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Application Proof of

Yadea Group Holdings Ltd.
雅迪集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

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Yadea Group Holdings Ltd.
雅迪集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED]	**:**	**[REDACTED] Shares (including [REDACTED] [REDACTED] Shares and [REDACTED] [REDACTED] Shares subject to the [REDACTED])**
Number of [REDACTED]	**:**	**[REDACTED] Shares (subject to adjustment)**
Number of [REDACTED]	**:**	**[REDACTED] Shares (including [REDACTED] [REDACTED] Shares and [REDACTED] [REDACTED] Shares subject to adjustment and the [REDACTED])**
Maximum [REDACTED]	**:**	**[REDACTED]**
Nominal value	**:**	**US$0.00001 per Share**
Stock code	**:**	**[REDACTED]**

***Sole Sponsor,* [REDACTED], [REDACTED] *and* [REDACTED]**

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Prior to making an [**REDACTED**] decision, prospective [**REDACTED**] should consider carefully all of the information set out in this document and the related [**REDACTED**], including the risk factors set out in the section headed "Risk Factors" in this document.

Pursuant to the termination provisions contained in the [**REDACTED**] in respect of the [**REDACTED**], the [**REDACTED**], on behalf of the [**REDACTED**], have the right in certain circumstances, in the sole discretion of the [**REDACTED**], to terminate the obligations of the [**REDACTED**] pursuant to the [**REDACTED**] at any time prior to 8:00 a.m. (Hong Kong time) on the date when dealings in our Shares first commence on The Stock Exchange of Hong Kong Limited (such first dealing date is currently expected to be [**REDACTED**]). Further details of the terms of the termination provisions are set out in the section headed "[**REDACTED**] — [**REDACTED**] Arrangements and Expenses — [**REDACTED**] — Grounds for Termination" in this document. It is important that you refer to that section for further details.

The [**REDACTED**] have not been and will not be registered under the US Securities Act or any state securities law in the United States and may not be [**REDACTED**], sold, pledged or transferred within the United States except that [**REDACTED**] may be [**REDACTED**], sold or delivered in the United States to qualified institutional buyers in accordance with the restrictions of Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements under the US Securities Act and outside the United States in offshore transactions in accordance with Regulation S.

EXPECTED TIMETABLE

[**REDACTED**]

EXPECTED TIMETABLE

[**REDACTED**]

EXPECTED TIMETABLE

[**REDACTED**]

CONTENT

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all of the information that may be important to you, and is qualified in its entirety by, and should be read in conjunction with, the full text of this document. You should read the whole document before you decide to [**REDACTED**] *in the* [**REDACTED**]. *There are risks associated with any* [**REDACTED**]. *Some of the particular risks in investing in the* [**REDACTED**] *are set out in the section headed "Risk Factors" in this document. You should read that section carefully before you decide to* [**REDACTED**] *in the* [**REDACTED**].

OVERVIEW

We are the leading electric two-wheeled vehicle brand in China both in terms of revenue and profitability. We are the largest player in the Chinese electric two-wheeled vehicle market, with our market share accounting for 10.5% in terms of revenue in 2015, according to Frost & Sullivan. We have adopted a high-end positioning strategy in establishing our premium brand. According to Frost & Sullivan, we are the most profitable company among the leading players in the electric two-wheeled vehicle market in terms of net profit and our net profit accounted for 24.0% of the overall market in 2015. Our market shares were 11.2% in the electric scooter market and 9.2% in the electric bicycle market in terms of revenue in 2015, ranking first and second respectively, according to Frost & Sullivan. We have been named the first of the Top 10 Electric Two-wheeled Vehicle Enterprises of China's Light Industry by the Chinese National Light Industry Council each year since 2009. We focus on designing, researching, developing, manufacturing and selling electric two-wheeled vehicles, which include electric scooters and electric bicycles. We believe that the strong market recognition of our brand and our reputation enable us to command a price premium for our products.

Substantially all of our products are classified as "non-motorized vehicles" under the PRC Road Traffic Safety Law and are therefore subject to less stringent regulatory requirements than "motorized vehicles" (which are subject to licensing, driver qualification and road use requirements as well as higher speed and other performance standards). We believe that our products being free from such regulatory requirements has contributed substantially to the growth in the sales volume of our products. However, there can be no assurance that the regulatory requirements relating to our products will not become more stringent in the future.

We sell our products through our nationwide sales and distribution network in China, which consisted of over 1,700 distributors as well as their sub-distributors as of December 31, 2015. We also have an extensive international customer base and had sales to over 50 countries during the Track Record Period through our extensive international distribution network. Our international sales accounted for 1.9% of the total electric two-wheeled vehicle export volume from China in 2015 according to Frost & Sullivan. We believe that our market leading position and strong brand recognition have enabled us to develop long-term relationships with our distributors and suppliers and to obtain favorable terms from them.

Our headquarters is located in Jiangsu Province and includes our principal office buildings, our product research and development center and our Wuxi production facilities. In addition to our Wuxi production facilities, we have three other production facilities, which are located in Tianjin, Cixi and Dongguan. As of December 31, 2015, we had annual electric two-wheeled vehicle production capacity of approximately 5.0 million units.

We focus on research and development to enhance our innovation capabilities and our market competitiveness. We devote significant effort to developing core technologies, such as electric motors and power systems. We are also in the process of developing and enhancing advanced mobile internet applications for our electric two-wheeled vehicles, including a remote motor start/stop system, location tracking applications, an onboard problem detecting and reporting system, and theft-recovery applications. Additionally, we have a strategic cooperation agreement with Lightning Motors, a U.S. company specializing in researching and developing advanced electric two wheeled vehicles, to jointly develop and produce high-end products and we also own approximately 11.1% of this company. As of the Latest Practicable Date, we held a total of 664 PRC patents, of which 15 were invention patents, 270 were use patents and 379 were design patents, and had 48 patent applications pending approval.

We experienced significant growth over the Track Record Period. Our net profit increased by 28.4%, from RMB174.1 million in 2013 to RMB223.5 million in 2014 and further increased by 68.0% to RMB375.5 million for 2015. Our net profit in 2014 was significantly influenced by RMB75.6 million in share based payments that we made to our senior management in recognition of their contributions to the Group. Our revenue grew from RMB5,059.2 million in 2013 to RMB5,824.1 million in 2014 and further to RMB6,429.2 million in 2015. The significant growth in our revenue and profit during the Track Record Period was primarily attributable to the increases in the sales volumes of our products as a result of the increasing demand for electric two-wheeled vehicles in China. This growth was also largely attributable to increased awareness of our brand and improvement of our distributor points of sales (through our distributor points of sale overhaul campaign) and as a result of our marketing efforts (such as running advertisements during popular television programs and engaging celebrities as our product representatives).

OUR PRODUCTS AND PRODUCTION

Our core products are electric two-wheeled vehicles, which include electric scooters and electric bicycles. We also sell batteries and chargers for our electric two-wheeled vehicles as well as certain other electric two-wheeled vehicle parts. We previously produced certain electric specialty vehicles, including golf carts and cleaning vehicles; however, we discontinued production of these vehicles in the third quarter of 2014 to focus exclusively on our core products.

The following table sets out a breakdown of our sales by product for the periods indicated:

	For the year ended December 31,					
Products	**2013**		**2014**		**2015**	
	Amount (RMB'000)	**% of total**	**Amount (RMB'000)**	**% of total**	**Amount (RMB'000)**	**% of total**
Electric scooters[(1)]	2,607,007	51.5	3,244,385	55.7	3,483,214	54.2
Electric bicycles	1,253,472	24.8	1,405,911	24.1	1,455,416	22.6
Batteries and chargers	1,027,624	20.3	1,109,598	19.1	1,427,914	22.2
Specialty vehicles	75,331	1.5	18,429	0.3	—	—
Electric two-wheeled vehicle parts	95,766	1.9	45,819	0.8	62,643	1.0
Total	**5,059,200**	**100**	**5,824,142**	**100**	**6,429,187**	**100**

(1) Our revenue derived from our international sales during the Track Record Period has been included in our electric scooter revenue herein, as those sales represented a minor portion of our total sales and we consider most of the products sold to international customers as high-end models. For the years ended December 31, 2013, 2014 and 2015, revenue generated from our international sales accounted for 2.1%, 2.9% and 1.7% of our total revenue, respectively.

We manufacture our electric two-wheeled vehicles at our production facilities in Wuxi, Tianjin, Cixi and Dongguan, and had a total of 25 production lines with an aggregate annual production capacity of approximately 5.0 million electric two-wheeled vehicles as of December 31, 2015. During the Track Record Period, we expanded our facilities and increased the utilization rates of our production facilities to meet the growing demand for our products. For the years ended December 31, 2013, 2014 and 2015, our production line utilization rates were approximately 69.2%, 78.3% and 65.7%, respectively. The utilization rate of our production facilities decreased in 2015 as compared to 2013 and 2014 as we moved our Tianjin production facilities to a new site with higher production capacity in 2015.

The sales volume of our electric scooters was 1,594,618 units, 1,869,290 units, and 2,044,610 units for the years ended December 31, 2013, 2014 and 2015, respectively. The sales volume of our electric bicycles was 1,137,225 units, 1,141,646 units, and 1,276,448 units for those same periods, respectively. The average selling price of our electric scooters (excluding batteries and chargers) was approximately RMB1,635, RMB1,736 and RMB1,704, respectively, for the years ended December 31, 2013, 2014 and 2015. The average selling price of our electric bicycles (excluding batteries and chargers) was approximately RMB1,102, RMB1,231 and RMB1,140 for the same periods, respectively. The average selling prices of our electric scooters and electric bicycles decreased slightly in 2015 as compared to 2014 as we offered discounts to our distributors for certain of our products as part of promotions to capture additional market share and in response to market competition (as competitors were able to lower prices due to decreases in the market prices of raw materials).

The gross profit margin of our electric scooters was 17.6%, 21.3% and 25.2% for the years ended December 31, 2013, 2014 and 2015, respectively. The gross profit margin of our electric bicycles was 12.1%, 17.0% and 18.2% for those same periods, respectively. The increase in the gross profit margin of our electric two-wheeled vehicles from 2013 to 2014 was mainly due to the increase in the prices of our electric scooters and electric bicycles and increased control of growth in our cost of sales. The increase in the gross profit margin of our electric two-wheeled vehicles from 2014 to 2015 was mainly due to the decrease in the average procurement price of our raw materials, improved raw material purchase economies of scale (as we increased our raw material purchases to meet our growing sales volume) and our sales of optimized electric two-wheeled vehicle models designed for enhanced raw material use efficiency.

OUR CUSTOMERS

Our customers are distributors who purchase our products from us and resell them to end customers at points of sales within their designated distribution areas or to sub-distributors who resell the products to end customers within the designated distribution areas of the relevant distributor.

For the years ended December 31, 2013, 2014 and 2015, sales to our five largest customers, amounted to RMB328.8 million, RMB432.5 million and RMB492.8 million, respectively, representing approximately 6.5%, 7.4% and 7.7% of our total sales in the respective periods. We have maintained long-term and stable relationships with these distributors of between one and twelve years.

