect of a low-value asset, the Target Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2(i)(iii)). Depreciation is calculated using the straight-line method over the unexpired term of lease.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Target Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Target Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of HKFRS 16 Leases. In such cases, the Target Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

The Target Group presents right-of-use assets that do not meet the definition of investment property in "right-of-use assets" and presents lease liabilities separately in the statement of financial position.

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Target Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target Group in accordance with the contract and the cash flows that the Target Group expects to receive).

The expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Group is exposed to credit risk.

In measuring ECLs, the Target Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

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

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Target Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Target Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Target Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 2(s)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

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

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

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

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "**holder**") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Target Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Target Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the carrying amount in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Target Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2(i)(i) apply.

As the Target Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Target Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(iii) Impairment of other non-current assets

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

— property, plant and equipment;

— right-of-use assets, including lease prepayments;

— intangible assets; and

— investments in a subsidiary in the Target Company's statement of financial position. 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). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

— Recognition of impairment losses

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

— Reversals of impairment losses

In respect of assets, 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.

(j) Inventories

Inventories are assets which are held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the rendering of services.

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

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

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

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

(k) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Target Group recognises the related revenue (see note 2(s)). A contract liability would also be recognised if the Target Group has an unconditional right to receive non-refundable consideration before the Target Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(l)).

(l) Trade and other receivables

A receivable is recognised when the Target Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. All receivables are subsequently stated at amortised cost, using the effective interest method and including an allowance for credit losses (see note 2(i)(i)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Target Group's accounting policy for borrowing costs (see note 2(u)).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Target Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(i)(i).

(p) Employee benefits

(i) Short-term employee benefits

Salaries and annual bonuses are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plan

Contributions to PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(q) Income tax

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

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the end of each 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 goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each 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 Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

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

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

    — the same taxable entity; or

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

(r) Provisions and contingent liabilities

Provisions are recognised 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.

(s) Revenue and other income

Income is classified by the Target Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Target Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Target Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Target Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue arising from the sale of goods is recognised when the Target Group satisfies the performance obligation by transferring control of the goods promised in the contract to the customer. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Services income

Revenue arising from services is recognised when the relevant performance obligation is satisfied.

(iii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

(iv) Commission income

Commission income is recognised at point in time when the services have been rendered.

(t) Vendor rebates

Incentive rebates provided by vendors are recognised on an accrual basis based on the expected entitlement earned up to the reporting date pursuant to each relevant supplier contract.

Incentive rebates relating to vehicles purchased and sold are deducted from cost of sales, while incentive rebates relating to vehicle purchased but still held as inventories at the reporting date are deducted from the carrying value of such vehicles so that the cost of inventories is recorded net of applicable rebates.

(u) Borrowing costs

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

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

(v) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Target Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Target Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the Historical Financial Information of the Target Group and the Target Company are concerned are deferred tax assets, assets arising from employee benefits and financial assets (other than investments in subsidiaries, associates and joint ventures). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2. In addition, if the fair value less costs to sell of a disposal group is below its carrying amount, but the carrying amount of the non-current assets (other than those assets subject to the exceptions above) within the disposal group is insufficient to absorb the impairment loss, then the amount of impairment loss recognised is limited to the carrying amount of those non-current assets.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) Discontinued operations

A discontinued operation is a component of the Target Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Target Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated statement of profit or loss and other comprehensive income, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal groups constituting the discontinued operation.

(w) Translation of foreign currencies

Foreign currency transactions during the Relevant Periods are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of each reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Target Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of each reporting period. The resulting exchange differences 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.

(x) 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).

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

(y) Segment reporting

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

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

3 Accounting judgement and estimates

(a) Critical accounting judgements in applying the Target Group's accounting policies

In the process of applying the Target Group's accounting policies, management has made the following accounting judgement:

(i) Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Depreciation and amortisation

As described in note 2(f), property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. As described in note 2(g), intangible assets are amortised on a straight-line basis over the estimated useful lives. Management reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Target Group's historical experience with similar assets and taking into account anticipated technological and other changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(ii) Net realisable value of inventories

As described in note 2(j), net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of reporting period to ensure inventory is shown at the lower of cost and net realisable value.

(iii) Determining the lease term

As explained in policy note 2(h), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include early termination options exercisable by the Target Group, the Target Group evaluates the likelihood of exercising the termination options taking into account all relevant facts and circumstances that create an economic incentive for the Target Group not to exercise the option, including leasehold improvements undertaken and the importance of that underlying asset to the Target Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Target Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

4 Revenue and segment reporting

(a) Revenue

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Continuing operations			
Revenue from contracts with customers within the scope of HKFRS 15			
Disaggregated by major products or service lines			
— Sales of passenger vehicles	4,633,077	5,182,018	5,909,907
— After-sales services	413,901	441,256	499,012
	5,046,978	5,623,274	6,408,919

All revenue was recognised at a point in time.

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The aggregated amount of the transaction price allocated to the remaining performance obligations under the Target Group's existing contracts for after-sales services is RMB6,018,000, RMB8,964,000, and RMB16,139,000 as at 31 December 2019, 2020 and 2021, respectively. These amounts represent revenue expected to be recognised in the future from pre-completion contracts for after-sales services entered into by the customers with the Target Group. The Target Group will recognise the expected revenue in future when the Target Group satisfied its performance obligation, which is expected to occur over the next 12 to 36 months.

The Target Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for passenger vehicles such that the above information does not include information about revenue that the Target Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of passenger vehicles that had an original expected duration of one year or less.

(b) Segment reporting

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Target Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Target Group has determined that it only has one reporting operating segment which is the sales of passenger vehicles and provision of after-sales services.

(i) Information about geographical area

Almost all of the Target Group's revenue is derived from the sales of passenger vehicles and provision of after-sales services in mainland China and the principal non-current assets employed by the Target Group are located in mainland China. Accordingly, no analysis by geographical segments has been provided for the reporting period.

(ii) Information about major customers

The Target Group's customer base is diversified and no customer with whom transactions have exceeded 1% of the Target Group's revenues.

5 Other revenue and other net income

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Continuing operations			
Other revenue			
Commission income	52,448	64,371	78,424
Interest income	3,098	3,455	9,109
Management service income	11,694	12,369	12,295
	67,240	80,195	99,828

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Continuing operations			
Other net income			
Net foreign exchange (loss)/gain	(9,184)	4,345	(543)
Net loss on disposal of property, plant and equipment	(192)	(83)	(101)
Net realised gains on financial assets measured at fair value through profit or loss	1,614	3,494	171
Others	(324)	8,513	3,629
	(8,086)	16,269	3,156
	59,154	96,464	102,984

6 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

		Year ended 31 December		
	Note	2019	2020	2021
		RMB'000	*RMB'000*	*RMB'000*
Continuing operations				
(a) Finance costs:				
Interest on				
— loans and borrowings		46,833	51,971	49,749
— lease liabilities		7,252	6,527	4,208
Total interest expense		54,085	58,498	53,957
Other finance cost	*(i)*	—	—	79
		54,085	58,498	54,036
(b) Staff costs:				
Salaries, wages and other benefits		118,373	125,850	145,853
Contributions to defined contribution retirement plans	*(ii)*	11,147	901	11,872
		129,520	126,751	157,725

(i) It mainly represents the interest expenses arising from discounting of bills payable.

(ii) Employees of the Target Group's PRC subsidiaries are required to participate in defined contribution retirement schemes administered and operated by the local municipal governments where the subsidiaries are registered. The Target Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the respective local municipal government to the schemes to fund the retirement benefits of the employees.

The Target Group also operates a Mandatory Provident Fund Scheme (the "**MPF scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

Due to the impact of an outbreak of COVID-19, a number of policies including the relief of social insurance have been promulgated by the government since February 2020 to expedite resumption of economic activities, which contributed to the relief of certain defined contribution plans during 2020.

The Target Group has no other material obligation for the payment of retirement benefits other than the annual contributions described above.

(c) Other items:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Continuing operations			
Cost of inventories	4,529,496	5,034,284	5,652,889
Write-down of inventories	11,116	16,005	21,130
Depreciation			
— owned property, plant and equipment	36,332	36,728	34,041
— right-of-use assets	27,509	28,149	30,517
Amortisation of intangible assets	342	329	194
Lease expenses	4,453	2,538	4,090
Net foreign exchange loss/(gain)	9,184	(4,345)	543
Auditors' remuneration	1,885	1,934	2,463

7 Income tax in the consolidated statement of comprehensive income

(a) Taxation in the consolidated statement of comprehensive income represents:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Current tax:			
Provision for income tax for the year *(note 21(a))*	41,492	69,989	92,712
Deferred tax:			
Origination of temporary differences *(note 21(b))*	5,290	7,337	10,202
	46,782	77,326	102,914

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	168,572	283,410	391,783
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (i)	34,743	65,686	88,641
Tax effect of non-deductible expenses	3,236	3,475	4,283
Effect of PRC dividend withholding tax (ii)	5,160	9,728	13,491
Tax effect of unused tax losses and deductible temporary differences not recognised, net of utilisation of tax losses and deductible temporary differences for which no deferred tax asset was recognised in previous periods	3,643	(1,563)	(3,501)
Actual tax expense	46,782	77,326	102,914

(i) The Target Group's PRC subsidiaries are subject to income tax at the statutory tax rate of 25% during the Relevant Periods.

One subsidiary of the Target Group enjoyed preferential Corporate Income Tax ("**CIT**") rates which were lower than 25% during the Relevant Periods as operated in designated areas with preferential CIT policies in the PRC.

No provision for Hong Kong Profits Tax was made for the subsidiary located in Hong Kong as the subsidiary did not have assessable profits subject to Hong Kong Profits Tax during the Relevant Periods.

The Target Group's Singapore branch is subject to income tax rate of 17%.

(ii) Under the CIT Law and its relevant regulations, dividends receivable by non-PRC resident enterprises from PRC resident enterprises for earnings accumulated beginning on 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the tax arrangement between the mainland China and Singapore, a qualified Singapore resident which is the "beneficial owner" and holds 25% or more of the equity interest of a PRC resident enterprise is entitled to a reduced dividend withholding tax rate of 5%.

During the Relevant Periods, the Target Group is entitled to the reduced withholding tax rate of 5%. The Target Group recognised deferred tax liabilities in respect of undistributed earnings at a rate of 5%.

8 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2019

	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director					
Robby Niermann	—	2,620	655	16	3,291
Non-executive directors					
Andre Roy	—	—	—	—	—
Li An Tan, Leon	—	—	—	—	—
Yaw Chee Ming	—	—	—	—	—
	—	2,620	655	16	3,291

Year ended 31 December 2020

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director					
Robby Niermann	—	2,647	2,647	16	5,310
Non-executive directors					
Andre Roy	—	—	—	—	—
Li An Tan, Leon	—	—	—	—	—
Yaw Chee Ming	—	—	—	—	—
	—	2,647	2,647	16	5,310

Year ended 31 December 2021

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director					
Robby Niermann	—	2,467	2,878	15	5,360
Non-executive directors					
Andre Roy	—	—	—	—	—
Li An Tan, Leon	—	—	—	—	—
Yaw Chee Ming	—	—	—	—	—
	—	2,467	2,878	15	5,360

No directors of the Target Company waived or agreed to waive any remuneration during the Relevant Periods.

During the Relevant Periods, there were no amounts paid or payable by the Target Group to the directors or any of the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the Target Group or as compensation for loss of office.