SALES AND DISTRIBUTION NETWORK

We primarily sell our products through our distribution network in China, which as of December 31, 2015 consisted of 1,760 distributors and covered each province of China. In order to support the sales efforts of our distributors, we promote our products and collect customer feedback through our own online platform. In addition to our distribution network in China, we sold our products internationally to customers in over 50 countries during the Track Record Period. For the years ended December 31, 2013, 2014 and 2015, revenue generated from our domestic sales amounted to RMB4,952.3 million, RMB5,657.9 million and RMB6,322.1 million, respectively, accounting for 97.9%, 97.1% and 98.3% of our total revenue for those periods, respectively; while revenue generated from our international sales amounted to RMB106.9 million, RMB166.2 million and RMB107.1 million, respectively, accounting for 2.1%, 2.9% and 1.7% of our total revenue for those periods, respectively.

During the Track Record Period, we enhanced the management and control of our domestic distributors by setting up sales companies and management departments and adding management personnel at various levels. In addition, we began assisting our distributors to enhance and upgrade their points of sales as well as their operational procedures and product displays through our distributor point of sales overhaul campaign. This includes renovating the points of sales and improving the product display, layouts and brand presentation in the points of sales according to innovative designs provided by top design companies, to enhance the shopping experience and portray a high-end brand image to consumers.

RAW MATERIALS AND SUPPLIERS

Our major raw materials include electric motors, vehicle frames, controllers, batteries, battery chargers, brakes, tires and other components. We generally secure at least two alternative suppliers for each major component and enter into procurement agreements with them to reduce the risk of supply shortages.

For the years ended December 31, 2013, 2014 and 2015, purchases from our five largest suppliers, which primarily supplied batteries, electric motors, meters, tires and magnets, amounted to RMB1,459.5 million, RMB1,559.7 million and RMB1,684.4 million, respectively, representing approximately 35.2%, 35.8% and 34.4% of our total purchases in those periods, respectively.

We purchase plastic component painting services, shock absorbers, front forks, electric motors, meters, vehicle frames and packaging boxes from suppliers who are our connected persons in the ordinary course of our business and will continue to do so after the [**REDACTED**]. Such transactions will constitute non-exempt continuing connected transactions for the Company upon [**REDACTED**]. We purchased a total of RMB484.4 million, RMB479.8 million and RMB340.1 million from our continuing connected suppliers for such raw materials and services for the years ended December 31, 2013, 2014 and 2015, respectively, representing approximately 11.7%, 11.1% and 7.0% of our total purchases in the respective periods. We expect that the maximum amount of fees we pay to our connected suppliers for such raw materials and services will be RMB166.4 million and RMB55.6 million for the years ending December 31, 2016 and 2017, respectively. Please refer to the section headed "Connected Transactions" on page [213] of this document for details of our continuing connected transactions.

OUR STRENGTHS

We believe the following strengths have contributed to the success of our business operations and leading position in the electric two-wheeled vehicle industry:

- We are the leader in the electric two-wheeled vehicle market in China both in terms of revenue and profitability;
- Our leading brand provides us with strong pricing power;
- Our strong research, development and design capabilities ensure our market leading position in product development;
- We have an extensive distribution and service network with widespread coverage and deep market penetration; and
- We have a professional and experienced management team with a proven track record of delivering growth and profitability.

OUR STRATEGIES

We plan to further grow our business and strengthen our leadership position in the electric two-wheeled vehicle industry. Our key strategies for reaching our goals are as follows:

- Further establish our brand as a high-end brand and solidify our market leading position in China;

- Further strengthen our research and development capabilities, consolidate our leading product and technology position and continue to launch innovative products;
- Continue to enhance our sales and service network as well as improve our distributors' points of sales and the customer experience;
- Expand our business and promote our brand internationally; and
- Continue to recruit, train and incentivise talented professionals.

REGULATORY TREND

According to our PRC Legal Advisors, currently there are five cities, namely Guangzhou, Dongguan, Zhuhai, Shenzhen and Xiamen, which have imposed prohibitions or restrictions on the use of electric bicycles(1) in certain areas of the city. However, we believe that these prohibitions and restrictions policies will not materially affect our expansion plans as there are only a limited number of cities which have adopted such policies. Additionally, the regulatory trend for electric bicycles is regulation through a product catalogue regime, as opposed to a prohibition approach. In general, under a product catalogue regime, if a branded product meets the government-set technical standards, such product, upon completion of an application process, will be included in the product catalogue and qualified for sale and use. Please see the section headed "Industry Overview — Overview of the Electric Two-wheeled Vehicle Market — Regulatory Evolution of the Electric Bicycle Industry" in this document for additional details of the regulatory history of the electric bicycle industry. Furthermore, the PRC government has continued to support the development of environmently friendly products. In light of the foregoing, we believe that it is unlikely that a significant number of additional cities will prohibit or significantly restrict the use of electric bicycles in the future.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following is a summary of our consolidated financial information as of and for the years ended December 31, 2013, 2014 and 2015. We have derived the summary financial information from our consolidated financial information set forth in the Accountant's Report in Appendix I to this document. The below summary should be read together with the consolidated financial information in Appendix I to this document, including the accompanying notes and the information set forth in the section headed "Financial Information" on page [244] of this document. Our consolidated financial information has been prepared in accordance with HKFRS.

Note:

(1) Electric bicycles as defined by the National Standards refers to both electric bicycles and electric mopeds. For 2013, 2014 and 2015, respectively, our revenue generated from sales of both electric bicycles and electric mopeds contributed 99.4%, 98.6% and 99.0% of our total revenue from sales of electric two-wheeled vehicles.

Our Summary Consolidated Statements of Profit or Loss

	For the year ended December 31,		
	2013	**2014**	**2015**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**
Revenue	5,059,200	5,824,142	6,429,187
Cost of Sales	(4,404,654)	(4,855,684)	(5,211,994)
Gross Profit	654,546	968,458	1,217,193
Other income and gains, net	27,184	81,280	85,770
Selling and distribution expenses	(275,792)	(349,390)	(453,544)
Administrative expenses	(192,234)	(394,616)	(358,528)
Finance costs	(427)	(251)	(24)
Share of profits and losses of an associate	12,178	1,222	—
Profit before tax	225,455	306,703	490,867
Income tax expense	(51,382)	(83,239)	(115,400)
Profit for the year	174,073	223,464	375,467
Add:			
[**REDACTED**] expenses	450	6,742	17,837
Equity-settled share award expense[(1)]	—	75,574	—
Deduct:			
Gains from the wealth management products included in the financial assets at fair value through profit or loss	10,704	23,177	42,651
Adjusted net profit (unaudited)[(2)]	**163,819**	**282,603**	**350,653**

Note:

(1) Equity-settled share award expense represents the expenses related to our allotting and issuing shares to senior management in recognition of their contributions to the Group.

(2) Please refer to the section headed "Financial Information — Non-HKFRS Measure" of this document.

Our Summary Consolidated Statements of Financial Position

	As of December 31,		
	2013	2014	2015
	(RMB'000)	(RMB'000)	(RMB'000)
Non-current assets	876,270	839,363	1,025,508
Current assets	1,709,334	2,077,948	2,964,260
Current liabilities	1,958,355	2,400,738	3,185,771
Non-current liabilities	—	—	22,160
Net current liabilities	(249,021)	(322,790)	(221,511)
Total assets less current liabilities	627,249	516,573	803,997
Net assets	627,249	516,573	781,837
Total equity	627,249	516,573	781,837

During the Track Record Period, we retained a significant amount of cash on hand because we (i) received full payment in advance of delivery from distributors for a significant percentage of our sales; and (ii) benefited from favorable credit terms from our suppliers, such as their acceptance of bank acceptance bills for a significant percentage of our raw material purchases, which extended the timing of our payment to suppliers to over six months. As a result, we recorded a significant amount of trade and bills payable balances and relatively high trade and bills payable turnover days, which contributed to our net current liabilities positions during the Track Record Period. See "Financial Information — Certain Balance Sheet Items — Trade and bills payables" for more details regarding our use of bank acceptance bills.

To manage our significant cash on hand, we purchased and redeemed wealth management products using them as our "cash pool" from which we could readily access cash as needed and, generate higher yield than bank deposits, as these products are highly liquid and bear a relatively low level of risk. See "Business — Cashflow and Investment Management" for more details regarding our cash management strategy, policies and procedures.

Our Summary Consolidated Statements of Cash Flows

	As of and for the year ended December 31,		
	2013	2014	2015
	(RMB'000)	(RMB'000)	(RMB'000)
Net cash flows generated from operating activities	444,077	861,648	910,465
Net cash flows used in investing activities	(333,346)	(256,077)	(527,484)
Net cash flows (used in)/generated from financing activities	52,490	(387,273)	(98,219)
Net increase in cash and cash equivalents	163,221	218,298	284,762

Key Financial Ratios[(1)]

	As of and for the year ended December 31,		
	2013	**2014**	**2015**
Gross profit margin (%)	12.9	16.6	18.9
Net profit margin (%)	3.4	3.8	5.8
Inventory turnover days	31.4	19.6	10.5
Return on equity (%)	32.2	39.1	57.8
Return on total assets (%)	8.0	8.1	10.9
Interest coverage	529.0	1,222.9	20,453.8

	As of December 31,		
	2013	**2014**	**2015**
Current ratio	0.87	0.87	0.93
Quick ratio	0.69	0.80	0.89
Gearing ratio	1.6	–	1.7

We recorded net current liabilities of RMB249.0 million, RMB322.8 million, and RMB221.5 million as of December 31, 2013, 2014 and 2015, respectively. Taking into account cash generated from our operations and our available banking facilities (including RMB718.5 million in unutilized general banking facilities and RMB122.6 million in unutilized banking facilities available for issuing bank acceptance bills) as of the Latest Practicable Date, our Directors are satisfied, after due and careful inquiry, that we have sufficient available working capital for our requirements for at least the 12 months from the date of this document.

Sensitivity Analysis

For the years ended December 31, 2013, 2014 and 2015, if our cost of raw materials had been 5% higher or lower, our gross profit would have decreased or increased, respectively, by 31.3%, 23.0% and 19.6%, respectively, and our net profit would have decreased or increased, respectively, by 117.5%, 99.5% and 63.6%, respectively, assuming all other factors remained constant. For the same years, if the average selling price of our products had been 5% higher or lower, our gross profit would have increased or decreased, respectively, by 38.6%, 30.1% and 26.4%, and our net profit would have increased or decreased by 145.3%, 130.3% and 85.6% for those years respectively, assuming all other factors remained constant.

(1) Please refer to the sections headed "Financial Information — Key Financial Ratios" on page [291] and "Financial Information — Certain Balance Sheet Items — Inventories" on page [265] of this document for further details on the calculation methodology for the key financial ratios.

RISK FACTORS

There are certain risks relating to our operations, some of which are beyond our control. A summary of certain of these risk factors is set forth below. This summary should be read together with the section headed "Risk Factors" in its entirety. Any of the following developments may have a material and adverse effect on our business, financial condition, results of operations and prospects:

- Our success is dependent on our continued innovation, successful launches of new products and promoting our brand through marketing investments, and we may not be able to anticipate or make timely responses to changes in the preferences of consumers.

- We rely substantially on third party distributors and our success depends on our distribution and logistics networks.

- We rely heavily on our brand image to sell our products. Negative publicity relating to our products, brand, employees, operations, distributors and industry, or products similar to ours, adversely affects consumer perceptions of our products and results in decreased demand for our products.

- Regulation of electric two-wheeled vehicles may become more stringent in China.