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments of the Target Group for the years ended 31 December 2019, 2020 and 2021, 1, 1 and 1 individual's emoluments are disclosed in Note 8 and the emoluments in respect of the remaining 4, 4 and 4 individuals during the Relevant Periods are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowance and benefits in kind	4,316	4,303	4,663
Discretionary bonuses	1,579	963	1,158
	5,895	5,266	5,821

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

	Year ended 31 December		
	2019	**2020**	**2021**
	Number of individuals	*Number of individuals*	*Number of individuals*
HK$			
1,000,001–1,500,000	3	4	4
1,500,001–2,000,000	1	—	—

10 Property, plant and equipment

	Buildings	Leasehold improvements	Plant and machinery	Passenger vehicles	Office equipment and furniture	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2019	594,756	28,664	38,067	7,539	79,261	169	748,456
Additions	310	8,204	1,603	7,070	9,058	7,319	33,564
Transfer	—	2,143	—	—	290	(2,433)	—
Disposals	(122)	—	(797)	(3,986)	(1,307)	—	(6,212)
At 31 December 2019	594,944	39,011	38,873	10,623	87,302	5,055	775,808
At 1 January 2020	594,944	39,011	38,873	10,623	87,302	5,055	775,808
Additions	73	2,038	2,695	2,037	6,310	24,802	37,955
Transfer	—	3,055	10,463	—	572	(14,090)	—
Disposals	—	—	—	(1,031)	(949)	(303)	(2,283)
At 31 December 2020	595,017	44,104	52,031	11,629	93,235	15,464	811,480
At 1 January 2021	595,017	44,104	52,031	11,629	93,235	15,464	811,480
Additions	59,832	8,906	2,791	9,104	11,250	63,534	155,417
Acquisitions through business combinations	—	8,148	1,086	—	760	—	9,994
Transfer	56,475	4,930	3,448	—	2,651	(67,504)	—
Disposals	(550)	(716)	—	(9,095)	(713)	—	(11,074)
Disposals of subsidiaries	—	(8,148)	(1,119)	(963)	(679)	—	(10,909)
Reclassification to assets classified as held for sale *(note 23)*	—	(12,654)	(1,374)	—	(7,776)	(11,298)	(33,102)
At 31 December 2021	710,774	44,570	56,863	10,675	98,728	196	921,806
Accumulated depreciation:							
At 1 January 2019	(68,929)	(14,987)	(13,267)	(2,489)	(56,120)	—	(155,792)
Charge for the year	(18,839)	(4,581)	(3,519)	(1,803)	(9,317)	—	(38,059)
Written back on disposals	—	—	677	786	1,186	—	2,649
At 31 December 2019	(87,768)	(19,568)	(16,109)	(3,506)	(64,251)	—	(191,202)
At 1 January 2020	(87,768)	(19,568)	(16,109)	(3,506)	(64,251)	—	(191,202)
Charge for the year	(18,840)	(5,700)	(4,234)	(1,873)	(8,566)	—	(39,213)
Written back on disposals	—	—	—	428	892	—	1,320
At 31 December 2020	(106,608)	(25,268)	(20,343)	(4,951)	(71,925)	—	(229,095)

	Buildings	Leasehold improvements	Plant and machinery	Passenger vehicles	Office equipment and furniture	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	(106,608)	(25,268)	(20,343)	(4,951)	(71,925)	—	(229,095)
Charge for the year	(18,846)	(6,883)	(5,067)	(2,353)	(6,201)	—	(39,350)
Written back on disposals of subsidiaries	—	1,830	122	20	40	—	2,012
Written back on disposals	—	680	—	4,434	551	—	5,665
Reclassification to assets classified as held for sale *(note 23)*	—	4,949	681	—	2,825	—	8,455
At 31 December 2021	(125,454)	(24,692)	(24,607)	(2,850)	(74,710)	—	(252,313)
Net book value:							
At 31 December 2019	507,176	19,443	22,764	7,117	23,051	5,055	584,606
At 31 December 2020	488,409	18,836	31,688	6,678	21,310	15,464	582,385
At 31 December 2021	585,320	19,878	32,256	7,825	24,018	196	669,493

The Target Group's property, plant and equipment are located in the PRC.

The Target Group has yet to obtain property ownership certificates of certain buildings with an aggregate net book value of RMB235,083,000, RMB226,352,000 and RMB333,714,000 as at 31 December 2019, 2020 and 2021, respectively. Notwithstanding this, the directors are of the opinion that the Target Group owned the beneficial title to these buildings as at 31 December 2019, 2020 and 2021, respectively.

Property, plant and equipment with net book value of RMBNil, RMB756,000 and RMB1,581,000 are pledged as security for bank loans (see note 18(b)(i)) as at 31 December 2019, 2020 and 2021, respectively.

11 Right-of-use assets

	Land use rights carried at cost (i)	Properties and land leased for own use carried at cost (ii)	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2019	57,267	168,899	226,166
Additions	—	16,585	16,585
At 31 December 2019 and 1 January 2020	57,267	185,484	242,751
Additions	—	9,888	9,888
At 31 December 2020 and 1 January 2021	57,267	195,372	252,639
Additions	—	76,824	76,824
Acquisitions through business combinations	—	20,279	20,279
Disposals	—	(10,383)	(10,383)
Disposals of subsidiaries	—	(23,872)	(23,872)
Reclassification to assets classified as held for sale *(note 23)*	—	(56,849)	(56,849)
At 31 December 2021	57,267	201,371	258,638
Accumulated amortisation:			
At 1 January 2019	(6,886)	—	(6,886)
Charge for the year	(1,432)	(30,181)	(31,613)
At 31 December 2019 and 1 January 2020	(8,318)	(30,181)	(38,499)
Charge for the year	(1,432)	(31,026)	(32,458)
At 31 December 2020 and 1 January 2021	(9,750)	(61,207)	(70,957)
Charge for the year	(1,432)	(44,533)	(45,965)
Written back on disposals of subsidiaries	—	7,913	7,913
Written back on disposals	—	10,383	10,383
Reclassification to assets classified as held for sale *(note 23)*	—	16,299	16,299
At 31 December 2021	(11,182)	(71,145)	(82,327)
Net book value:			
At 31 December 2019	48,949	155,303	204,252
At 31 December 2020	47,517	134,165	181,682
At 31 December 2021	46,085	130,226	176,311

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation charge of right-of-use assets by class of underlying asset:			
Land use rights	1,432	1,432	1,432
Properties and land leased for own use	30,181	31,026	44,533
	31,613	32,458	45,965
Interest on lease liabilities *(note 6(a))*	7,252	6,527	4,208
Expense relating to short-term leases *(note 6(c))*	4,453	3,238	4,513
COVID-19-related rent concessions received *(note 6(c))*	—	(700)	(423)

During the years ended 31 December 2019, 2020 and 2021, additions to right-of-use assets of the Target Group were RMB16,585,000, RMB9,888,000 and RMB73,231,000. This amount was primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases, the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in notes 17(d) and 20, respectively.

(i) Land use rights

Land in respect of land use rights are all located in the PRC with a lease period of 40 years when acquired.

(ii) Properties and land leased for own use

The Target Group has obtained the right to use other properties and land through tenancy agreements. The leases typically run for an initial period of 1.3-16.3 years.

Some leases include an option to terminate the lease before the end of the contract term. The Target Group considers it reasonably certain not to exercise the option to early terminate at lease commencement date.

During 2020 and 2021, the Target Group received rent concessions in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19.

12 Intangible assets

	Software	Total
	RMB'000	*RMB'000*
Cost:		
At 1 January 2019	4,783	4,783
Additions	22	22
At 31 December 2019 and 1 January 2020	4,805	4,805
Additions	—	—
At 31 December 2020 and 1 January 2021	4,805	4,805
Additions	123	123
Acquisitions through business combinations	465	465
Disposals of subsidiaries	(465)	(465)
Reclassification to assets classified as held for sale *(note 23)*	(295)	(295)
At 31 December 2021	4,633	4,633
Accumulated amortisation:		
At 1 January 2019	(3,533)	(3,533)
Charge for the year	(392)	(392)
At 31 December 2019 and 1 January 2020	(3,925)	(3,925)
Charge for the year	(382)	(382)
At 31 December 2020 and 1 January 2021	(4,307)	(4,307)
Charge for the year	(363)	(363)
Written back on disposals of subsidiaries	114	114
Reclassification to assets classified as held for sale *(note 23)*	207	207
At 31 December 2021	(4,349)	(4,349)
Net book value:		
At 31 December 2019	880	880
At 31 December 2020	498	498
At 31 December 2021	284	284

13 Other non-current assets

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments for property, plant and equipment, intangible assets and right-of-use assets	41,418	60,260	73,387
	41,418	60,260	73,387

14 Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Motor vehicles	447,547	433,190	405,961
Others	35,376	27,858	34,180
	482,923	461,048	440,141

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of inventories sold	4,529,496	5,034,284	5,652,889
Write-down of inventories	11,116	16,005	21,130

Inventories with carrying amount of RMBNil, RMBNil and RMB13,042,000 have been pledged as security for loans and borrowings (see note 18(b)(i)) as at 31 December 2019, 2020 and 2021, respectively.

Inventories with carrying amount of RMBNil, RMBNil and RMB5,038,000 have been pledged as security for bills payable (see note 19(b)) as at 31 December 2019, 2020 and 2021, respectively.

15 Trade and other receivables

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables, net of loss allowance	37,506	32,137	45,498
Prepayments	19,708	41,093	22,225
Other receivables and deposits	112,233	147,576	134,282
Amounts due from third parties	169,447	220,806	202,005
Amounts due from related parties *(note 27(c))*	99,940	40,167	13,006
Trade and other receivables	269,387	260,973	215,011

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

Trade and other receivables of the Target Group with carrying amount of RMBNil, RMBNil and RMB2,001,000 have been pledged as security for loans and borrowings (see note 18(b)(i)) as at 31 December 2019, 2020 and 2021, respectively.

As of the end of each reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables) based on the invoice date that are neither individually nor collectively considered to be impaired is as follows:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	31,406	26,342	36,221
1 to 2 months	3,475	3,561	4,789
2 to 3 months	700	662	1,182
Over 3 months	1,925	1,572	3,306
	37,506	32,137	45,498

Details on the Target Group's credit policy are set out in note 24(a).

16 Pledged bank deposits

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Restricted bank deposits pledged in respect of loans and borrowings *(note 18(b)(i))*	35,478	24,642	17,435
Restricted bank deposits pledged in respect of bills payable *(note 19(b))*	—	—	5,038
	35,478	24,642	22,473

The pledged bank deposits will be released upon the settlement of relevant loans and borrowings and bills payable.