- We rely substantially on external suppliers for certain components of our products.

- We operate in a highly competitive industry and may face increased competition.

- We may be affected by the introduction of new policies, regulations, new industry standards or laws affecting the industry in which we operate, including those targeting the production of the raw materials that we use, the production of our products or the sales or use of our products.

NON-COMPLIANCE INCIDENTS

During the Track Record Period, the Group had certain incidents of material or systemic non-compliance with applicable PRC laws and regulations, including non-compliance related to the production of gasoline engine boosted scooters, environmental impact assessment approval and social insurance and housing provident fund payments. Please see "Business — Legal Proceedings and Compliance — Compliance" commencing on page [193] of this document for further details.

UNAUTHORIZED ALTERATIONS BY DISTRIBUTORS

During the Track Record Period and up to the Latest Practicble Date, several of our distributors were subject to administrative penalty decisions (行政處罰) and Inspection Announcements (質量監測結果公示) issued by relevant PRC administrative agencies due to sales of non-conforming vehicles. Those vehicles were altered and sold by our distributors without our approval. All the penalties related to the alterations by our distributors have been duly settled by the relevant distributors. We do not expect these penalties to have any material adverse effect on our business operations or operating results. Furthermore, in order to minimize alterations by our distributors, we have adopted a number of preventative measures. For further details, please see "Business — Unauthorized Alterations of our products by distributors". For potential risks we may face as a result of these incidents, see "Risk Factors — Risks Relating to Our Business — Some of our distributors have been subject to penalties for making unauthorized alterations to our products, which could adversely affect our reputation, business, financial condition, results of operations and prospects".

BUSINESS IN SANCTIONED COUNTRIES

During the Track Record Period, we engaged in limited business activities in sanctioned countries, namely Iran, Sudan and Russia. For the years ended December 31, 2013, 2014 and 2015, our revenue derived from business activities in for those countries was minimal, accounting for approximately 0.010% and 0.008% and nil of our total revenue for those years, respectively. We discontinued all such business activities in June 2014 and have no intention of resuming business activities in any sanctioned countries. As advised by our Sanctions Laws Legal Advisors, the sanctions risk imposed by the U.S., EU and Australian sanctions programs on our Company, our [**REDACTED**] and Shareholders and persons who might, directly or indirectly, be involved in permitting the [**REDACTED**], trading and clearing of our Shares, including the Stock Exchange, and related group companies is very low. For details, see "Business — Sanctions Risk in Relation to Sales of Our Products to Customers in Certain Sanctioned Countries" on page [155] of this document.

SHAREHOLDER INFORMATION

Immediately after completion of the [**REDACTED**] and the [**REDACTED**], Mr. Dong and Ms. Qian, who are husband and wife, will own (indirectly through the investment holding companies, Dai Wei and Fang Yuan, respectively) approximately [**REDACTED**]% and [**REDACTED**]% of the issued share capital of the Company, respectively (assuming the [**REDACTED**] and options which may be granted under the Share Option Scheme are not exercised). Accordingly, Mr. Dong, Ms. Qian, Dai Wei and Fang Yuan will continue to be the Controlling Shareholders. Please refer to the section headed "Relationship with Controlling Shareholders" on page [226] of this document for further details.

For details of the shareholding structure of the Company, please refer to the section headed "History, Development and Reorganization — Shareholding Structure Upon Completion of the [**REDACTED**]" on page [118] of this document.

[**REDACTED**] INVESTMENTS

The [**REDACTED**] Share Subscription Agreement was entered into by and among the Company, the First [**REDACTED**] Investor, the Controlling Shareholders, Yadea Group Management and Yadea HK on October 27, 2014, pursuant to which we issued 1,930 Series A Preferred Shares with a par value of US$1.00 each to the First [**REDACTED**] Investor on December 10, 2014 for a consideration equivalent to RMB125,000,000 in U.S. dollars. Pursuant to the [**REDACTED**] Shareholders Agreement, the First [**REDACTED**] Investor was granted certain special rights, which, except for certain restrictions on transfer of shares, rights of first refusal and tag-along rights, will be terminated upon the [**REDACTED**].

The Series A Preferred Shares Transfer Agreement was entered into by the First [**REDACTED**] Investor and the Second [**REDACTED**] Investor on June 11, 2015, pursuant to which the First [**REDACTED**] Investor agreed to sell to the Second [**REDACTED**] Investor, and the Second [**REDACTED**] Investor agreed to purchase from the First [**REDACTED**] Investor, a total of 438 Series A Preferred Shares with a par value of US$1.00 each for a consideration of RMB99.86 million. Pursuant to the Deed of Adherence entered into by the Company, the Controlling Shareholders, the First [**REDACTED**] Investor and the Second [**REDACTED**] Investor in relation to the Second [**REDACTED**] Investment and in accordance with the [**REDACTED**] Shareholders Agreement, the Second [**REDACTED**] Investor unconditionally, irrevocably and perpetually waived, and undertook not to exercise, any and all of the rights it may otherwise have with respect to the Series A Preferred Shares pursuant to the [**REDACTED**] Shareholders Agreement and the Memorandum and Articles of Association as a permitted assign of the First [**REDACTED**] Investor. Pursuant to the Deed of Adherence, the Second [**REDACTED**] Investor shall not be deemed to have any of the rights of the First [**REDACTED**] Investor under the [**REDACTED**] Shareholders Agreement and the Memorandum and Articles of Association.

The First [**REDACTED**] Investor and the Second [**REDACTED**] Investor will hold [**REDACTED**] Shares and [**REDACTED**] Shares, respectively, representing approximately [**REDACTED**]% and [**REDACTED**]% of our enlarged issued share capital immediately upon completion of the [**REDACTED**] (assuming the [**REDACTED**] and options which may be granted under the Share Option Scheme are not exercised). Please refer to the section headed "History, Development and Reorganization — [**REDACTED**] Investments" on page [110] of this document for details of the [**REDACTED**] Investments.

DIVIDEND POLICY

On January 29, 2015, we declared a special one-time cash dividend in the amount of HK$154.0 million which was paid on January 30, 2015 (except an amount of approximately HK$13.6 million of the declared dividend remained unpaid and in our share premium account, as the First [**REDACTED**] Investor waived its right to receive its portion of the dividend). Other than the aforementioned dividend, the Company did not declare or pay any dividends during the Track Record Period of our divided policy.

The declaration, payment and amount of any future dividends will be subject to the discretion of our Directors and will depend on our financial condition, earnings and capital requirements as well as contractual and legal restrictions and our ability to receive dividend payments from our subsidiaries in addition to other factors that our Directors deem relevant. We currently do not intend to have our subsidiaries pay any dividends to the Company in the foreseeable future. We intend to use the retained earnings of our subsidiaries for expansion of our operations. Additionally, we currently have no plans to pay dividends to the Shareholders in the foreseeable future. Please refer to the section headed "Financial Information — Dividend Policy" on page [290] of this document for details of our dividend policy.

[**REDACTED**] STATISTICS

[**REDACTED**]

	Based on [REDACTED] of HK$[REDACTED] (being the mid-point of the indicative [REDACTED])
Market capitalization of our Shares	HK$[**REDACTED**]
Unaudited pro forma adjusted consolidated net tangible assets value per Share	HK$[**REDACTED**]

Note:

(1) All statistics in this table are based on the assumption that the [**REDACTED**] *is not exercised.*

(2) The calculation of market capitalization is based on the assumptions that (i) the [**REDACTED**] *has been completed; and (ii)* [**REDACTED**] [**REDACTED**] *are expected to be issued under the* [**REDACTED**]*, and* [**REDACTED**] *Shares are issued and outstanding immediately following the completion of the* [**REDACTED**] *and the* [**REDACTED**].

(3) The unaudited pro forma adjusted consolidated net tangible asset per Share is calculated after making the adjustments referred to in "Appendix II — Unaudited Pro Forma Financial Information" to this document and on the basis that [**REDACTED**] *Shares are issued and outstanding immediately following the completion of the* [**REDACTED**] *and the* [**REDACTED**].

USE OF PROCEEDS

We estimate that we will receive net proceeds from the [**REDACTED**] of approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the [**REDACTED**] stated in this document) and after deducting the [**REDACTED**] fees and commissions and estimated expenses payable by us in connection with the [**REDACTED**] and assuming that the [**REDACTED**] is not exercised. We intend to use the net proceeds of the [**REDACTED**] for the purposes described below. Please see "Future Plans and Use of Proceeds" on page [296] of this document for further details.

We intend to use the net proceeds from the [**REDACTED**] for the following purposes:

Amount (RMB million)	% of total estimated net proceeds	Intended use
[**REDACTED**]	[50]	Improving distribution and sales as well as marketing, including (i) brand promotion, advertising and marketing, (ii) expansion of our distributor points of sales overhaul campaign, (iii) expansion of our international sales, and (iv) development of our online platform, including online sales promotion and marketing
[**REDACTED**]	[30]	Business expansion, including (i) purchases of new automated production equipment and production expansion and (ii) potential mergers and acquisitions
[**REDACTED**]	[10]	Research and development of products, improvement of research and development facilities, and recruitment of research and development personnel
[**REDACTED**]	[10]	General working capital

We will not receive any of the proceeds from the sale of the [**REDACTED**] by the [**REDACTED**] in the [**REDACTED**]. In the event that we receive net proceeds from the [**REDACTED**] higher or lower than the estimated amount stated above, we will increase or decrease the intended use of the net proceeds for the above purposes on a pro rata basis.

[REDACTED] EXPENSES

We incurred [**REDACTED**] expenses of RMB[**REDACTED**] million, RMB[**REDACTED**] million and RMB[**REDACTED**] million in 2013, 2014 and 2015, respectively, of which RMB[**REDACTED**] million were expensed and accounted for as part of our administrative expenses and RMB[**REDACTED**] million were accounted for as prepayments related to the [**REDACTED**] of the Company's shares. We expect to incur a further RMB[**REDACTED**] million of [**REDACTED**] expenses for the completion of the [**REDACTED**] (including [**REDACTED**] commissions of HK$[**REDACTED**] million, assuming the [**REDACTED**] is not exercised and based on an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the [**REDACTED**] range stated in this document)), of which we expect to charge RMB[**REDACTED**] million to our consolidated statements of profit or loss and to account for RMB[**REDACTED**] million as a deduction from equity. The estimated [**REDACTED**] expenses described above are the latest practicable estimate and are for reference only. The actual amount and the accounting treatment may differ from this estimate.

The [**REDACTED**] commissions, the Stock Exchange trading fees, SFC transaction levies, the brokerage fees and other expenses relating to the [**REDACTED**] payable by the [**REDACTED**], are expected to be RMB[**REDACTED**] million, assuming the [**REDACTED**] is not exercised and based on an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**].

RECENT DEVELOPMENTS

Subsequent to December 31, 2015, the date of the latest audited financial information appearing in this document, and up to the Latest Practicable Date, there was no material adverse industry, market, operational (including sales performance) or regulatory development relating to our business or any other event that materially and adversely affected our operating results or financial condition. The sales volumes of our electric scooters and electric bicycles continued to increase as compared to the corresponding period in 2015. The average sales prices of our electric scooters and bicycles increased as compared to the same period in 2015 as we began in the fourth quarter of 2015 to phase out the previous discounts offered to our distributors. Our overall cost of raw materials increased as compared to the same period in 2015. To further enhance our liquidity position, we had total unutilized credit facilities amounting to RMB841.1 million (comprising RMB718.5 million in unutilized general credit facilities and RMB122.6 million in unutilized banking facilities available for issuing bank acceptance bills) as of the Latest Practicable Date.

In this document, unless the context otherwise requires, the following expressions shall have the meanings set forth below.

[**REDACTED**]

"AQSIQ"	the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (《中華人民共和國國家質量監督檢驗檢疫總局》)
"Articles" or "Articles of Association"	the articles of association of the Company adopted on [●], which will become effective upon the [**REDACTED**] and as amended from time to time, a summary of which is set out in Appendix III to this document
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors of the Company
"Business Day"	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate, a measurement to assess the growth rate of value over time

[**REDACTED**]

"Cayman Companies Law"	the Companies Law (as revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time

[**REDACTED**]

[**REDACTED**]

"China" or the "PRC"	the People's Republic of China excluding, for the purpose of this document, Hong Kong, the Macau Special Administrative Region of China and Taiwan
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"CNAS"	China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會)
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time
"Company", "Our Company" or "the Company"	Yadea Group Holdings Ltd. (雅迪集團控股有限公司), a limited liability company incorporated in the Cayman Islands on July 17, 2014 under the Cayman Companies Law
"Concert Parties Arrangement"	the letter of confirmation and undertaking dated November 13, 2015 executed by Mr. Dong and Ms. Qian in relation to their concert parties arrangement, details of which are set out in the section headed "Relationship with Controlling Shareholders" in this document
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules and, unless the context requires otherwise, refers to Mr. Dong, Ms. Qian, Dai Wei and Fang Yuan

"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Dai Wei"	Dai Wei Investment Company Limited (大為投資有限公司), a company incorporated under the laws of BVI on July 18, 2014 as DJG Holdings Limited and renamed as Dai Wei Investment Company Limited (大為投資有限公司) on January 22, 2015, a Controlling Shareholder and wholly owned by Mr. Dong
"Deed of Adherence"	the deed of adherence dated June 15, 2015 entered into by the Company, the Controlling Shareholders, the First [**REDACTED**] Investor and the Second [**REDACTED**] Investor in relation to the Second [**REDACTED**] Investment and in accordance with the [**REDACTED**] Shareholders Agreement
"Ding Chen"	Ding Chen Company Limited (鼎臣有限公司), a company incorporated under the laws of the BVI on July 15, 2014 as XSC Holdings Limited and renamed as Ding Chen Company Limited (鼎臣有限公司) on January 22, 2015, a Shareholder and wholly owned by Mr. Shuchang Xu (許舒暢)
"Ding Shun Qi"	Ding Shun Qi Company Limited (鼎順柒有限公司), a company incorporated under the laws of the BVI on July 15, 2014 as WJZ Holdings Limited and renamed as Ding Shun Qi Company Limited (鼎順柒有限公司) on January 22, 2015, a Shareholder and wholly owned by Mr. Jiazhong Wang (王家中)
"Director(s)"	director(s) of the Company
	[**REDACTED**]
"Fang Yuan"	Fang Yuan Investment Company Limited (方圓投資有限公司), a company incorporated under the laws of the BVI on July 18, 2014 as QJH Holdings Limited and renamed as Fang Yuan Investment Company Limited (方圓投資有限公司) on January 26, 2015, a Controlling Shareholder and wholly owned by Ms. Qian
"First [**REDACTED**] Investment"	the investment in the Company undertaken by the First [**REDACTED**] Investor pursuant to the [**REDACTED**] Share Subscription Agreement

"First [**REDACTED**] Investor"	Kuanjie (Cayman) Investment Center LP (previously known as Broad Street (Cayman) Investment Center LP)
"Frost & Sullivan Report"	the market research report on the electric two-wheeled vehicle industry prepared by Frost & Sullivan and commissioned by us
"GDP"	gross domestic product
	[**REDACTED**]
"Group", "Our/our Group", "We/we" or "us"	the Company and its subsidiaries
"Guangdong Yadea"	Guangdong Yadea Technology Development Co., Ltd. (廣東雅迪科技發展有限公司), a company established under the laws of the PRC on March 14, 2011 and our wholly owned subsidiary
"Guangdong Yadea Motorcycle"	Guangdong Yadea Motorcycle Co., Ltd. (廣東雅迪機車有限公司), a company established under the laws of the PRC on July 15, 2015 and our wholly owned subsidiary
	[**REDACTED**]
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
	[**REDACTED**]
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China

[**REDACTED**]

"Independent Third Party(ies)"	person(s) or entity(ies) who/which is/are not a connected person(s) (as defined in the Listing Rules) of the Company
"Inspection Announcement"	the results of periodic inspections by PRC authorities charged with conducting quality control inspections (primarily local SAIC bureaus) of electric two-wheeled vehicles in the market, normally published on the relevant PRC authorities' website (質量監測結果公示)

[**REDACTED**]

[**REDACTED**]

"Jiangsu Xindi"	Jiangsu Xindi Technology Development Co., Ltd. (江蘇新迪科技發展有限公司), a company established under the laws of the PRC on April 28, 2014 and our wholly owned subsidiary
"Jiangsu Yadea"	Jiangsu Yadea Technology Development Co., Ltd. (江蘇雅迪科技發展有限公司), a company established under the laws of the PRC as Wuxi Dongshi Vehicle Industry Co., Ltd. (無錫董氏車業有限公司) on June 20, 2001 and renamed as Jiangsu Dongshi Yadea Technology Development Co., Ltd. (江蘇董氏雅迪科技發展有限公司) on December 22, 2005 and as Jiangsu Yadea Technology Development Co., Ltd. (江蘇雅迪科技發展有限公司) on December 18, 2006, and our wholly owned subsidiary
"Jin Hui"	Jin Hui Company Limited (錦輝有限公司), a company incorporated under the laws of the BVI on July 15, 2014 as CXR Holdings Limited and renamed as Jin Hui Company Limited (錦輝有限公司) on January 22, 2015, a Shareholder and wholly owned by Mr. Xuerong Chen (陳雪榮)

"Ke Ding"	Ke Ding International Company Limited (科鼎國際有限公司), a company incorporated under the laws of the BVI on July 15, 2014 as LYM Holdings Limited and renamed as Ke Ding International Company Limited (科鼎國際有限公司) on January 22, 2015, a Shareholder and wholly owned by Mr. Yeming Liu (劉曄明)
"LAT"	land appreciation tax (土地增值税), as defined in the Provisional Regulations of the People's Republic of China on Land Appreciation Tax (中華人民共和國土地增值税暫行條例) and the Detailed Implementation Rules on the Provisional Regulations of the People's Republic of China on Land Appreciation Tax (中華人民共和國土地增值税暫行條例實施細則)
"Latest Practicable Date"	February 26, 2016, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
"Ling Yun"	Ling Yun Company Limited (淩雲有限公司), a company incorporated under the laws of the BVI on July 15, 2014 as ZCY Holdings Limited and renamed as Ling Yun Company Limited (淩雲有限公司) on January 22, 2015, a Shareholder and wholly owned by Mr. Chaoyang Zhou (周朝陽)
	[**REDACTED**]
"Listing Committee"	the Listing Committee of the Stock Exchange
	[**REDACTED**]
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel to the Growth Enterprise Market of the Stock Exchange

"Memorandum"	the memorandum of association of the Company adopted on [●], a summary of which is set out in Appendix III to this document
"Ming Sheng"	Ming Sheng Company Limited (明盛有限公司), a company incorporated under the laws of the BVI on July 15, 2014 as CMY Holdings Limited and renamed as Ming Sheng Company Limited (明盛有限公司) on January 22, 2015, a Shareholder and wholly owned by Mr. Mingyou Chen (陳名友)
"Minority Shareholder Holdcos"	Ke Ding, Ming Sheng, Jin Hui, Ding Shun Qi, Zhi Cheng, Ding Chen and Ling Yun
"Minority Shareholders"	Mr. Yeming Liu (劉曄明), Mr. Mingyou Chen (陳名友), Mr. Xuerong Chen (陳雪榮), Mr. Jiazhong Wang (王家中), Mr. Bo Xue (薛波), Mr. Shuchang Xu (許舒暢) and Mr. Chaoyang Zhou (周朝陽)
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Dong"	Mr. Jinggui Dong (董經貴), the husband of Ms. Qian and our Chairman, executive Director and Controlling Shareholder
"Ms. Qian"	Ms. Jinghong Qian (錢靜紅), the wife of Mr. Dong and our vice Chairman, executive Director and Controlling Shareholder
"National Standards"	the General Technical Requirement for Electric Bicycles (National Standards, GB17761-1999) (電動自行車通用技術條件》), promulgated by the AQSIQ on May 28, 1999, which came into effect on October 1, 1999
"NDRC"	the National Development and Reform Commission of the People's Republic of China (中華人民共和國國家發展和改革委員會)

[**REDACTED**]

[**REDACTED**]

"Ordinary Shares"	ordinary shares with par value of US$0.00001 each in the share capital of the Company
"Our/our PRC Legal Advisors"	Beijing Lutong United Law Firm, our PRC legal advisors as to PRC laws

[**REDACTED**]

"PBOC"	People's Bank of China (中國人民銀行)
"[**REDACTED**] Investments"	the investments in the Company undertaken by the [**REDACTED**] Investors before the [**REDACTED**], details of which are set out in the section headed "History, Development and Reorganization — [**REDACTED**] Investments" in this document
"[**REDACTED**] Investors"	the First [**REDACTED**] Investor and the Second [**REDACTED**] Investor
"[**REDACTED**] Share Subscription Agreement"	the share subscription agreement dated October 27, 2014 entered into by and among the Company, the First [**REDACTED**] Investor, the Controlling Shareholders, Yadea Group Management and Yadea HK in respect of the subscription of the Series A Preferred Shares by the First [**REDACTED**] Investor

"[**REDACTED**] Shareholders Agreement"	the shareholders agreement dated October 27, 2014 (as supplemented by a supplemental shareholders' agreement dated December 30, 2014) entered into by and among the Company, the First [**REDACTED**] Investor, the Controlling Shareholders, the Minority Shareholder Holdcos, the Minority Shareholders and the [**REDACTED**] Investment Subsidiaries, which will be terminated upon the [**REDACTED**]
"[**REDACTED**] Investment Subsidiaries"	Yadea Group Management, Yadea HK, Wuxi Consulting, Yadea Group, Zhejiang Yadea, Jiangsu Yadea, Guangdong Yadea, Yadea Import Export, Tianjin Industry and Tianjin Weiye
	[**REDACTED**]
"qualified institutional buyers" or "QIBs"	qualified institutional buyers as defined by Rule 144A under the U.S. Securities Act
	[**REDACTED**]
"Regulation S"	Regulation S under the U.S. Securities Act
"Reorganization"	the reorganization of the companies within our Group as set out in the section headed "History, Development and Reorganization" in this document, pursuant to which the Company has become the holding company of the other companies comprising the Group
"RMB" or "Renminbi"	the lawful currency of the PRC