17 Cash and cash equivalents and other cash flow information

(a) Cash and cash equivalents comprise:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and in hand	394,754	946,246	1,023,860
Cash and cash equivalents included in a disposal group classified as held-for-sale *(note 23(a))*	—	—	102,309
Cash and cash equivalents in the consolidated statement of cash flows	394,754	946,246	1,126,169

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	At 31 December 2019	2020	2021
		RMB'000	*RMB'000*	*RMB'000*
Profit before taxation		156,621	272,064	370,909
— Continuing operations		168,572	283,410	391,783
— Discontinued operations	*23(a)*	(11,951)	(11,346)	(20,874)
Adjustments for continuing and discontinued operations:				
— Depreciation of property, plant and equipment		38,059	39,213	37,338
— Depreciation of right-of-use assets		31,613	32,458	45,965
— Amortisation of intangible assets		392	382	249
— Net loss on disposal of property, plant and equipment		192	83	101
— Write-down of inventories		12,364	18,599	25,450
— Finance costs		55,578	60,803	60,927
— COVID-19-related rent concessions received	*11*	—	(700)	(423)
— Interest income		(3,105)	(3,485)	(9,257)
— Net realised gains on financial assets measured at fair value through profit or loss		(1,614)	(3,687)	(183)
Changes in working capital, include reclassification to held for sale under discontinued operations:				
(Increase)/decrease in inventories		(80,254)	3,276	(78,983)
Decrease/(increase) in trade and other receivables		76,709	(50,381)	(38,450)
Increase in pledged bank deposits		—	—	(5,038)
(Decrease)/increase in trade and other payables		(10,838)	87,308	125,925
Cash generated from operations		275,717	455,933	534,530

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Target Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Target Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans and other borrowings	**Lease liabilities**	**Interest payables**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 20)*	*(Note 2)*	
At 1 January 2019	1,051,896	168,899	15,051	1,235,846
Changes from financing cash flows:				
Proceeds from loans and borrowings	1,982,467	—	—	1,982,467
Repayments of loans and borrowings	(1,991,342)	—	—	(1,991,342)
Capital element of lease rentals paid	—	(33,347)	—	(33,347)
Interest element of lease rentals paid	—	(8,191)	—	(8,191)
Interest paid	—	—	(55,819)	(55,819)
Total changes from financing cash flows	(8,875)	(41,538)	(55,819)	(106,232)
Exchange adjustments	408	—	—	408
Other changes:				
Increase in lease liabilities from entering into new leases during the year	—	16,585	—	16,585
Interest expenses	—	8,191	47,387	55,578
Total other changes	—	24,776	47,387	72,163
At 31 December 2019	1,043,429	152,137	6,619	1,202,185

	Bank loans and other borrowings	Lease liabilities	Interest payables	Other payables due to related parties	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 20)*	*(Note 2)*	*(Note 27(c))*	
At 1 January 2020	1,043,429	152,137	6,619	—	1,202,185
Changes from financing cash flows:					
Proceeds from loans and borrowings	2,386,029	—	—	—	2,386,029
Repayments of loans and borrowings	(2,066,819)	—	—	—	(2,066,819)
Capital element of lease rentals paid	—	(23,309)	—	—	(23,309)
Interest element of lease rentals paid	—	(7,509)	—	—	(7,509)
Interest paid	—	—	(52,458)	—	(52,458)
Advances from related parties	—	—	—	13,663	13,663
Total changes from financing cash flows	319,210	(30,818)	(52,458)	13,663	249,597
Exchange adjustments	(5,711)	—	—	(167)	(5,878)
Other changes:					
Increase in lease liabilities from entering into new leases during the year	—	9,888	—	—	9,888
COVID-19 related rent concession	—	(700)	—	—	(700)
Interest expenses	—	7,509	53,294	—	60,803
Total other changes	—	16,697	53,294	—	69,991
At 31 December 2020	1,356,928	138,016	7,455	13,496	1,515,895

	Bank loans and other borrowings RMB'000 (Note 1)	Lease liabilities RMB'000 (Note 20)	Interest payables RMB'000 (Note 2)	Other payables due to related parties RMB'000 (Note 27(c))	Total RMB'000
At 1 January 2021	1,356,928	138,016	7,455	13,496	1,515,895
Changes from financing cash flows:					
Proceeds from loans and borrowings	2,992,099	—	—	—	2,992,099
Repayments of loans and borrowings	(2,890,924)	—	—	—	(2,890,924)
Capital element of lease rentals paid	—	(47,950)	—	—	(47,950)
Interest element of lease rentals paid	—	(6,360)	—	—	(6,360)
Interest paid	—	—	(55,403)	—	(55,403)
Advances from related parties	—	—	—	9,605	9,605
Repayments of advances from related parties	—	—	—	(22,712)	(22,712)
Total changes from financing cash flows	101,175	(54,310)	(55,403)	(13,107)	(21,645)
Exchange adjustments	(4,180)	—	—	(384)	(4,564)
Other changes:					
Increase in lease liabilities from entering into new leases during the year	—	76,824	—	—	76,824
COVID-19 related rent concession	—	(423)	—	—	(423)
Interest expenses	—	6,360	54,567	—	60,927
Acquisitions through business combinations	—	21,744	—	—	21,744
Disposal of subsidiaries	—	(17,070)	—	—	(17,070)
Reclassification to liabilities classified as held for sale *(note 23)*	(104,303)	(41,831)	—	—	(146,134)
Total other changes	(104,303)	45,604	54,567	—	(4,132)
At 31 December 2021	1,349,620	129,310	6,619	5	1,485,554

Note 1: Bank loans and other borrowings consist of bank loans and borrowings from other financial institutions and related parties as disclosed in note 18.

Note 2: Interest payables are recorded in trade and other payables.

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Within operating cash flows	4,453	2,538	4,090
Within financing cash flows	41,538	30,818	54,310
	45,991	33,356	58,400

These amounts relate to the following:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Lease rentals paid	45,991	33,356	58,400
	45,991	33,356	58,400

18 Loans and borrowings

(a) As of the end of each reporting period, loans and borrowings were repayable as follows:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year or on demand (i)	1,043,429	1,325,082	1,259,146
After 1 year but within 2 years (i)	—	—	—
After 2 years but within 5 years (i)	—	31,846	90,474
	—	31,846	90,474
	1,043,429	1,356,928	1,349,620

(b) As of the end of each reporting period, loans and borrowings were secured as follows:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Unsecured bank loans	124,289	39,526	28,289
	124,289	39,526	28,289
Secured bank loans (i)(ii)	919,140	1,316,874	1,320,844
Secured borrowings from other financial institutions (i)(ii)	—	528	487
	919,140	1,317,402	1,321,331
	1,043,429	1,356,928	1,349,620

(i) Loans and borrowings of the Target Group were secured by the following assets of the Target Group:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Inventories	—	—	13,042
Trade and other receivables	—	—	2,001
Property, plant and equipment	—	756	1,581
Pledged bank deposits	35,478	24,642	17,435
	35,478	25,398	34,059

(ii) Loans and borrowings of the Target Group of RMB528,935,000, RMB441,541,000 and RMB305,616,000 were guaranteed by a related party as at 31 December 2019, 2020 and 2021, respectively (see note 27(d)).

19 Trade and other payables

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	24,833	29,189	27,948
Bills payable	—	—	5,038
	24,833	29,189	32,986
Contract liabilities	139,344	226,365	272,648
Other payables and accruals	95,337	94,784	153,479
Amounts due to third parties	259,514	350,338	459,113
Amounts due to related parties *(note 27(c))*	2,734	13,551	42,380
Trade and other payables	262,248	363,889	501,493

(i) The amount of revenue recognised during the Relevant Periods that was included in the contract liabilities balance at the beginning of the year ended 31 December 2019, 2020 and 2021 was RMB104,218,000, RMB137,810,000 and RMB221,187,000, respectively.

(a) All trade and other payables are expected to be settled within one year.

(b) Bills payable were secured by the following assets of the Target Group:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Pledged bank deposits	—	—	5,038
Inventories	—	—	5,038
	—	—	10,076

(c) ***As of the end of each reporting period, the ageing analysis of trade payables and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:***

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	24,057	28,754	32,413
Over 3 months	776	435	573
	24,833	29,189	32,986

20 Lease liabilities

As of the end of each reporting period, the lease liabilities were repayable as follows:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	25,487	20,017	17,172
After 1 year but within 2 years	31,332	21,128	20,778
After 2 years but within 5 years	52,034	53,751	43,063
After 5 years	43,284	43,120	48,297
	126,650	117,999	112,138
	152,137	138,016	129,310

21 Income tax in the consolidated statement of financial position

(a) ***Current taxation in the consolidated statement of financial position represents:***

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	22,444	16,960	30,126
Provision for current income tax for the year	41,492	69,989	92,712
Payment during the year	(46,976)	(56,823)	(89,108)
At the end of the year	16,960	30,126	33,730

(b) Deferred tax assets and liabilities recognised

(i) The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Inventory provision	**PRC dividend withholding tax**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax (liabilities)/assets arising from:				
At 1 January 2019	1,442	(12,800)	5,261	(6,097)
Credited/(charged) to profit or loss *(note 7(a))*	235	(5,160)	(166)	(5,091)
Transfer to current tax payable	—	7,412	—	7,412
At 31 December 2019	1,677	(10,548)	5,095	(3,776)
At 1 January 2020	1,677	(10,548)	5,095	(3,776)
Credited/(charged) to profit or loss *(note 7(a))*	294	(9,728)	2,101	(7,333)
Transfer to current tax payable	—	6,155	—	6,155
At 31 December 2020	1,971	(14,121)	7,196	(4,954)
At 1 January 2021	1,971	(14,121)	7,196	(4,954)
Credited/(charged) to profit or loss *(note 7(a))*	2,496	(13,491)	1,102	(9,893)
Transfer to current tax payable	—	6,264	—	6,264
Reclassification to assets classified as held for sale *(note 23)*	(457)	—	5	(452)
At 31 December 2021	4,010	(21,348)	8,303	(9,035)

(ii) Reconciliation to consolidated statement of financial position:

	The Target Group At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Representing:			
Net deferred tax assets	6,772	9,167	12,313
Net deferred tax liabilities	(10,548)	(14,121)	(21,348)
	(3,776)	(4,954)	(9,035)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(r), the Target Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB67,146,000, RMB60,672,000 and RMBNil as at 31 December 2019, 2020 and 2021, 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 before they expire. The PRC deductible tax losses in PRC expire within 5 years from the year when such losses were incurred.

22 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 consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Target Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital	**Exchange reserve**	**Retained earnings**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2019	355	3,754	173,970	178,079
Profit for the year	—	—	156,020	156,020
Other comprehensive income	—	6,943	—	6,943
Total comprehensive income	—	6,943	156,020	162,963
Dividends paid	—	—	(59,444)	(59,444)
Balance at 31 December 2019	355	10,697	270,546	281,598
Balance at 1 January 2020	355	10,697	270,546	281,598
Profit for the year	—	—	112,480	112,480
Other comprehensive income	—	(13,094)	—	(13,094)
Total comprehensive income	—	(13,094)	112,480	99,386
Dividends paid	—	—	(100,038)	(100,038)
Balance at 31 December 2020	355	(2,397)	282,988	280,946
Balance at 1 January 2021	355	(2,397)	282,988	280,946
Profit for the year	—	—	140,298	140,298
Other comprehensive income	—	(12,353)	—	(12,353)
Total comprehensive income	—	(12,353)	140,298	127,945
Dividends declared	—	—	(168,004)	(168,004)
Balance at 31 December 2021	355	(14,750)	255,282	240,887

(b) Dividends

Dividends for the Relevant Periods represent interim dividends declared and approved to equity shareholders of the Target Company of Singapore Dollars 11,736,000 (equivalent to RMB59,444,000), Singapore Dollars 20,000,000 (equivalent to RMB100,038,000) and Singapore Dollars 35,000,000 (equivalent to RMB168,004,000) during the years ended 31 December 2019, 2020 and 2021, respectively.