"SAFE"	State Administration of Foreign Exchange (國家外匯管理局) of the PRC
"SAIC"	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
	[**REDACTED**]
"Sanction Laws Legal Advisors"	Paul Hastings LLP, our legal advisor as to U.S. and European Union sanctions laws and HWL Ebsworth Lawyers, our legal advisor as to Australian sanctions laws in connection with export of our Group's products in Iran, Sudan and Russia
"SASAC"	State-Owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) of the PRC
"SAT"	State Administration of Taxation (國家税務總局) of the PRC
"Second [**REDACTED**] Investment"	the investment in the Company undertaken by the Second [**REDACTED**] Investor pursuant to the Series A Preferred Shares Transfer Agreement
"Second [**REDACTED**] Investor"	Junjin Investment Management Ltd
	[**REDACTED**]
"Series A Preferred Shares"	the series A convertible preferred shares with a par value of US$1.00 each (each of which was subdivided into 100,000 series A convertible preferred shares with a par value of US$0.00001 on August 28, 2015) in the capital of the Company issued to the First [**REDACTED**] Investor pursuant to the [**REDACTED**] Share Subscription Agreement on October 27, 2014
"Series A Preferred Shares Transfer Agreement"	the share transfer agreement dated June 11, 2015 entered into by the First [**REDACTED**] Investor and the Second [**REDACTED**] Investor in respect of the transfer of certain Series A Preferred Shares by the First [**REDACTED**] Investor to the Second [**REDACTED**] Investor
"SFC"	The Securities and Futures Commission of Hong Kong

"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai Yadea"	Shanghai Yadea Investment Co., Ltd. (上海雅迪投資有限公司), a company under the laws of the PRC on May 15, 2015 and our wholly owned subsidiary
"Share(s)"	Ordinary Share(s) and Series A Preferred Share(s), and, upon completion of the [**REDACTED**], Ordinary Share(s)
"Shareholder(s)"	holder(s) of our Share(s)
"Share Option Scheme"	the share option scheme conditionally adopted by the written resolutions of all Shareholders of the Company passed on [●], the principal terms of which are summarized in the section headed "Statutory and General Information — D. Other Information — 1. Share Option Scheme" in Appendix IV to this document
"Sole Sponsor" or [**REDACTED**]	China Securities (International) Corporate Finance Company Limited
	[**REDACTED**]
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiaries"	has the meaning ascribed to it under the Listing Rules
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"Tianjin Industry"	Tianjin Yadea Industry Co., Ltd. (天津雅迪實業有限公司), a company established under the laws of the PRC on January 25, 2011 and our wholly owned subsidiary
"Tianjin Weiye"	Tianjin Yadea Weiye Vehicle Co., Ltd. (天津雅迪偉業車業有限公司), a company established under the laws of the PRC on August 25, 2009 and our wholly owned subsidiary
"Track Record Period"	the three financial years ended December 31, 2015
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

"U.S. GAAP"	the generally accepted accounting principles of the U.S.
"U.S. Securities Act"	the United States Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder
	[**REDACTED**]
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"VAT"	value added tax
	[**REDACTED**]
"Wuxi Consulting"	Wuxi Yadea Consulting Co., Ltd. (無錫雅迪諮詢有限公司), a company established as a sino-foreign enterprise under the laws of the PRC on June 30, 2014 and our wholly owned subsidiary
"Wuxi Yuanjiabai"	Wuxi Yuanjiabai Enterprise Management Consulting Co., Ltd. (無錫元佳百企業管理諮詢有限公司), a company established under the laws of the PRC on March 13, 2014. It is held by Mr. Dong as to 67.3%, Ms. Qian as to 28.5%, Mr. Yeming Liu (劉曄明) as to 1.7%, Mr. Mingyou Chen (陳名友) as to 0.7%, Mr. Jiazhong Wang (王家中) as to 0.65%, Mr. Shuchang Xu (許舒暢) as to 0.35%, Mr. Bo Xue (薛波) as to 0.35%, Mr. Xuerong Chen (陳雪榮) as to 0.23% and Mr. Chaoyang Zhou (周朝陽) as to 0.22%
"Yadea Group"	Yadea Technology Group Co., Ltd. (雅迪科技集團有限公司), a company established under the laws of the PRC as Jiangsu Yadea Investment Co., Ltd. (江蘇雅迪投資有限公司) on December 17, 2010 and renamed as Yadea Technology Group Co., Ltd. (雅迪科技集團有限公司) on August 11, 2011, and our wholly owned subsidiary
"Yadea Group Management"	Yadea Group Management Holdings Limited, a company incorporated under the laws of the BVI on July 24, 2014 and our wholly owned subsidiary

"Yadea HK"	Yadea HK Holdings Limited, a company incorporated in Hong Kong under the Companies Ordinance on August 5, 2014 and our wholly owned subsidiary
"Yadea Import Export"	Wuxi Yadea Import and Export Co., Ltd. (無錫雅迪進出口有限公司), a company established under the laws of the PRC on April 5, 2007 and our wholly owned subsidiary
"Yadea Sales"	Yadea Technology Group Sales Co., Ltd. (雅迪科技集團銷售有限公司), a company established under the laws of the PRC on February 7, 2014 and our wholly owned subsidiary

[**REDACTED**]

"Zhejiang Yadea"	Zhejiang Yadea Motorcycle Co., Ltd. (浙江雅迪機車有限公司), a company established under the laws of the PRC as Cixi Zhongshen Motorcycle Co., Ltd. (慈溪宗申摩托車有限公司) on September 28, 2002 and renamed as Cixi Kangxin Motorcycle Co., Ltd. (慈溪康鑫摩托車有限公司) on March 28, 2006 and Zhejiang Yadea Motorcycle Co., Ltd. (浙江雅迪機車有限公司) on December 28, 2009, and our wholly owned subsidiary
"Zhi Cheng"	Zhi Cheng Company Limited (志誠有限公司), a company incorporated under the laws of the BVI on July 15, 2014 as XB Holdings Limited and renamed as Zhi Cheng Company Limited (志誠有限公司) on January 22, 2015, a Shareholder and wholly owned by Mr. Bo Xue (薛波)

The English translations of the names of PRC entities, enterprises, nationals, facilities, regulations from Chinese or another language included in this document are for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary contains technical terms used in this document as they relate to our business. As such, these terms and their meanings may not always correspond to the standard industry meaning or usage of these terms.

"ABS plastics"	acrylonitrile butadiene styrene plastics
"CCC"	China Compulsory Certificate, a statutory compulsory safety certification system aimed at protecting the rights and interests of consumers and safeguarding the safety of consumers and their property
"CRM"	customer relationship management
"DC-to-DC converter"	an electronic circuit which converts a source of direct current (DC) from one voltage level to another
"E-ABS"	electronic antilock braking system
"electric two-wheeled vehicle(s)"	electric scooter(s) and electric bicycle(s)
"GFA"	gloss floor area
"GPRS"	general packet radio service
"GPS"	global positioning system
"GT"	a performance or luxury automobile capable of high speeds or of being driven for long-distances
"GT-R"	Gran Turismo Racing
"ICP"	Internet Content Provider
"Internet of Things"	interconnection of computer devices within an internet infrastructure
"IPM"	interior permanent magnet
"ISO"	International Organization for Standardization
"Lean Production System"	a system aimed at reducing raw material inventories and costs
"PARC"	the total number of vehicles on roads
"PWM"	pulse-width modulation, a technique used to encode a message into a pulsing signal

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements and information relating to the Company and its subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. All statements other than statements of historical fact contained in this document, including, without limitation, those regarding our future financial position, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate and any statements preceded by, followed by or that include the words "aim", "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "project", "seek", "should", "will", "would" and similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, without limitation, the risk factors set forth under the section headed "Risk Factors" in this document and the following:

- our operations and business prospects;
- future developments, trends and competition in the industry and markets in which we operate;
- products under development or planning;
- our business strategies, plans, objectives and goals;
- our capital expenditure plans and ability to reduce costs;
- our dividend distribution plans;
- the prospective financial information regarding our business;
- our future financial conditions and results of operations;
- the amount and nature of, and potential for, future development of our business;
- general economic, political and business conditions in the world and in the markets in which we operate;
- regulatory changes and operating conditions in the markets in which we operate;

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all, and such forward-looking statements do not guarantee any future performance. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set out in this section.

In this document, unless otherwise stated or required by the context, statements of or references to our intentions or those of any of our Directors are made as of the date of this document. Any such intentions may change in light of future developments.

You should carefully consider all of the information in this document, including the risks and uncertainties described below and the accountants' reports included in Appendix I to this document, before making an [**REDACTED**] *in our Shares. You should pay particular attention to the fact that substantially all of our operations are in China, the legal and regulatory environment of which differs in certain respects from that which prevails in other countries. Our business, financial condition, results of operations or prospects may be materially and adversely affected by any of these risks and the trading price of our Shares may decline as a result. You may lose all or part of your* [**REDACTED**].

We believe that there are certain risks involved in our operations, some of which are beyond our control. These risks can be broadly categorized into: (i) risks relating to our business; (ii) risks relating to the electric two-wheeled vehicle industry; (iii) risks relating to doing business in China; and (iv) risks relating to the Shares and the [**REDACTED**].

RISKS RELATING TO OUR BUSINESS

Our success is dependent on our continued innovation and successful launches of new products and promoting our brand through marketing investments, and we may not be able to anticipate or make timely responses to changes in the preferences of consumers.

The success of our operations depends on our ability to identify market trends and introduce new or enhanced products accordingly in a timely manner. Consumer preferences differ across and within each of the regions in which we operate and shift over time in response to changes in demographic and social trends, economic circumstances and the marketing efforts of our competitors. There can be no assurance that our existing product models will continue to be accepted by consumers or that we will be able to anticipate or respond to changes in consumer preferences in a timely manner. Our failure to anticipate, identify or react to these particular preferences could adversely affect our sales performance and our profitability. In addition, demand for many of our consumer products is closely linked to consumer purchasing power and disposable income levels, which may be adversely affected by unfavorable economic developments in the countries in which we operate.

We devote significant resources to new product development and product extensions. However, we may not be successful in developing innovative new products, and our new products may not be commercially successful. To the extent that we are not able to effectively gauge the direction of our key markets and successfully identify, develop and manufacture new or improved products in these changing markets, our financial results and our competitive position will suffer. Moreover, there are inherent market risks associated with new product introductions, including uncertainties about marketing and consumer acceptance, and there can be no assurance that we will be successful in introducing new products. We may expend substantial resources developing and marketing new products which may not achieve expected sales levels.

In addition, we may not be successful in maintaining or strengthening our brand image. We seek to maintain and strengthen our brand image through marketing investments, including advertising, consumer promotions and trade promotions. Maintaining and strengthening our brand image depends on our ability to adapt to a rapidly changing media environment, including our increasing reliance on social media and online dissemination of advertising campaigns. If we do not maintain and strengthen our brand image, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We rely substantially on third party distributors and our success depends on our distribution and logistics networks.

We rely on our distribution network to sell our products. As of December 31, 2015, our distribution network spanned each of the provinces of China and in total consisted of more than 1,700 distributors. There can be no assurance that we will be able to maintain our existing relationships with distributors or to develop relationships with replacement distributors on favorable terms. There can also be no assurance that our existing distributors will be able to maintain past levels of sales or expand their sales. In addition, as we seek to expand into new regions and to increase our market penetration in our existing regions, there can be no assurance that we will be able to successfully establish relationships with new distributors in these regions on favorable terms or at all.

Furthermore, there can be no assurance that we will be successful in managing our distributors and detecting non-compliance with the provisions of our distribution agreements by them. For example, certain of our distributors modified our products during the Track Record Period in violation of relevant regulations and were fined or censured for such violations. Although, as advised by our PRC Legal Advisors, we had no legal responsibility for the violations of our distributors, this or any other non-compliance by our distributors could, among other things, negatively affect our brand reputation, demand for our products and our relationships with other distributors. Any of these could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Moreover, our ability to source, transport and sell products is critical to our success across our operations. Damage or disruption to our distribution logistics due to disputes, weather, natural disasters, fire, explosions, terrorism, pandemics or labor strikes could impair our ability to distribute or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

We depend significantly on our pricing power and our bargaining power with suppliers and may be materially and adversely affected if we are forced to lower the prices of our products or purchase raw materials at higher prices.

We may be forced to adjust the prices of our products in accordance with market conditions. For example, the average selling prices of our electric vehicles decreased for 2015 as compared to 2014 as we offered discounts to our products, partly in response to market competition (as competitors were able to lower their prices due to decreases in the market prices of raw materials), during the period from the second half of 2014 to the third quarter of 2015. Though our financial results for 2015 were not materially and adversely affected by this decrease in the prices of our products (as the decreases were offset by decreases in our cost of sales and resulted in an increased sales volume), we cannot assure you that we will not experience any material and adverse effect on our financial results if we lower the prices of our products in future. Even slight decreases in the average selling prices of our products have a significant impact on our financial results. For example, if the actual average selling price of our electric two-wheeled vehicles had decreased by five percent, we would have had net losses in 2013 and 2014, and had only a small amount of net profit for 2015, assuming all other factors remained constant. In addition, we also depend significantly on our bargaining power with our suppliers. Even slight increases in the cost of our raw materials have a significant impact on our financial results. For example, if the cost of our raw materials had increased by five percent during the Track Record Period, we would have had net losses in 2013, and had only a small amount of net profit for 2014 and 2015, assuming all other factors remained constant. See "Financial Information — Sensitivity Analysis" in this document for further details. Any need to reduce the selling prices of our products in the future, including in response to increased market

competition or general economic conditions, or any increase in the prices of our raw materials may have a material adverse impact on our business, financial condition, results of operations and prospects where there is no corresponding reduction in our raw material and production costs.

We rely substantially on external suppliers for certain components of our products.

Batteries, motors, tires, battery chargers and controllers are the main raw materials we purchase from external suppliers for use in our operations, and a continuous and stable supply of these raw materials that meet our standards is crucial to our operations. We expect to continue to rely on external suppliers for a substantial percentage of our production requirements in the future. We normally enter into one-year procurement agreements with our raw material suppliers and we did not enter into any long-term agreements with any of our raw material suppliers during the Track Record Period. In particular, we are reliant on two main suppliers of batteries for our electric two-wheeled vehicles. There can be no assurance that we will continue to be able to source batteries or the other main raw materials we use in our electric two-wheeled vehicles at a reasonable price or at all. For example, our raw material suppliers may increase the prices for the materials we purchase and/or experience disruptions in their production of these raw materials. In the event that our supply of raw materials is interrupted for whatever reason or there are significant increases in the prices of these raw materials, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We had net current liabilities as of December 31, 2013, 2014 and 2015 and cannot assure you that we will not continue to record net current liabilities in the future or experience liquidity problems.

We recorded net current liabilities of RMB249.0 million, RMB322.8 million and RMB221.5 million as of December 31, 2013, 2014 and 2015, respectively, primarily relating to our use of bank acceptance bills to make payments for raw materials to our suppliers and our investment in property, plant and equipment and land use rights for our production facilities. For additional details on our net current liabilities, see "Financial Information — Liquidity and Capital Resources — Net Current Liabilities". During the Track Record Period, we funded our liquidity and capital requirements primarily with cash inflows from our operating activities. We seek to maintain a balance between continuity of funding and flexibility through the combined use of projected cash flows from our operations, shareholders' capital injections and bank borrowings. We cannot assure you that we will not experience liquidity problems in the future as a result of our net current liabilities position. For example, our suppliers may stop accepting bank acceptance bills as payment for raw materials and we may experience disruptions to our operating cash flows from slowdowns in our sales or increased credit terms offered to customers. As of the Latest Practicable Date, we had total unutilized credit facilities amounting to RMB841.1 million (comprising RMB718.5 million in unutilized general credit facilities and RMB122.6 million in unutilized banking facilities available for issuing bank acceptance bills). There can be no assurance that these facilities will continue to be available or that we would be able to obtain other financing on favorable terms or at all in the event of any liquidity problems. Any liquidity problems, could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be materially and adversely affected by negative publicity.

We rely heavily on our brand image to sell our products. Negative publicity relating to our products, brand, employees, operations, distributors, industry or products similar to ours, adversely affects consumer perceptions of our products and results in decreased demand for our products. There have been various negative reports regarding our products, distributors and Company in the past, including in both online and traditional media, and there can be no assurance that we will not experience negative publicity in the future or that such negative publicity will not have a material adverse effect on our business, results of operations, financial condition or prospects.

We may fail to comply with legal or regulatory requirements or to obtain or adhere to requirements under relevant licenses or permits.

Our manufacturing and other production facilities as well as the packaging, storage, distribution, advertising and labeling of our products, are subject to extensive legal and regulatory requirements. For example, pursuant to the Regulation on the Administration of Production Licenses for Industrial Products of the PRC (中華人民共和國工業產品生產許可證管理條例) and Measures for the Implementation of the Regulation on the Administration of Production Licenses for Industrial Products of the PRC (中華人民共和國工業產品生產許可證管理條例實施辦法), we must maintain the Production License for National Industrial Products for the production of our electric two-wheeled vehicles. Loss of or failure to renew or obtain necessary permits, licenses, registrations or certificates could delay or prevent us from meeting product demand, introducing new products, building new facilities or acquiring new businesses and could materially and adversely affect our operating results. If we are found to be in violation of applicable laws and regulations, we could be subject to civil remedies, including fines, injunctions, recalls or asset seizures, as well as potential criminal sanctions, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, future material changes in industry standards, laws and regulations, such as increased restrictions on manufacturers, could result in increased operating costs or affect our ordinary operations, which could also have a material adverse effect on our operations and our financial results. Please refer to the section headed "Regulatory Overview" for additional details regarding the permits, licenses, registrations and other requirements applicable to us, our subsidiaries and affiliates. We largely rely on our self-established standards concerning the production and quality control of such products. While we are committed to producing high quality products, there can be no assurance that our current production or quality control standards will satisfy any application laws and regulations that may come into effect in the future.

Our operations may be interrupted by production difficulties due to mechanical failures, utility shortages or stoppages, fire, acts of God or other calamities at or near our facilities.

We are reliant on equipment and technology in our facilities for the production and quality control of our products, and our operations are subject to production difficulties such as production facility capacity constraints, mechanical and systems failures and the need for construction and equipment upgrades, any of which may cause the suspension of production and reduced output. There can be no assurance that we will not experience problems with our equipment or technology in the future or that we will be able to address any such problems in a timely manner. Problems with key equipment or technology in one or more of our production facilities may affect our ability to produce our products or cause us to incur significant expense to repair or replace such equipment or technology. Also, scheduled and unscheduled maintenance programs may affect our production output. Any of these could have a material adverse effect on our business, financial condition, results of operations and prospects.

Furthermore, we depend on a continuous supply of utilities, such as electricity and water, to operate our production facilities. Any disruption to the supply of electricity or other utilities to our production facilities may disrupt our production, or cause the deterioration or loss of our inventory. This could adversely affect our ability to fulfill our sales orders and consequently may have an adverse effect on our business and results of operations. In addition, our operations are subject to operational risks. Fire, earthquakes, natural disasters, pandemics or extreme weather, including droughts, floods, excessive cold or heat, typhoons or other storms, could cause power outages, fuel shortages, water shortages, damage to our production, processing or distribution facilities or disruption of transportation channels, any of which could impair or interfere with our operations. There can be no assurance that such events will not happen

in the future or that we will take adequate steps to mitigate the likelihood or potential impact of similar events, or to effectively respond to such events if they occur, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Our success depends on our ability to retain our core management team and other key personnel.

Our performance depends on the continued service and performance of our Directors and senior management as they are expected to play an important role in guiding the implementation of our business strategies and future plans. If any of our Directors or any members of our senior management were to terminate their service or employment, there can be no assurance that we would be able to find suitable replacements in a timely manner, at acceptable cost or at all. The loss of services of key personnel or the inability to identify, hire, train and retain other qualified and managerial personnel in the future may materially and adversely affect our business, financial condition, results of operations and prospects.

Our distributors may accumulate excess or obsolete inventory and any excessive build-up of inventory could affect the volume of future orders from our distributors and thus have a material adverse impact on our business.

In China, our principal market, we sell all of our products to our distributors, who maintain their own inventories of our products. Our distributors in turn distribute our products to end customers through their own points of sales or sub-distributors. Our distributors may be unable to sell an adequate amount of their inventories of our products in a given period, which may result in a build-up of inventory at our distributors. In such an event, these distributors likely would reduce future orders until their inventory levels realign with demand. For details on our distribution agreements, please see the section headed "Business — Sales and Distribution Network". As such, any excessive build-up of inventory by our distributors could reduce the volume of future orders that we receive from our distributors and thus may have a material adverse impact on our sales and, accordingly, our financial condition and results of operations.

We may not be able to adequately protect our intellectual property and know-how and we may infringe the intellectual property rights of others.

We rely heavily on our brand, and our continued success and growth depend upon our ability to protect and promote our brand. Counterfeit products and imitations of our brand are potential threats to the strength of our brand, which could reduce demand for our products.

We believe that our current intellectual property rights, and those for which we have pending applications, provide protection to our business and are all the rights necessary for our operations. However, there can be no assurance that our intellectual property applications, including but not limited to the applications for trademark registration of the names of our newly introduced products, will be approved, that any of our intellectual property rights will adequately protect our intellectual property, that such intellectual property rights will not be challenged by third parties or found to be invalid or unenforceable or that our patents will be effective in preventing third parties from utilizing similar business models, approaches or brand names to offer similar products. We may also be subject to disputes, claims or litigation involving our intellectual property rights or third-party intellectual property rights and we may infringe third party intellectual property rights. For further details of a current dispute relating to intellectual property rights in which we are involved, see "Business — Legal Proceedings and Compliance". Any of these developments could disrupt our business and divert our management's

attention from our operations. The costs associated with such disputes, claims or litigation may be substantial and any of these risks could have a material adverse effect on our brand image, business, financial condition, results of operations and prospects.

The preferential tax treatment that we enjoy for a portion of our operations in China may be altered or terminated or our qualification may be lost or challenged.

We were entitled to certain preferential tax rates in relation to a portion of our operations during the Track Record Period. One of our subsidiaries, Jiangsu Yadea, qualified for a preferential tax rate of 15% during 2013 and another of our subsidiaries, Tianjin Industry, was qualified for a preferential tax rate of 15% during 2014 and 2015. Tianjin Industry is expected to be entitled to the preferential tax rate of 15% until December 31, 2016; however, Tianjin Industry must continue to meet the relevant PRC legal requirements in order to maintain the qualification. We plan to apply for an extension of the treatment prior to its expiration. For further details, please see the section headed "Financial Information — Significant Factors Affecting Our Results of Operation — Taxation." There can be no assurance that Tianjin Industry will continue to be able to meet the requirements to be entitled to the preferential tax treatment or that the preferential rate will not otherwise be challenged, altered or terminated. There can also be no assurance that our application for renewal will be successful. Any challenge, alteration, termination or inability or failure to maintain or renew the current preferential tax rate could have a material adverse effect on our business, financial condition, results of operations and prospects.