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Interim dividends declared and approved during the year	59,444	100,038	168,004

(c) Nature and purpose of reserves

(i) PRC statutory reserve

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Target Group which are incorporated in the PRC until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before distribution of a dividend to equity shareholders.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of equity shareholders, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the Historical Financial Information of foreign operations with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policies set out in Note 2(a) and Note 2(w).

(d) 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 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 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.

The Target Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as loans and borrowings, bills payable, lease liabilities and other payables, less pledged bank deposits and cash and cash equivalents. Adjusted capital comprises all components of equity.

During the Relevant Periods, the Target Group's strategy was to maintain the adjusted net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Target Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The Target Group's adjusted net debt-to-capital ratio at 31 December 2019, 2020 and 2021 were as follows:

		The Target Group		
		At 31 December		
	Note	**2019**	**2020**	**2021**
		RMB'000	*RMB'000*	*RMB'000*
Current liabilities:				
Loans and borrowings (i)	*18*	1,043,429	1,325,082	1,259,146
Bills payable	*19*	—	—	5,038
Lease liabilities (ii)	*20*	25,487	20,017	17,172
Non-current liabilities:		1,068,916	1,345,099	1,281,356
Loans and borrowings (i)	*18*	—	31,846	90,474
Lease liabilities (ii)	*20*	126,650	117,999	112,138
Total debts		1,195,566	1,494,944	1,483,968
Less: Pledged bank deposits	*16*	(35,478)	(24,642)	(22,473)
Cash and cash equivalents (iii)	*17(a)*	(394,754)	(946,246)	(1,023,860)
Adjusted net debts		765,334	524,056	437,635
Total equity		535,148	623,821	731,414
Adjusted net debt-to-capital ratio		1.43	0.84	0.60

Notes:

(i) Loans and borrowings exclude those balance associated with liabilities classified as held for sale under discontinued operations of RMB104,303,000 as at 31 December 2021.

(ii) Lease liabilities exclude those balance associated with liabilities classified as held for sale under discontinued operations of RMB41,831,000 as at 31 December 2021.

(iii) Cash and cash equivalents exclude those balance associated with assets classified as held for sale under discontinued operations of RMB102,309,000 as at 31 December 2021.

Neither the Target Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 Disposal group held for sale and discontinued operations

4S dealership business under the brand "Aston-Martin" that is classified as held for sale

Pursuant to the Acquisition Agreement, the Company has conditionally agreed to acquire all issued shares of the Target Company at a total consideration of RMB3.7 billion, subject to the terms and conditions of the Acquisition Agreement. According to the Acquisition Agreement, the Company would not acquire Excluded Companies which operate 4S dealership business under the brand Aston-Martin, therefore these Excluded Companies will be disposed of by the Target Group under a restructuring plan pursuant to the Acquisition Agreement. Accordingly, the Target Company signed agreements with a related party which is ultimately controlled by the same controlling shareholder of the Target Group, StarChase Singapore Pte. Ltd., on 15 December 2021 to commit to a plan to sell its entire interests in the Excluded Companies with a total cash consideration of RMB69 million, which exceeds their net carrying amount of RMB38 million as at 31 December 2021. As the disposal transaction is expected by January 2022, the assets and liabilities in the Excluded Companies have been classified as a disposal group held for sale as at 31 December 2021, and the related results and cash flows are treated as discontinued operations for the year and the prior years presented in the Historical Financial Information in accordance with the accounting policy set out in Note 2(v).

4S dealership business under the brand "Volvo" that has been disposed of

In March 2021, the Target Group acquired two subsidiaries ("**Volvo 4S dealership business**") from related parties which are ultimately controlled by the same controlling shareholder of the Target Group at a total consideration of Singapore Dollars 5 million to broaden the Target Group's sales network. The amount of the consideration paid by the Target Group in excess of carrying amount of the net assets of two subsidiaries acquired of RMB59 million was recognised as a distribution to the controlling shareholder in retained earnings as a result of business combination under common control in accordance with the accounting policy set out in Note 2(c).

As part of the restructuring plan in the Acquisition Agreement, during July to November 2021, the Target Group disposed of its entire interests in Volvo 4S dealership business to related parties which are ultimately controlled by the same controlling shareholder of the Target Group at a total consideration of Singapore Dollars 5 million, at the same acquisition price that the Target Group paid for. The transactions were accounted for as equity transactions with the controlling shareholder and the difference between the amount of the consideration and the carrying amount of the net assets of two subsidiaries disposed of RMB68 million has been recorded as a contribution from the controlling shareholder in retained earnings with no impact on profit or loss.

Net gain arising from above business combinations under common control and its disposal to related parties of RMB9 million was recorded in retained earnings.

Results and cash flows of this 4S dealership business for the period between March and July, November 2021 respectively, were included in the following analysis in respect of discontinued operations for the year ended 31 December 2021 which are presented separately from continuing operations. Comparatives and consolidated financial statement of the current reporting period were not re-presented in accordance with the accounting policy set out in Note 2(c).

(a) Analysis of results of discontinued operation

The aggregate results of the discontinued operations in respect of the 4S dealership businesses as described above for the years ended 31 December 2019, 2020 and 2021 are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	45,632	83,781	291,548
Elimination of inter-segment revenue	(35)	(154)	(795)
External revenue	45,597	83,627	290,753
Cost	(42,451)	(80,540)	(253,096)
Other revenue and other net (loss)/income	312	635	1,192
Distribution costs	(3,991)	(3,349)	(36,916)
Administrative expenses	(10,075)	(9,706)	(16,710)
Finance cost	(3,137)	(4,181)	(7,838)
Elimination of expenses related to inter-segment sales	1,794	2,168	1,741
Results from operating activities	(11,951)	(11,346)	(20,874)
Income tax	132	(4)	307
Loss from discontinued operation, net of tax	(11,819)	(11,350)	(20,567)

Cash flows from discontinued operations are summarised as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Cash flows used in operating activities	(28,262)	(13,448)	(51,229)
Cash flows used in investing activities	(6,400)	(3,483)	(16,975)
Cash flows generated from financing activities	35,705	26,402	156,311
Net cash outflow	1,043	9,471	88,107

(b) Assets and liabilities of disposal group held for sale

As at 31 December 2021, the disposal group relating to the 4S dealership business under the brand "Aston-Martin" was stated at lower of the carrying amount and fair value less costs to sell and comprised the following major classes of assets and liabilities.

	Year ended 31 December 2021
	RMB'000
Property, plant and equipment	24,647
Right-of-use assets	40,550
Intangible assets	88
Trade and other receivables	58,174
Deferred tax assets	453
Inventories	75,821
Cash and cash equivalents	102,309
Assets held for sale	302,042
Loans and borrowings	104,303
Trade and other payables	22,266
Lease liabilities	41,831
Liabilities held for sale	168,400

24 Financial risk management and fair value of financial instruments

Exposure to credit, liquidity and interest rate arises in the normal course of the Target Group's business.

The Target Group's exposure to these risks and the financial risk management policies and practices used by the Target Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Target Group. The Target Group's credit risk is primarily attributable to cash and cash equivalents, pledged bank deposits, time deposits and trade and other receivables.

The Target Group's exposure to credit risk arising from cash and cash equivalents, pledged bank deposits and time deposits are limited because the counterparties are banks and financial institutions for which the Target Group considers to have low credit risk.

Trade receivables

Credit risk in respect of trade receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent mortgage granted by major financial institutions to customers of the Target Group, insurance commission receivables from insurance companies and warranty receivables from automobile manufacturers. The mortgage is normally settled within one month directly by major financial institutions. While for the receivables from insurance companies and automobile manufacturers, risk of default is considered low, as these are either reputable companies or with good credit rating. Based on past experience, the Target Group was of the opinion that no provision for impairment was necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable. Normally, the Target Group does not obtain collateral from customers.

The trade receivables from the Target Group's five largest debtors at 31 December 2019, 2020 and 2021 represented 34%, 49% and 44% of the total trade receivables respectively, while 30%, 43%, and 37% of the total trade receivables were due from the largest single debtor respectively.

The Target Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs. The Target Group assessed that there is no significant loss allowance recognised in accordance with HKFRS 9 for trade receivables as at 31 December 2019, 2020 and 2021.

Prepayments and other receivables and deposits

Credit risk in respect of prepayments and other receivables and deposits is limited since the counterparties are mainly reputable automobile manufacturers.

The Target Group measures loss allowances for prepayments and other receivables and deposits at an amount equal to 12-month ECLs unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs. The Target Group assessed that there is no significant loss allowance recognised in accordance with HKFRS 9 for prepayments and other receivables and deposits as at 31 December 2019, 2020 and 2021.

(b) Liquidity risk

Liquidity risk is the risk that the Target Group will not be able to meet its financial obligations as they fall due.

The Target Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Target Group's reputation.

The Target Group's policy is to regularly monitor liquidity requirements, and 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.

The following tables show the remaining contractual maturities at the end of each reporting period 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 date the Target Group can be required to pay.

	At 31 December 2019					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Balance sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings	1,056,743	—	—	—	1,056,743	1,043,429
Trade and other payables	262,248	—	—	—	262,248	262,248
Lease liabilities	30,972	33,050	62,604	60,017	186,643	152,137
	1,349,963	33,050	62,604	60,017	1,505,634	1,457,814

	At 31 December 2020					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Balance sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings	1,342,789	—	33,305	—	1,376,094	1,356,928
Trade and other payables	363,889	—	—	—	363,889	363,889
Lease liabilities	35,304	22,824	55,823	47,050	161,001	138,016
	1,741,982	22,824	89,128	47,050	1,900,984	1,858,833
Financial guarantee issued:						
Maximum amount guaranteed *(note 27(e))*	13,496	—	—	—	13,496	—

	At 31 December 2021					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Balance sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings	1,273,866	—	92,984	—	1,366,850	1,349,620
Trade and other payables	501,493	—	—	—	501,493	501,493
Lease liabilities	23,773	22,484	51,200	62,179	159,636	129,310
	1,799,132	22,484	144,184	62,179	2,027,979	1,980,423
Financial guarantee issued:						
Maximum amount guaranteed *(note 27(e))*	13,101	—	—	—	13,101	—

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Group's interest rate risk arises primarily from cash at bank, pledged bank deposits and interest-bearing borrowings. These financial instruments issued at variable rates and fixed rates expose the Target Group to cash flow interest rate risk and fair value interest rate risk respectively. The Target Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

Cash at bank, pledged bank deposits, interest-bearing borrowings and lease liabilities are the major types of the Target Group's financial instruments subject to interest rate risk. Cash at bank and pledged bank deposits are with fixed interest rates ranging from 0.01%–2.1% per annum as at 31 December 2019, 2020 and 2021, respectively.

The Target Group's interest-bearing borrowings, lease liabilities and interest rates at the end of each reporting period are set out as follows:

	At 31 December					
	2019		**2020**		**2021**	
	Effective interest rate		*Effective interest rate*		*Effective interest rate*	
	%	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*
Fixed rate borrowings						
Bank loans	4.79	45,000	4.35	25,000	4.25–4.79	85,078
Borrowings from other financial institutions	—	—	9.90	528	9.90	487
Lease liabilities	5.39	152,137	5.39	138,016	5.39	129,310
		197,137		163,544		214,875
Variable rate borrowings						
Bank loans	2.25–4.79	998,429	0.75–4.79	1,331,400	1.27-4.57	1,264,055
		998,429		1,331,400		1,264,055
		1,195,566		1,494,944		1,478,930

(ii) Sensitivity analysis

The Target Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rate at the reporting date would not affect profit or loss.