Some of our distributors have been subject to penalties for making unauthorized alterations to our products, which could adversely affect our reputation, business, financial condition, results of operations and prospects.

The PRC administrative agencies in charge of the quality control of goods in the market (流通領域商品), primarily the local bureaus of the SAIC, conducted periodic inspections of the electric two-wheeled vehicles in the market. During the Track Record Period and up to the Latest Practicable Date, we have found that a few of our distributors were subject to administrative penalty decisions (行政處罰) and Inspection Announcements (質量監測結果公示) due to sales of nonconforming vehicles without our prior approval or authorization. For further details, see "Business — Unauthorized Alterations of Our Products by Distributors." Although the administrative penalty decisions imposed by relevant PRC administrative authorities were issued to our third-party distributors and our PRC Legal Advisor has advised that we have no legal liability for the relevant alterations, we cannot assure you that this will not have any adverse effect on our Group's reputation. In particular, such Inspection Announcements did not specify to whom they were issued nor who caused the non-compliance of the products, consumers of our products may not distinguish where legal liability lies or whether we or our distributors conducted the alterations, and instead may associate such negative publicity with poor product quality of "Yadea" branded products. If that occurs, our "Yadea" brand and our reputation may be tarnished, and the demand for our products may decline, and as a result, our business, operating results and growth prospects may be adversely affected.

We have implemented enhanced internal control measures to address these problems. However, there can be no assurance that these measures we take will be effective or sufficient to prevent distributors from modifying our products in the future. Any future failure to detect or prevent such alterations by distributors may cause our products to be removed from the electric two-wheeled vehicles catalogues of the relevant administrative authorities and result in suspension or prohibition of sales of our products, which would have a material adverse effect on our reputation, business, financial condition, results of operations and prospects.

We depend on the availability of human resources and satisfactory relations with our employees.

We face risks relating to our employee relations. As of December 31, 2015, we had over 3,800 employees. The Chinese economy has grown significantly over the past 30 years, which has resulted in an increased average cost of labor. The overall economy and the average wages in China are expected to continue to grow and there can be no assurance that we will be able to attract, train and retain qualified personnel, as our industry requires a skilled workforce. Any shortages in the availability of labor, any material increases in the cost of labor or any deterioration in employee relations may have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not have adequate insurance coverage.

We have maintained certain insurance coverage through external insurers during the Track Record Period. For additional details of our insurance coverage, see the section headed "Business — Insurance." However, we do not maintain insurance policies against, interruptions to business operations or environmental liabilities. Additionally, although we maintain insurance coverage for product liability claims, there can be no assurance that such coverage will be sufficient or that the insurers will reimburse us for losses and expenses related to product liability claims in a timely manner or at all. Any events for which we do not maintain insurance or for which our insurance coverage is inadequate, or for which insurers do not reimburse us in a timely manner, may materially and adversely affect our business, financial condition, results of operations and prospects.

We may be subject to warranty and recall claims, which may increase our overhead cost and adversely affect our financial condition and liquidity.

We provide various quality warranties to our distributors and customers. We face an inherent business risk of exposure to warranty claims if our products actually or allegedly fail to perform as expected. There can be no assurance that our quality control and testing measures will be sufficient to prevent against product defects. There can also be no assurance that we will not incur significant costs to replace or repair faulty products, make refunds for product returns or defend against such claims. In addition, if any of our products are or are alleged to be defective, we may be required to recall such products. Although our suppliers are responsible for repairing or replacing faulty electric two wheeled-vehicle parts that they supply to us, we cannot assure you that the future cost associated with providing product warranties and/or bearing the cost of repair or replacement of our products or related damage to our brand image will not have a material adverse effect on our financial condition and liquidity.

The expansion of our production capacity may be delayed and may exceed cost estimates.

Our future growth depends on our ability to expand our production capacity and our ability to meet demand for our products. We are planning on expanding the number of production lines at our Wuxi production facility and have recently relocated and expanded our Tianjin production facility. For further details, see "Business — Production — Production Expansion Plans." However, we may not successfully expand our production capacity within the anticipated timeframe or at all. The time required to increase the production lines and production capacity may be impacted by our inability to obtain or delays in obtaining necessary regulatory approvals, technical difficulties, human or other resource constraints or capital investment and funding constraints. Moreover, the expansion of our production capacity may exceed our cost estimates or we may not reach full utilization of these facilities as envisioned which

would increase our proportionate fixed costs. If any of these events occur, our business, financial condition, results of operations or prospects may be materially and adversely affected.

We face risks from our investments in financial assets.

We invest surplus cash in wealth management products and derivative financial instruments from time to time. As of December 31, 2013, 2014 and 2015, the aggregate value of these financial products was RMB345.6 million, RMB555.0 million and RMB861.7 million. We plan to continue to invest in these and other similar types of products in the future when we believe that we have surplus cash on-hand and there are attractive potential investment returns. Although we have put in place certain internal control procedures aimed at reducing risk in relation to these investments, there can be no assurance that these procedures will be effective and adequate. There can be no assurance that we will not experience losses with respect to these investments in the future or that such losses will not have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be unsuccessful at maintaining or expanding our international sales and our international sales may subject us to risks that may have a material adverse impact on our business.

Expanding our international sales is a part of our long-term business strategy. We currently sell our products to numerous countries outside of China, and we plan to expand our international sales in the future. International sales are subject to various risks, including those relating to political and economic instability, the imposition of foreign tariffs and other trade barriers, fluctuations in foreign exchange rates and foreign exchange limitations or difficulties, the impact of foreign government regulations, the effects of income and withholding taxes, governmental expropriation and differences in business practices. Our efforts to expand our international sales may not be successful. We may fail to meet the relevant regulatory requirements for our products in international markets. Furthermore, we may be subject to product liability claims in international markets, which could cause us to incur substantial litigation costs. We may incur increased costs or experience delays or disruptions in product deliveries and payments in connection with international sales that could cause loss of revenues and earnings. Unfavorable changes in the political, regulatory and business climates could have a material adverse effect our business, financial condition, results of operations and prospects.

Failures or security breaches of our information technology systems could disrupt our operations and negatively impact our business.

Information technology is an important part of our business operations and we increasingly rely on information technology systems to manage business data and increase efficiencies in our production and distribution facilities and inventory management processes. We also utilize information technology systems to process financial information and results of operations for internal reporting purposes and to comply with regulatory, legal and tax requirements. In addition, we depend on information technology for digital marketing and electronic communications between our facilities, personnel, customers and suppliers. Our information technology systems may be vulnerable to a variety of interruptions, including during the process of upgrading or replacing software, databases or components, natural disasters, terrorist attacks, telecommunications failures, computer viruses, cyber-attacks, hackers, unauthorized access attempts and other security issues. The technology security initiatives and disaster recovery plans we have implemented to address these concerns may not be adequate. Any significant failure of our systems, including failures that prevent our systems from functioning as intended, could cause transaction errors, processing inefficiencies, loss of customers and sales, have negative consequences on our employees and our business partners and have a negative impact on our operations or business reputation.

In addition, if we are unable to prevent security breaches, we may suffer financial and reputational damage or penalties because of the unauthorized disclosure of confidential information belonging to us or to our partners, customers, consumers or suppliers. Further, the disclosure of non-public sensitive information through external media channels could lead to the loss of intellectual property or damage our reputation and brand image.

We did not pay social welfare contributions or housing provident fund contribution for certain of our employees and may be subject to fines or penalties.

PRC labor laws and regulations require us to make social insurance and housing provident fund payments for certain employees. During the Track Record Period, we did not pay relevant social insurance to certain employees as required by PRC laws and regulations. According to our PRC Legal Advisors, we may be required by the relevant authority to pay the amount of unpaid social insurance within a prescribed time limit, and we will not be punished if we satisfy such requirement. If we fail to do so within a given period as required by the local social insurance authorities, we may be subject to a penalty of up to three times of the amount of the delinquent payment, and a late payment surcharge may be imposed on a daily basis calculated at a rate of 0.05% thereon from the date the unpaid amount became due. In addition, we failed to make housing provident fund contributions for certain of our employees during the Track Record Period as required by PRC laws and regulations. According to our PRC Legal Advisors, we may be ordered by the relevant authority to pay the outstanding housing provident fund contributions within a prescribed time limit. If we fail to do so within the given period, the relevant authorities may apply to a PRC court for an order to enforce the payment.

We are not aware of any employee complaints regarding the unpaid social insurance or the unpaid housing provident fund payments and have not received any relevant legal documentation from a labor disputes arbitration committee or the People's Court relating to these unpaid amounts. Although we have not received any orders to rectify the non-compliance, we cannot assure you that we will not be subject to such an order, fines or penalties in the future.

RISKS RELATING TO THE ELECTRIC TWO-WHEELED VEHICLE INDUSTRY

We operate in a highly competitive industry and may face increased competition.

We operate in the electric two-wheeled vehicle industry in China and face strong competition in terms of distribution, brand recognition, quality, price, availability, and product positioning. Although we are one of China's largest manufacturers of electric two-wheeled vehicles, the market is highly fragmented, and the resources of our competitors may increase due to mergers, consolidations or alliances, and we may face new competitors in the future. In addition, as we seek to expand our market share in the markets in which we currently distribute our products and to distribute new products and to penetrate into new markets, we may have difficulty competing with local producers due to protectionist efforts by local governments to benefit local companies. From time to time in response to competitive and customer pressures or to maintain market share, we may be forced to reduce our selling prices or increase or reallocate spending on marketing, advertising, promotions or selling concessions (e.g., rebates) in order to compete. These types of actions could decrease our profit margins. Such pressures may also restrict our ability to increase our selling prices in response to raw material and other cost increases. In light of the strong competition that we currently face, and which may intensify in the future, there can be no assurance that we will be able to increase the sales of our products or even maintain our past levels of sales, or that our profit margins will not be reduced. If we are unable to increase our product sales or to

maintain our past levels of sales and profit margins, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Regulation of electric two-wheeled vehicles may become more stringent in China.

Substantially all of our products are classified as "non-motorized" vehicles under the PRC Road Traffic Safety Law and are therefore subject to less stringent regulatory requirements than "motorized vehicles" as defined therein (which are subject to licensing, driver qualification and road use requirements as well as higher speed and performance standards). We believe that our products being classified as "non-motorized vehicles" contributed substantially to the growth in the sales volume of our products during the Track Record Period. However, there can be no assurance that regulatory requirements with respect to our products will not be increased in the future. Any such increase in regulatory requirements could have a material adverse effect on our business, financial condition, results of operations and prospects.