The following table indicates the instantaneous change in the Target Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of each reporting period and had been applied to re-measure those financial instruments held by the Target Group which expose the Target Group to fair value interest rate risk at the end of each reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Target Group at the end of each reporting period, the impact on the Target Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis during the Relevant Periods.

	Increase/(decrease) in basis points	**(Decrease)/increase in profit after tax and retained profits for the year**
		RMB'000
At 31 December 2019		
Basis points	100	(8,201)
Basis points	(100)	8,201
At 31 December 2020		
Basis points	100	(10,189)
Basis points	(100)	10,189
At 31 December 2021		
Basis points	100	(9,575)
Basis points	(100)	9,575

(d) Currency risk

The Target Group is exposed to currency risk primarily through financing activities which give rise to cash and cash equivalents and loans and borrowings 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 currency giving rise to the risk is primarily Singapore dollars.

The following table details the Target Group's exposure at the end of each 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 Renminbi, translated using the spot rate at the end of each reporting period.

	At 31 December 2019 Exposure to foreign currencies (expressed in Renminbi)				
	Singapore Dollars	United States Dollars	Great Britain Pound	European Monetary Unit	Hong Kong Dollars
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	25,043	434	—	1,454	1,154
Trade and other receivables	47,686	—	—	—	—
Trade and other payables	(6,229)	—	—	—	—
Loans and borrowings	(124,289)	—	—	—	—
Net exposure arising from recognised assets and liabilities	(57,789)	434	—	1,454	1,154

	At 31 December 2020 Exposure to foreign currencies (expressed in Renminbi)				
	Singapore Dollars	United States Dollars	Great Britain Pound	European Monetary Unit	Hong Kong Dollars
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	70,506	50,368	—	1,195	333
Trade and other receivables	30,027	—	13,496	—	—
Trade and other payables	(16,124)	—	—	—	—
Loans and borrowings	(39,526)	—	—	—	—
Net exposure arising from recognised assets and liabilities	44,883	50,368	13,496	1,195	333

	At 31 December 2021				
	Exposure to foreign currencies (expressed in Renminbi)				
	Singapore Dollars	United States Dollars	Great Britain Pound	European Monetary Unit	Hong Kong Dollars
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	65,624	1,094	—	3,338	1,802
Trade and other receivables	11,305	—	13,101	—	—
Trade and other payables	(47,953)	—	—	—	—
Loans and borrowings	(87,224)	—	—	—	—
Net exposure arising from recognised assets and liabilities	(58,248)	1,094	13,101	3,338	1,802

The following table indicates the instantaneous change in the Target Group's profit after tax (and retained profits) that would arise if foreign exchange rate to which the Target 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					
	2019		2020		2021	
	Increase/(decrease) in foreign exchange rate	(Decrease)/ increase in profit after tax and retained profits	Increase/ (decrease) in foreign exchange rate	(Decrease)/ increase in profit after tax and retained profits	Increase/ (decrease) in foreign exchange rate	(Decrease)/ increase in profit after tax and retained profits
		RMB'000		*RMB'000*		*RMB'000*
Singapore Dollars	5%	(2,392)	5%	2,440	5%	(1,857)
	(5)%	2,392	(5)%	(2,440)	(5)%	1,857
United States Dollars	5%	18	5%	2,020	5%	45
	(5)%	(18)	(5)%	(2,020)	(5)%	(45)
Great Britain Pound	5%	—	5%	560	5%	544
	(5)%	—	(5)%	(560)	(5)%	(544)
European Monetary Unit	5%	61	5%	50	5%	139
	(5)%	(61)	(5)%	(50)	(5)%	(139)
Hong Kong Dollars	5%	48	5%	14	5%	75
	(5)%	(48)	(5)%	(14)	(5)%	(75)

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. The analysis is performed on the same basis for 2019, 2020 and 2021.

(e) Fair value measurement

At 31 December 2019, 2020 and 2021, all of the Target Group's financial instruments were carried at cost or amortised cost not materially different from their fair value.

25 Commitments

Capital commitments outstanding at 31 December 2019, 2020 and 2021 not provided for in the Historical Financial Information were as follows:

	The Target Group At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for	—	—	—
Authorised but not contracted for	—	—	—
	—	—	—

26 Contingent liabilities

As at 31 December 2019, 2020 and 2021, the Target Group did not have any significant contingent liabilities.

27 Material related party transactions

During the Relevant Periods, the directors are of the view that the following companies are related parties of the Target Group:

Name of party	**Relationship**
Wearnes-StarChase Limited	Parent Company
StarChase North Motorsports Pte Ltd.	Controlled by the Controlling Shareholder
Wearnes Motors (HK) Limited	Controlled by the Controlling Shareholder
Wearnes Automotive Changchun Co., Ltd ("**Wearnes Automotive Changchun**") (ii) 長春市維信汽車銷售有限公司	Controlled by the Controlling Shareholder
Wearnes Automotive Jilin Co., Ltd ("**Wearnes Automotive Jilin**") 吉林維信汽車銷售有限公司	Controlled by the Controlling Shareholder
Wearnes Automotive Songyuan Co., Ltd ("**Automotive Songyuan**") (ii) 松原維星汽車銷售有限公司	Controlled by the Controlling Shareholder
StarChase Consulting (Shanghai) Co., Ltd ("**StarChase Consulting (Shanghai)**") (ii) 德趣投資諮詢(上海)有限公司	Controlled by the Controlling Shareholder
StarChase Lifestyle Company Limited ("**StarChase Lifestyle**") 追星商貿(上海)有限公司	Controlled by the Controlling Shareholder
Wearnes Automotive Pte.Ltd.	Controlled by the Controlling Shareholder
Wearnes Motors (Malaysia) Sdn Bhd	Controlled by the Controlling Shareholder
Wearnes Motors (Taiwan) Limited	Controlled by the Controlling Shareholder

Name of party	Relationship
Wearnes Motors (Taiwan) Pte. Ltd.	Controlled by the Controlling Shareholder
StarChase Motorsports (Singapore) Pte Ltd	Controlled by the Controlling Shareholder
StarChase Motorsports Mongolia LLC	Controlled by the Controlling Shareholder
Wearnes Automotive & Equipment Pte Ltd	Controlled by the Controlling Shareholder
StarChase Singapore Pte Ltd	Controlled by the Controlling Shareholder
CT-Wearnes Vietnam Co Ltd	Controlled by the Controlling Shareholder
Yaw Chee Ming	Controlling Shareholder

Notes:

(i) The English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

(ii) During the Relevant Periods, the Target Group's controlling shareholder disposed the interests in these entities. Upon the completion of the disposals, these entities were not presented as related parties of the Target Group.

(a) Recurring transactions

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Management service fee			
Wearnes Motors (Malaysia) Sdn Bhd	633	750	720
	633	750	720
Management service income			
Wearnes Automotive Pte. Ltd.	10,029	12,369	12,295
Wearnes Motors (HK) Limited	1,665	—	—
	11,694	12,369	12,295

(b) Non-recurring transactions

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Rental expense			
Wearnes Automotive & Equipment Pte Ltd	—	60	57
	—	60	57
Sales of passenger vehicles:			
Wearnes Automotive Changchun	673	—	—
	673	—	—
Purchases of passenger vehicles:			
Wearnes Automotive Changchun	—	744	—
	—	744	—

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Purchases of spare parts:			
StarChase Lifestyle	2,141	2	62
Wearnes Automotive Changchun	1	—	—
	2,142	2	62
Dividend distribution			
Wearnes-StarChase Limited	59,444	100,038	168,004
	59,444	100,038	168,004
Interest income			
Wearnes Automotive Changchun	377	934	—
Wearnes Automotive Jilin	14	—	301
Wearnes Motors (Malaysia) Sdn Bhd	—	78	—
CT-Wearnes Vietnam Co Ltd	—	—	30
Wearnes Motors (Taiwan) Pte. Ltd.	—	—	113
Wearnes Motors (HK) Limited	—	—	146
Wearnes Motors (Taiwan) Limited	90	558	57
	481	1,570	647
Advances to related parties			
Wearnes-StarChase Limited	864	10,504	—
StarChase Motorsports Mongolia LLC	—	—	108
StarChase North Motorsports Pte Ltd.	—	—	104
StarChase Singapore Pte Ltd	—	—	3,258
	864	10,504	3,470
Repayments of advances to related parties			
Wearnes-StarChase Limited	10,637	20,463	—
Wearnes Motors (HK) Limited	—	—	146
	10,637	20,463	146

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Advances from related parties			
StarChase Motorsports (Singapore) Pte Ltd	—	13,663	9,600
Wearnes Automotive & Equipment Pte Ltd	—	—	5
	—	13,663	9,605
Repayments of advances from related parties			
StarChase Motorsports (Singapore) Pte Ltd	—	—	22,712
	—	—	22,712
Loans and borrowings to related parties			
Wearnes Motors (Taiwan) Limited (ii)	16,107	—	—
Wearnes Motors (Malaysia) Sdn Bhd (iii)	—	15,006	—
Wearnes Motors (Taiwan) Pte. Ltd. (iv)	—	—	9,600
CT-Wearnes Vietnam Co Ltd (v)	—	—	3,302
Wearnes Automotive Changchun (i)	45,900	32,000	—
Wearnes Automotive Jilin (i)	8,100	4,700	—
	70,107	51,706	12,902
Repayments of loans borrowed to related parties			
Wearnes Motors (Taiwan) Limited (ii)	—	513	15,450
Wearnes Motors (Malaysia) Sdn Bhd (iii)	—	15,006	75
CT-Wearnes Vietnam Co Ltd (v)	—	—	3,333
Wearnes Automotive Changchun (i)	4,600	77,900	—
Wearnes Automotive Jilin (i)	—	1,500	10,946
	4,600	94,919	29,804

(c) Balances with related parties

At 31 December 2019, 2020 and 2021, the Target Group had the following balances with related parties:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables due from:			
Wearnes Automotive Pte.Ltd.	5,447	—	—
Wearnes Automotive Changchun	760	—	—
	6,207	—	—
Trade payables due to:			
Wearnes Motors (HK) Limited	1,903	—	—
Wearnes Motors (Malaysia) Sdn Bhd	831	—	—
Wearnes Automotive Pte.Ltd.	—	55	42
	2,734	55	42
Other receivables due from:			
Wearnes Automotive Jilin (i)	8,100	11,300	—
Wearnes Motors (Taiwan) Limited (ii)	16,560	15,844	—
Wearnes Motors (Taiwan) Pte. Ltd. (iv)	—	—	9,540
Wearnes-StarChase Limited	23,173	12,946	—
Wearnes Motors (Malaysia) Sdn Bhd (iii)	—	77	—
StarChase North Motorsports Pte Ltd.	—	—	102
StarChase Motorsports Mongolia LLC	—	—	106
StarChase Singapore Pte Ltd	—	—	3,258
Wearnes Automotive Changchun (i)	45,900	—	—
	93,733	40,167	13,006
Other payables due to:			
StarChase Motorsports (Singapore) Pte Ltd	—	13,496	—
Wearnes Automotive & Equipment Pte Ltd	—	—	5
Wearnes-StarChase Limited	—	—	42,333
	—	13,496	42,338

(i) The Target Group and its related parties signed Renminbi Cash Pool Management Agreement (the "**Agreement**") with the Oversea-Chinese Banking Corporation ("**OCBC**"). According to the Agreement, the Target Group and its related parties allow OCBC to transfer the balance of their respective bank accounts into designated cash pooling account, as entrusted loans to or from the Target Group. The effective annual interest rates charged on the entrusted loans to or from the Target Group was 4.8%–5.0%.

During the years ended 31 December 2019, 2020 and 2021, the Target Group provided the loans of RMB47,500,000, RMB36,700,000 and RMBNil, respectively, to its related parties through this cash pool arrangement and the related parties repaid the loans of RMB4,600,000, RMB72,900,000 and RMB10,946,000, respectively.

As at 31 December 2019, 2020 and 2021, balances of loans provided by the Target Group to its related parties through this cash pool arrangement was RMB47,500,000, RMB11,300,000 and RMBNil, respectively.

In August 2019, the Target Group provided a short-term loan of RMB6,500,000 to Wearnes Automotive Changchun with an interest rate at 4.8% per annum. Wearnes Automotive Changchun has repaid the loan in May 2020 to the Target Group.

(ii) In November 2019, the Target Group provided a short-term loan of SGD3,180,000 (equivalent to RMB16,107,000) to Wearnes Motors (Taiwan) Limited with an interest rate at 3.5% per annum. Wearnes Motors (Taiwan) Limited has repaid the loan in February 2021 to the Target Group.

(iii) In August 2020, the Target Group provided a short-term loan of SGD3,000,000 (equivalent to RMB15,006,000) to Wearnes Motors (Malaysia) Sdn Bhd with an interest rate at 5% per annum. Wearnes Motors (Malaysia) Sdn Bhd has repaid the loan in September 2020 to the Target Group.

(iv) In August 2021, the Target Group provided a short-term loan of SGD2,000,000 (equivalent to RMB9,600,000) to Wearnes Motors (Taiwan) Pte. Ltd. with an interest rate at 3% per annum.

(v) In August 2021, the Target Group provided a short-term loan of SGD688,000 (equivalent to RMB3,302,000) to CT-Wearnes Vietnam Co Ltd with an interest rate at 6% per annum. CT-Wearnes Vietnam has repaid the loan in October 2021 to the Target Group.

Except for loans and borrowings provided by the Target Group to its related parties, the amounts due from/to related parties are unsecured, interest free and have no fixed terms of repayment.

(d) Guarantees issued by a related party

Loans and borrowings of the Target Group of RMB528,935,000, RMB441,541,000 and RMB305,616,000 were guaranteed by a related party, Mr. Yaw Chee Ming as at 31 December 2019, 2020 and 2021, respectively.

(e) Guarantees issued by the Target Group

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Guarantees issued by the Target Group in respect of bank loans and borrowings granted to a related party:			
StarChase Motorsports Mongolia LLC	—	13,496	13,101

As at 31 December 2020 and 2021, the Target Group issued financial guarantees to a bank in respect of bank loans and borrowings granted to a related party of the Target Group amounting to Great Britain Pound 1.5 million (equivalent to RMB13,496,000) and Great Britain Pound 1.5 million (equivalent to RMB13,101,000), respectively.

(f) Key management personnel remuneration

Remuneration for key management personnel of the Target Group, including amounts paid to the Target Company's director as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	At 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowance and benefits in kind	6,952	6,966	7,145
Discretionary bonuses	2,234	3,610	4,036
	9,186	10,576	11,181

Total remuneration is included in staff costs (see note 6(b)).

28 Immediate and ultimate controlling party

As at 31 December 2021, the directors consider the immediate parent to be Wearnes — StarChase Limited, which is incorporated in Singapore and does not produce financial statements available for public use.

As at 31 December 2021, the directors consider the ultimate controlling party to be Mr. Yaw Chee Ming.

29 Non-adjusting events after the reporting period

Disposal of subsidiaries

As disclosed in note 23, pursuant to equity transfer agreements signed with StarChase Singapore Pte. Ltd. on 15 December 2021, the Target Company planned to dispose 100% equity interest in Excluded Companies, namely Wearnes Motors (Qingdao) Co., Ltd. with a total cash consideration of RMB13 million, Wearnes Motors (Jinan) Co., Ltd. with a total cash consideration of RMB7 million, Wearnes Motors (Zhengzhou) Co., Ltd. with a total cash consideration of RMB10 million, Wearnes Motors (Xi'an) Co., Ltd. with a total cash consideration of RMB7.5 million, Wearnes Motors (Guangzhou) Co., Ltd. with a total cash consideration of RMB21.5 million and StarChase Motorsports (Nanjing) Co., Ltd. with a total cash consideration of RMB10 million. The transactions were completed in January 2022.

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Periods

Up to the date of issue of the Historical Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2021 which have not been adopted in the Historical Financial Information. These developments include the following which may be relevant to the Target Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16, Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37, Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	1 January 2022
Amendments to HKAS 1, Classification of liabilities as current or non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, Disclosure of accounting policies	1 January 2023
Amendments to HKAS 8, Definition of accounting estimates	1 January 2023
Amendments to HKAS 12, Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

The Target Group is in the process of making an assessment of what the impact of these developments 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 consolidated financial statements.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

INTRODUCTION

The information set out below is for illustrative purpose only and does not form part of the accounts' report as set out in Appendix II to this Circular.

China Meidong Auto Holdings Limited (the "**Company**") and its subsidiaries are hereinafter collectively referred to as the "Group". StarChase Motorsports Limited (the "**Target Company**") and its subsidiaries are hereinafter collectively referred to as the "Target Group".

Pursuant to the sale and purchase agreement dated 13 December 2021 ("**Acquisition Agreement**") entered into between the Company and the Target Company's parent company, Wearnes-StarChase Limited, the Company has conditionally agreed to acquire all issued shares of the Target Company at a total consideration of RMB3.7 billion, subject to the terms and conditions of the Acquisition Agreement.

Pursuant to the Acquisition Agreement, six subsidiaries carrying dealership brands other than Porsche ("**Excluded Companies**") of the Target Group as at the date of the Acquisition Agreement were not intended to be acquired by the Company and will be carved out of from the Target Group before completion of the proposed acquisition. The Group together with the Target Group excluding the Excluded Companies ("**Target Companies**") are collectively referred to as the Enlarged Group.

The following unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") has been prepared by the directors of the Company (the "**Directors**") in accordance with rule 4.29 of the Listing Rules, for illustrative purpose only, to provide information about how the acquisition of 100% equity interest of the Target Company excluding the Excluded Companies (the "**Acquisition**") might have affected on the assets and liabilities of the Group as if the Acquisition had been completed on 31 December 2021.

The Unaudited Pro Forma Financial Information is based on (i) the audited consolidated statement of financial position of the Group as at 31 December 2021 as extracted from the Group's annual results announcement for the year ended 31 December 2021 issued on 30 March 2022; and (ii) the audited consolidated statement of financial position of the Target Group as at 31 December 2021 as extracted from the accountants' report thereon set out in Appendix II to this Circular, after making pro forma adjustments as summarised in the accompanying notes that are directly attributable to the Acquisition and factually supportable as if the Acquisition had been undertaken as at 31 December 2021.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purpose only and is based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as of the specified dates or any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this Circular.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group	The Target Group	Pro forma adjustments					The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	
Non-current assets								
Property, plant and equipment	1,381,418	669,493						2,050,911
Right-of-use assets	1,568,809	176,311			12,716			1,757,836
Intangible assets	546,121	284			3,062,512			3,608,917
Goodwill	178,691	—			833,559			1,012,250
Interest in a joint venture	61,942	—						61,942
Other non-current assets	422,113	73,387						495,500
Deferred tax assets	80,459	12,313						92,772
	4,239,553	**931,788**						**9,080,128**
Current assets								
Inventories	355,256	440,141						795,397
Trade and other receivables	1,817,159	215,011	95,726	69,000	(177,732)	24,746	(2,300)	2,041,610
Pledged bank deposits	768,964	22,473						791,437
Assets held for sale	—	302,042		(302,042)				—
Cash and cash equivalents	2,621,741	1,023,860						3,645,601
	5,563,120	**2,003,527**						**7,274,045**
Current liabilities								
Trade and other payables	2,787,598	501,493			3,700,000		9,100	6,998,191
Loans and borrowings	989,490	1,259,146						2,248,636
Liabilities held for sale	—	168,400	95,726	(264,126)				—
Income tax payables	179,941	33,730				24,746		238,417
Lease liabilities	132,421	17,172						149,593
	4,089,450	**1,979,941**						**9,634,837**
Net current assets/(liabilities)	**1,473,670**	**23,586**						**(2,360,792)**
Total assets less current liabilities	**5,713,223**	**955,374**						**6,719,336**

	The Group	The Target Group	Pro forma adjustments					The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	
Non-current liabilities								
Loans and borrowings	299,388	90,474						389,862
Deferred tax liabilities	137,270	21,348			768,807			927,425
Lease liabilities	1,159,972	112,138						1,272,110
	1,596,630	**223,960**						**2,589,397**
NET ASSETS	**4,116,593**	**731,414**						**4,129,939**

C. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The balances of the Group were extracted from the audited consolidated statement of financial position of the Group as at 31 December 2021, as set out in the Company's published annual results announcement for the year ended 31 December 2021.

2. The balances of the Target Group as at 31 December 2021 were extracted from the accountants' report as set out in Appendix II to this circular.

3. Pursuant to the Acquisition Agreement, the Excluded Companies will be disposed by the Target Group before completion of the Acquisition. Accordingly, the Target Company signed agreements with a related party which is ultimately controlled by the same controlling shareholder of the Target Group, StarChase Singapore Pte. Ltd., on 15 December 2021 to sell its entire interests in the Excluded Companies with a total cash consideration of RMB69 million (the "**Disposal**").

   As at 31 December 2021, the Target Companies had other receivables of RMB96 million due from the Excluded Companies and Excluded Companies had other payables of RMB96 million due to the Target Companies, which had been eliminated as intra-group balance in the consolidated financial statements of the Target Group. Such other receivables and other payables are adjusted into the consolidated financial statements of the Target Group for the purpose to reflect the financial position of the Target companies and the Excluded companies before the Disposal.

   This adjustment does not have a continuing effect on the Enlarged Group.

4. This adjustment represents the Disposal as mentioned in note 3. As the Excluded Companies were identified as discontinued operation, the total assets and liabilities of the Excluded Companies have been presented as assets held for sale and liabilities held for sale as at 31 December respectively. Accordingly, these Excluded Companies' assets held for sales of RMB302 million and the adjusted liabilities held for sale of RMB264 million are adjusted as if the disposal had been completed on 31 December 2021 for the unaudited pro forma consolidated statement of assets and liabilities, resulting a disposal gain of RMB31 million.

   This adjustment does not have a continuing effect on the Enlarged Group.

5. Upon completion of the Acquisition, the identifiable assets and liabilities of the Target Companies will be accounted for in the consolidated financial statements of the Enlarged Group at the fair values under acquisition accounting in accordance with Hong Kong Financial Reporting Standard 3 'Business Combinations' ('HKFRS 3 (Revised)') issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

   The amounts of goodwill and fair values of the identifiable assets and liabilities of the Target Companies are subject to change upon the completion of the valuation of the fair values of the identifiable assets and liabilities of the Target Companies on the date of completion of the Acquisition. Consequently, the resulting goodwill, the actual allocation of the purchase price at the date of completion will likely result in different amounts than those stated in the Unaudited Pro Forma Financial Information.

The recognition of pro forma goodwill arising on the Acquisition as if the Acquisition had been completed as at 31 December 2021 is as follows:

	Notes	*RMB'000*
Fair value of consideration		
— Consideration payable	*(1)*	3,700,000
Fair value of identified net assets acquired		
— Net assets as at 31 December 2021		731,414
— Adjusted for disposal of Excluded Companies	*Note 4*	31,084
— Adjusted for disposal on amounts due from related parties	*(2)*	(177,732)
— Recognition of income tax payable of write-off on amounts due from related parties	*Note 6*	(24,746)
— Fair value adjustments on right-of-use assets	*(3)*	12,716
— Fair value adjustments on intangible assets	*(3)*	3,062,512
— Deferred tax liabilities related to the fair value adjustments	*(3)*	(768,807)
Goodwill arising from the Acquisition (the "Goodwill")	*(3)*	833,559

Notes:

(1) This adjustment represents the consideration for the Acquisition of RMB3,700,000,000, assuming no adjustment to the consideration as detailed in the section headed "The Acquisition Agreement" in this Circular, to be satisfied by cash as if the Acquisition had been completed on 31 December 2021.

(2) Pursuant to the Acquisition Agreement, any amounts due from related parties of the Target Group as at the completion date of the Acquisition will be written off. Accordingly, this adjustment represents the write-off of the amounts due from related parties of the Target Group of RMB178 million, which includes other receivables due from related parties of RMB13 million as at 31 December 2021, adjusted other receivables due from the Excluded Companies of RMB96 million as mentioned in note 3 and the consideration receivable due from StarChase Singapore Pte. Ltd. of RMB69 million as mentioned in note 4, as if the Acquisition had been completed on 31 December 2021 for the unaudited pro forma consolidated statement of assets and liabilities.

(3) The Directors of the Company have determined the fair values of the identifiable assets and liabilities of the Target Companies as at 31 December 2021 with reference to a valuation report in relation to the purchase price allocation of the Acquisition issued by AVISTA GROUP. The valuation adjustments on identifiable assets and liabilities are calculated by deducting carrying amount of identifiable assets and liabilities from the fair value of identifiable assets and liabilities as at 31 December 2021. Since the fair value of the identifiable net assets of the Target Companies at the completion date of the Acquisition may substantially be different from the fair values used in the preparation of the

Unaudited Pro Forma Financial Information, the final amounts of the identifiable net assets (including intangible assets) and goodwill to be recognised in connection with the Acquisition may be different from the amounts presented above.

Intangible assets represent the car dealerships recognised arising from the Acquisition. Adjustment of right-of-use assets represents the fair value adjustment of land use rights. Fair value of car dealerships of RMB3,062,512,000 was determined using multi-period excess earning method under the income approach. In the application of this method, contributory asset charges are then taken against the after-tax cash flows available for distribution to capital providers to recognise the support of many other assets, tangible and intangible, which contribute to the realisation of those cash flows.

Deferred tax liabilities are recognised for temporary differences that arise in respect of the recognised fair value adjustments on right-of-use assets and intangible assets above.

When preparing the Pro Forma Financial Information, the Directors made preliminary assessment, with reference to Hong Kong Accounting Standard 36, *Impairment of Assets*, issued by the HKICPA, as to whether or not there is any indicator of impairment on goodwill and intangible assets arising from the Acquisition. Based on such assessment, the Directors did not identify any impairment indicator in respect of the goodwill and intangible assets arising from the Acquisition.

Consistent with the accounting policies adopted by the Group in preparing the consolidated financial statements, the amount of goodwill and intangible assets arising from the Acquisition that will be initially recognised in the Company's consolidated financial statements will be determined with reference to HKFRS 3 (Revised) based on the fair value of the acquired assets and liabilities at the date of completion of the Acquisition. The Directors will follow the Group's accounting policy in respect of assets impairment assessment, including the assessment of the impairment of goodwill and intangible assets arising from the Acquisition when preparing the Company's consolidated financial statements covering the period in which the Acquisition is completed. The Company's annual consolidated financial statements will be subject to the audit, by the Company's auditors in accordance with Hong Kong Standards of Auditing.

This adjustment has a continuing effect on the Enlarged Group.

6. According to the Enterprise Income Tax Law of the People's Republic of China, write-off of the amounts due from related parties are non-deductible expenses which are subject to income tax. In addition, taxes related to write-off of amounts due from related parties at the completion date of the Acquisition shall be borne by Wearnes-StarChase Limited pursuant to the Acquisition Agreement. This adjustment represents the recognition of income tax payables of RMB25 million arising from write-off of domestic companies' amounts due from related parties of RMB99 million which was included in write-off of amounts due from related parties of RMB178 million as mentioned in note 5(2) and recognition of other receivables due from Wearnes-StarChase Limited of RMB25 million as if the Acquisition had been completed on 31 December 2021 for the unaudited pro forma consolidated statement of assets and liabilities.

   This adjustment does not have a continuing effect on the Enlarged Group.

7. The adjustment represents the recognition of estimated acquisition-related costs, including expenses charged by legal, accounting and other professional parties, totalling RMB11,400,000 in cash, of which RMB2,300,000 had been prepaid as of 31 December 2021 to be incurred subsequent to 31 December 2021. The amount is subject to change upon the actual completion of the Acquisition.

   This adjustment does not have a continuing effect on the Enlarged Group.

8. No adjustment has been made to reflect any trading results or other transaction of the Group entered into subsequent to 31 December 2021.

D. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF THE UNAUDITED 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.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF CHINA MEIDONG AUTO HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Meidong Auto 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 assets and liabilities as at 31 December 2021 and related notes as set out in Appendix III to the circular dated 6 April 2022 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Appendix III to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of StarChase Motorsports Limited (the "**Proposed Acquisition**") on the Group's assets and liabilities as at 31 December 2021 as if the Proposed Acquisition had taken place at 31 December 2021. As part of this process, information about the Group's financial position as at 31 December 2021 has been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 December 2021, on which an annual results announcement 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 behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA 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 December 2021 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong
6 April 2022

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. DISCLOSURE OF INTEREST

Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, 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) of the Directors and chief executives of the Company which have been 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 were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") are as follows:

Shares of the Company

		Interests in Shares				
Name of Director	Capacity	Personal interest in Shares	Family interest in Shares	Total interest in Shares	Interest in underlying Shares pursuant to share options	Approximate percentage of shareholding
Mr. YE Fan	Settlor of trust	—	702,712,000	702,712,000	—	55.32%
Mr. YE Tao	Beneficial owner	—	—	—	4,000,000	0.31%
Ms. LUO Liuyu	Beneficial owner	48,000	—	48,000	1,430,000	0.12%
Mr. CHEN Guiyi	Beneficial owner	500,000	—	500,000	500,000	0.08%
Mr. JIP Ki Chi	Beneficial owner	—	—	—	500,000	0.04%
Mr. WANG, Michael Chou	Beneficial owner	238,000	—	238,000	500,000	0.06%

Note:

(1) Mr. YE Fan is the settlor of the Ye Family Trust, a revocable discretionary family trust. The entire capital of Apex Holdings Enterprises Limited ("**Apex Holdings**") is an asset of such family trust, and Apex Holdings in turn holds the entire issued share capital of Apex Sail. Apex Sail directly holds 702,712,000 Shares and by virtue of the SFO, Mr. YE Fan is deemed to be interested in the Shares of Apex Sail.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executives of the Company 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) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Persons who have interests or short positions which are disclosable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Capacity/Nature	Number of Shares held	Approximate percentage of shareholding
Apex Sail	Beneficial owner	702,712,000	55.32%
Apex Holdings	Interest in a controlled corporation	702,712,000	55.32%
Fiducia Suisse SA	Trustee	702,712,000	55.32%
David Henry Christopher HILL	interest in a controlled corporation	702,712,000	55.32%
HU Huanran	Interest of spouse	702,712,000	55.32%
Cederberg Capital (Cayman)	Interest in controlled corporation(s)	67,320,000	5.30%
Cederberg Capital (Cayman) GP	Interest in controlled corporation(s)	67,320,000	5.30%
Dawid KRIGE	Interest in controlled corporation(s)	67,320,000	5.30%

Notes:

(1) Apex Sail is wholly owned by Apex Holdings. The entire issued share capital of Apex Holdings is wholly owned by Fiducia Suisse SA as the trustee of the Ye Family Trust. Fiducia Suisse SA is wholly owned by Mr. David Henry Christopher HILL. The Ye Family Trust is a revocable discretionary family trust founded by Mr. YE Fan as the settlor. The Ye Brothers and certain of their family members are the discretionary objects of the Ye Family Trust.

(2) Mr. YE Fan is the settlor of the Ye Family Trust. By virtue of the SFO, Mr. YE Fan is deemed to be interested in the shares of Apex Sail. Mr. YE Fan's spouse, Ms. HU Huanran, is therefore deemed to be interested in such 702,712,000 Shares by virtue of the SFO.

Save as disclosed above, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company as at the Latest Practicable Date.

3. SERVICE CONTRACTS

The executive Directors, Mr. YE Fan and Mr. YE Tao, has entered into a new letter of appointment with the Company commencing with effect from 15 November 2016 and Ms. LUO Liuyu entered into a letter of appointment with the Company commencing with effect from 25 March 2019. Each of them was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party giving not less than three months' notice in writing to the other party.

The independent non-executive Director, Mr. CHEN Guiyi has entered into a letter of appointment with the Company on 1 April 2017. Mr. CHEN Guiyi was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party by not less than three months' notice in writing. The independent non-executive Director, Mr. JIP Ki Chi has entered into a new letter of appointment with the Company on 15 November 2016. Mr. JIP Ki Chi was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party by not less than three months' notice in writing. The independent non-executive Director, Mr. WANG, Michael Chou has entered into a letter of appointment with the Company on 20 June 2018. Mr. WANG, Michael Chou was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party giving not less than three months' notice in writing to the other party. Each of the independent non-executive Directors is subject to the provisions for retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

Save as disclosed above, as at the Latest Practicable Date, no other Director has any existing or proposed service contract with any member of the Enlarged Group which was not expiring or determinable by the employer within one year without payment of any compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors and their respective close associates (as defined in the Listing Rules) had any interest in a business which competes or is likely to compete with the businesses of the Group.

5. DIRECTORS' INTERESTS IN THE ASSETS AND CONTRACTS OF THE ENLARGED GROUP

As at the Latest Practicable Date, (i) none of the Directors had any interest, direct or indirect, in any assets which have 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 since 31 December 2020 (being the date to which the latest published audited financial statements of the Company were made up); and (ii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group subsisting and which was significant in relation to the businesses of the Enlarged Group.

6. MATERIAL ADVERSE CHANGE

The Directors confirm that as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020 (being the date to which the latest published audited accounts of the Company were made up).

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) had been entered into by members of the Group (and so far as the Company is aware of, by the Target Companies) within the two years immediately preceding the date of this circular and which are or may be material:

(1) the Supplemental Deed dated 25 March 2022 between the Company and the Seller in relation to the stamping procedures of the Proposed Acquisition;

(2) an agreement on transfer of LOI dated 19 January 2022 entered into among Genesis Motor Sales (Shanghai) Co., Ltd. (捷尼賽思汽車銷售上海有限公司) ("**GMC**"), the Target Company and StarChase (Singapore) Pte. Ltd. ("**StarChase Singapore**"), relating to, among other things, the Target Company transferring to StarChase Singapore all of

the Target Company's rights, obligations and responsibilities under a letter of intent (LOI) entered into between GMC and the Target Company dated 3 December 2021 regarding project GENESIS Chongqing Showcase;

(3) an agreement on transfer of LOI dated 19 January 2022 entered into among GMC, the Target Company and StarChase Singapore, relating to, among other things, the Target Company transferring to StarChase Singapore all of the Target Company's rights, obligations and responsibilities under a letter of intent (LOI) entered into between GMC and the Target Company dated 18 August 2021 regarding project GENESIS Nanjing Showcase;

(4) the subscription agreement dated 6 January 2022 entered into among Sail Vantage Limited (a wholly-owned subsidiary of the Company, "**CB Issuer**"), the Company (as guarantor for the CB Issuer), Goldman Sachs (Asia) L.L.C. and Morgan Stanley & Co. International plc, pursuant to which the CB Issuer agreed to issue HK$2,750,000,000 zero coupon convertible bonds due 2027 (and guaranteed by the Company), which is convertible into Shares, at an issue price equivalent to 100.00 per cent of the principal among of such bonds;

(5) the placing and subscription agreement dated 6 January 2022 entered into among the Company (as issuer), Apex Sail (as vendor of the placing shares), Goldman Sachs (Asia) L.L.C. and Morgan Stanley & Co International plc (both as placing agents), pursuant to which Apex Sail agreed to place 22,500,000 existing Shares at a placing price of HK$34.63 per Share to placees procured by Goldman Sachs (Asia) L.L.C. and Morgan Stanley & Co International plc, and the Company agreed to issue 22,500,000 Shares to Apex Sail at a subscription price of HK$34.63 per Share;

(6) an equity transfer agreement dated 15 December 2021 entered into between the Target Company (as transferor) and StarChase Singapore (as transferee), in relation to the sale and assignment of 100% equity in the registered capital of Wearnes Motors (Zhengzhou) Co., Ltd. by the Target Company to StarChase Singapore, at a consideration of RMB10 million;

(7) an equity transfer agreement dated 15 December 2021 entered into between the Target Company (as transferor) and StarChase Singapore (as transferee), in relation to the sale and assignment of 100% equity in the registered capital of Wearnes Motors (Xian) Co., Ltd. by the Target Company to StarChase Singapore, at a consideration of RMB7.5 million;

(8) an equity transfer agreement dated 15 December 2021 entered into between the Target Company (as transferor) and StarChase Singapore (as transferee), in relation to the sale and assignment of 100% equity in the registered capital of Wearnes Motors (Qingdao) Co., Ltd. by the Target Company to StarChase Singapore, at a consideration of RMB13 million;

(9) an equity transfer agreement dated 15 December 2021 entered into between the Target Company (as transferor) and StarChase Singapore (as transferee), in relation to the sale and assignment of 100% equity in the registered capital of Wearnes Motors (Jinan) Co., Ltd. by the Target Company to StarChase Singapore, at a consideration of RMB7 million;

(10) an equity transfer agreement dated 15 December 2021 entered into between the Target Company (as transferor) and StarChase Singapore (as transferee), in relation to the sale and assignment of 100% equity in the registered capital of Wearnes Motors (Guangzhou) Co., Ltd. by the Target Company to StarChase Singapore, at a consideration of RMB21.5 million;

(11) an equity transfer agreement dated 15 December 2021 entered into between the Target Company (as transferor) and StarChase Singapore (as transferee), in relation to the sale and assignment of 100% equity in the registered capital of StarChase Motorsports (Nanjing) Co., Ltd. by the Target Company to StarChase Singapore, at a consideration of RMB10 million;

(12) the Acquisition Agreement;

(13) bought and sold notes dated 25 October 2021 entered into by the Target Company (as transferor) and STARCHASE NORTH MOTORSPORTS PTE. LTD. ("**Starchase North**") (as transferee), in relation to the transfer of 68,000,000 redeemable preference shares of Wearnes Motors (HK) Limited (維信汽車(香港)有限公司) from the Target Company to Starchase North, at a consideration of SGD1;

(14) instrument of transfer dated 25 October 2021 entered into by the Target Company (as transferor) and Starchase North (as transferee), in relation to the transfer of 68,000,000 redeemable preference shares of Wearnes Motors (HK) Limited (維信汽車(香港)有限公司) from the Target Company to Starchase North, at a consideration of SGD1;

(15) bought and sold notes dated 25 October 2021 entered into by the Target Company (as transferor) and Starchase North (as transferee), in relation to the transfer of 500,000 ordinary shares of Wearnes Motors (HK) Limited (維信汽車(香港)有限公司) from the Target Company to Starchase North, at a consideration of SGD5,000,000;

(16) instrument of transfer dated 25 October 2021 entered into by the Target Company (as transferor) and Starchase North (as transferee), in relation to the transfer of 500,000 ordinary shares of Wearnes Motors (HK) Limited (維信汽車(香港)有限公司) from the Target Company to Starchase North, at a consideration of SGD5,000,000;

(17) the conditional equity transfer agreement dated 12 August 2021 entered into between Dongguan Meixin Business Consulting Co., Ltd. ("**Dongguan Meixin**") (an indirect wholly-owned subsidiary of the Company), Yueqing Youxu Industrial Development Co., Ltd. (樂清友旭實業發展有限公司) and Nanjing Xiezhong Lexus Automobile Sales and Services Co., Ltd. (南京協衆雷克薩斯汽車銷售服務有限公司) ("**Nanjing Xiezhong Lexus**"), pursuant to which Dongguan Meixin conditionally agreed to acquire 100% equity interests in Nanjing Xiezhong Lexus for a total cash consideration of RMB420 million; and

(18) a share transfer form dated 21 July 2021 entered into by the Target Company (as transferor) and the Seller (as transferee), in relation to the transfer of 1 ordinary share of Starchase North from the Target Company to the Seller, at a consideration of SGD1;

(19) a share transfer agreement dated 1 July 2021 entered into by the Target Company (as transferor) and the Seller (as transferee), in relation to the transfer of 100% of the issued and paid-up share capital in Starchase North from the Target Company to the Seller, at a consideration of SGD1;

(20) a supplemental agreement dated 24 June 2021 between Dongguan Meixin and Yueqing Chenyou Technology Development Co., Ltd., pursuant to which the parties agreed, among other things, to extend the fulfilment of certain matters in respect to the transfer of 100% equity interest in Nanjing Tangshan Xiezhong Lexus Automotive Sales and Service Co., Ltd. to the end of July 2021;

(21) bought and sold notes dated 9 March 2021 entered into by the Target Company (as transferee) and StarChase Motorsports Singapore Pte. Ltd. (as transferor), in relation to the transfer of 500,000 shares in Wearnes Motors (HK) Limited (維信汽車(香港)有限公司) from StarChase Motorsports Singapore Pte. Ltd. to the Target Company, at a consideration of SGD5,000,000;

(22) instrument of transfer dated 9 March 2021 entered into by the Target Company (as transferee) and StarChase Motorsports Singapore Pte. Ltd. (as transferor), in relation to the transfer of 500,000 shares in Wearnes Motors (HK) Limited (維信汽車(香港)有限公司) from StarChase Motorsports Singapore Pte. Ltd. to the Target Company, at a consideration of SGD5,000,000;

(23) a supplemental agreement dated 8 February 2021 between Dongguan Meixin and Yueqing Chenyou Technology Development Co., Ltd., pursuant to which the parties agreed, among other things, Yueqing Chenyou Technology Development Co., Ltd., shall increase the share capital of Nanjing Tangshan Xiezhong Lexus Automotive Sales and Service Co., Ltd.;

(24) an agreement dated 8 January 2021 between Dongguan Meixin and Zongshen Industrial Group Co., Ltd., pursuant to which Dongguan Meixin agreed to acquire 100% equity interest in Guangan Zongshen Baotai Automotive Sales and Service Co., Ltd. at a consideration of RMB60,270,000;

(25) an agreement dated 6 January 2021 between Dongguan Meixin and Yueqing Chenyou Technology Development Co., Ltd., pursuant to which Dongguan Meixin agreed to acquire 100% equity interest in Nanjing Tangshan Xiezhong Lexus Automotive Sales and Service Co., Ltd. at a consideration of RMB250,000,000; and

(26) a placing and subscription agreement dated 3 June 2020 entered into between the Company (as issuer), Apex Sail (as vendor of the placing shares), Goldman Sachs (Asia) L.L.C. and Merrill Lynch (Asia Pacific) Limited (both as placing agents), pursuant to which Apex Sail agreed to place 81,000,000 existing Shares at a placing price of HK$15.84 per Share to placees procured by Goldman Sachs (Asia) L.L.C. and Merrill Lynch (Asia Pacific) Limited, and the Company agreed to issue 81,000,000 Shares to Apex Sail at a subscription price of HK$15.84 per Share.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group (and so far as the Company is aware of, no members of the Target Companies) was engaged in any litigation or arbitration of material importance, and so far as the Directors are aware, no litigation or claim of material importance is pending or threatened against any member of the Enlarged Group.

9. EXPERT'S QUALIFICATION AND CONSENT

The following are the qualifications of the expert who has given opinions or advice, which are contained or referred to in this circular:

Name	**Qualification**
KPMG	Certified public accountants

KPMG has confirmed that, as of the Latest Practicable Date, it: (i) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (ii) had no interests, direct or indirect, in any assets which had been, since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any of member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any of member of the Enlarged Group.

KPMG has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter, report or opinion (as the case may be) and reference to its name in the form and context in which they respectively appear.

10. GENERAL

(1) WONG Cheung Ki Johnny *(FCPA, FCG (CS, CGP), FCS (CS, CGP))* is the company secretary of the Company.

(2) The Company's registered office is at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The head office and principal place of business is 13th Floor, Unit A1, Tian An Tech Industry Building, Huangjin Road, Nancheng District, Dongguan, Guangdong, PRC; and its principal place of business in Hong Kong is at Room 2404, 24th Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong.

(3) The Company's Cayman Islands share registrar and transfer office is Conyers Trust Company (Cayman) Limited at Cricket Square Hutchins Drive PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands. The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(4) Certain Chinese names of institutions, natural persons or other entities have been translated into English and included in this circular as unofficial translations for reference only. In the event of any inconsistency, the Chinese names shall prevail. Save for the above, the English text of this circular shall prevail over the Chinese text in case of inconsistency.

11. DOCUMENTS ON DISPLAY

The following documents will be published on the websites of the Company and the website of the Stock Exchange (**www.hkexnews.hk**) for a period of not less than 14 days from the date of this circular (inclusive):

(1) the Acquisition Agreement;

(2) the Supplemental Deed;

(3) the accountants' report on the Target Company, the text of which is set out in Appendix II to this circular; and

(4) the report on the unaudited pro forma financial information of the Enlarged Group issued by KPMG, the text of which is set out in Appendix III to this circular.