Furthermore, there are currently five cities, namely Guangzhou, Dongguan, Zhuhai, Shenzhen and Xiamen, imposing prohibitions or restrictions on the use of electric bicycles[(1)] in certain areas of the city. However, we believe that the prohibition and restriction policies will not materially affect our expansion plans as there is only a limited number of cities adopting such policies. Additionally, the regulatory trend for such electric bicycles is regulation through a product catalogue regime, as opposed to a prohibition approach. Please see the section headed "Industry Overview — Overview of the Electric Two-wheeled Vehicle Market — Regulatory Evolution of the Electric Bicycle Industry" in this document for more details of the regulatory revolution of the electric bicycle industry. However, there can be no assurance that additional cities will not adopt policies to restrict or prohibit the use of any electric bicycles in future. If additional cities adopt such policies, it may restrict our ability to expand our sales or to maintain past levels of sales, which may have a materially and adverse effect on our business, financial condition, results of operations and prospects.

Our results of operations may fluctuate from period to period due to seasonality.

Our business is subject to seasonal fluctuations. There are seasonal patterns for electric two-wheeled vehicle purchases in China. Historically, we have experienced higher sales in the summer months and at the end of the year. Purchases from our distributors are highest during the summer months as that is when their sales to end customers are highest. They also increase their purchases at the end of the year (i) as we typically have many promotion and marketing activities during that time and (ii) in preparation for the holiday season. Due to the seasonality of our business, the results of any period of a year are not necessarily indicative of the results that may be achieved for the full year.

Note:

(1) Electric bicycles as defined the National Standards refers to both electric bicycles and electric mopeds. For 2013, 2014 and 2015, respectively, our revenue generated from sales of both electric bicycles and electric mopeds contributed 99.4%, 98.6% and 99.0% of our total revenue from sales of electric two-wheeled vehicles.

Environmental regulation and related litigation and commitments could have a material adverse effect on us.

Our past and present business operations and properties are subject to extensive and increasingly stringent laws and regulations pertaining to protection of the environment, including but not limited to the treatment and discharge of materials into the environment and the emission of greenhouse gases. Failure to comply with these laws and regulations may result in significant consequences to us, including administrative, civil and criminal penalties, liability for damages and negative publicity. For example, one of our branches put new production facilities with annual production capacity of one million units of electric scooters into operation in 2010 prior to obtaining the Environment Impact Assessment Approval. We received an Administrative Penalty Decision to pay a fine of RMB200,000 and were ordered to cease production until we obtained the certificate. See the section headed "Business — Safety and Environmental Matters" for further discussion of our regulatory compliance as it relates to environmental risk. We may be subject to higher compliance costs if environmental protection laws become more stringent and may not be able to pass on to our customers such increased costs through increased product prices.

RISKS RELATING TO DOING BUSINESS IN CHINA

Changes in political, social and economic conditions as well as laws, regulations, industry standards and government policies in China may materially and adversely affect our business, financial condition, results of operations and prospects.

Our business operations are primarily conducted in China, and we are affected by the economic, political and legal environment in China. In particular, China's economy differs from the economies of most developed countries in many respects, including the fact that it:

- has a high level of government involvement;
- is in the early stages of development of a market-oriented economy;
- has experienced rapid growth; and
- has a tightly controlled foreign exchange policy.

China's economy has been transitioning from a planned economy towards a more market-oriented economy. However, a substantial portion of productive assets in China remain state-owned and the PRC government exercises a high degree of control over these assets. In addition, the PRC government continues to play a significant role in regulating industrial development by imposing industrial policies. For the past three decades, the PRC government has implemented economic reform measures to emphasize the utilization of market forces in economic development.

China's economy has grown significantly in recent years; however, there can be no assurance that such growth will continue. The PRC government exercises control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Some of these measures benefit the overall economy of China, but may also have a negative effect on our business. For example, our financial condition and results of operations may be adversely affected by government

control over capital investments or changes in tax regulations that are applicable to us. As such, our future success is, to some extent, dependent on the economic conditions in China, and any significant downturn in market conditions may materially and adversely affect our business prospects, financial condition, results of operations and prospects.

In particular, we may be affected by the introduction of new policies, regulations, new industry standards or laws affecting the industry in which we operate, including those targeting the production of the raw materials that we use, the production of our products or the sales or use of our products. Any new policies regulations, new industry standards or laws of this type which increase our costs or otherwise restrict our ability to produce, market and sell our products could have a material and adverse effect on our business, financial condition, results of operations and prospects.

China's legal system is evolving and has inherent uncertainties that could limit the legal protection available to you.

Substantially all of our operations are located in China. The legal system of China is a civil law system based on written statutes. Unlike common law systems, it is a system in which prior court decisions have limited value as precedents. Since 1979, the PRC government has promulgated laws and regulations governing economic matters in general, such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, China has not developed a fully integrated legal system. Recently-enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these newer laws and regulations involve greater uncertainties than those in jurisdictions available to you. In addition, China's legal system is based in part on government policies and administrative rules and many have retroactive effects. We cannot predict the effect of future developments in China's legal system, including the promulgation of new laws, changes to existing laws, or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws.

Government control of currency conversion could negatively affect our financial condition, operations and our ability to pay dividends.

Substantially all of our revenue is denominated and settled in Renminbi. The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE provided that we satisfy certain procedural requirements. However, approval from SAFE or its local counterpart is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access in the future to foreign currencies for current account transactions.

Since a significant amount of our future cash flow from our China operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies. This could affect the ability of our subsidiaries in China to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

Under our current corporate structure, our source of funds may include dividend payments and repayment of inter-company loans by our subsidiaries in China denominated in Renminbi. We cannot assure you that we will be able to meet all of our foreign currency obligations or to remit profits out of China. If our China subsidiaries are unable to obtain SAFE approval to repay loans to us, or if future changes in relevant regulations were to place restrictions on the ability of our subsidiaries in China to remit dividend payments to us, our liquidity and ability to satisfy our third-party payment and loan repayment obligations, and our ability to distribute dividends in respect of the Shares (if applicable), could be materially and adversely affected.

Continued deterioration of economic conditions could negatively impact our business.

Our business may be adversely affected by changes in national or global economic conditions and local economic conditions in the markets in which we operate, including GDP growth, inflation, interest rates, availability of and access to capital markets, consumer spending rates, energy availability and costs (including fuel surcharges) and the effects of governmental initiatives to manage economic conditions. Any such changes could adversely affect the demand for our products, and we may be required to reduce the prices of our products, such changes may also adversely affect the cost and availability of our needed raw materials. Any of these could materially and adversely affect our financial results. For example, there has recently been significant turmoil in the major Chinese stock markets, declines in the global prices of commodities, including oil, depreciation in the value of the RMB and significant uncertainty regarding the Greek debt crisis. In particular, as China transitions to a consumption-based economy, China's forecast growth rate is expected to be significantly lower than its average growth rate over the past thirty years.

Disruptions and instability in credit and other financial markets and deterioration of national and global economic conditions, could, among other things:

- make it more difficult or costly for us to obtain financing for our operations or investments or to refinance our debt;
- cause our lenders to depart from prior credit industry practice and make the granting of any technical or other waivers under our credit agreements more difficult or expensive;
- impair the financial condition of some of our customers, suppliers or counterparties to our derivative instruments, thereby increasing customer bad debts, non-performance by suppliers or counterparty failures, negatively impacting our treasury operations;
- negatively impact demand for our products, which could result in a reduction of sales, operating income and cash flows;
- decrease the value of our investments in equity and debt securities, including the company-owned life insurance and pension plan assets, which could result in higher pension cost and statutorily mandated funding requirements; and
- impair the financial viability of our insurers.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries in China to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company incorporated in the Cayman Islands, and we operate certain of our core businesses through our operating subsidiaries in China. Therefore, the availability of funds to pay dividends to our Shareholders depends upon dividends received from these subsidiaries. If our subsidiaries incur indebtedness or losses, such indebtedness or losses may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted. The PRC laws and regulations require that dividends be paid only out of the net profit calculated according to China's accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS, IFRS and U.S. GAAP. PRC laws and regulations also require foreign-invested enterprises to set aside a portion of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries have entered into or may enter into in the future also restrict or may restrict in the future the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. These restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in China or Hong Kong based on foreign laws against us and our directors and senior management.

We are incorporated in the Cayman Islands. Substantially all of our assets, and some of the assets of our Directors are located in China. Therefore, it may not be possible for [**REDACTED**] to effect service of process upon us or those persons in China. China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On July 14, 2006, Hong Kong and China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (the "**Arrangement**"), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a written choice of court agreement may apply for recognition and enforcement of the judgment in China. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in China if the parties in the dispute did not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for [**REDACTED**] to effect service of process against certain of our assets or Directors in China in order to seek recognition and enforcement of foreign judgments in China.

Tax laws and tax arrangements on dividend distribution may materially and adversely affect the results of the operations and financial condition of the Group, and gains on sale of the Shares may be subject to withholding taxes under PRC tax laws.

Under the EIT Law, a withholding income tax of 20% is applicable to dividends derived from sources within China paid by foreign-invested Chinese enterprises to their non-Chinese parent companies, whereas pursuant to the implementation rules of the EIT Law a reduced withholding income tax of 10% applies to the same case. Similarly, any gain realized on the transfer of shares of foreign-invested Chinese enterprises by foreign investors is subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China. Due to the arrangements between China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income dated August 21, 2006, a company incorporated in Hong Kong receiving dividends from a Chinese subsidiary will be subject to withholding income tax of 5% if it holds an interest of 25% or more in that particular Chinese subsidiary or withholding income tax of 10% if it holds an interest of less than 25% in that subsidiary, subject to other requirements.

However, there is no guarantee that we will be able to continue to enjoy this preferential withholding income tax rate. Pursuant to a tax notice promulgated by SAT on August 24, 2009 and a supplementary notice promulgated on June 21, 2010, tax treaty benefits will be denied to "conduit" or shell companies without business substance and a beneficial ownership analysis based on the "substance-over-form" principle will be used to determine whether or not any tax treaty benefits can be granted. Our Hong Kong company operates trading, as well as corporate management and administrative functions, and we believe it has business substance. It is possible that under the tax notice, our Hong Kong company would not be considered as the "beneficial owner" of any dividends paid to the Group from its Chinese subsidiary through our Hong Kong company. If the preferential withholding income tax treatment of 5% does not apply to the Group for any of the reasons mentioned above, the Group's financial condition and results of operations could be adversely affected.

We face uncertainty relating to the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) ("SAT Circular No.7") issued by the PRC State Administration of Taxation

On February 3, 2015, the PRC State Administration of Taxation issued the SAT Circular No. 7, which abolished certain provisions in the Circular on Strengthening the Administration of Enterprise.

Income Tax on Non-PRC Resident Enterprises' Share Transfers (《關於加強非居民企業股權股權轉讓所得企業所得稅管理的通知》) ("SAT Circular No. 698"), previously issued by the State Administration of Taxation on December 10, 2009. SAT Circular No. 7 provides comprehensive guidelines relating to indirect transfers by a non-PRC resident enterprise of assets (including equity interests) of a PRC resident enterprise ("PRC Taxable Assets"). For example, SAT Circular No. 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-PRC resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets. The PRC tax authorities may disregard the existence of such overseas holding company and consider the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding PRC EIT and lack any other reasonable commercial purpose. Although SAT Circular No. 7 contains certain exemptions (including (i) where a non-resident enterprise

derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds such PRC Taxable Assets on a public market; and (ii) where there is an indirect transfer of PRC Taxable Assets, but if the non-resident enterprise had directly held and disposed of such PRC Taxable Assets, the income from the transfer would have been exempted from PRC EIT under an applicable tax treaty or arrangement), it remains unclear whether any exemptions under SAT Circular No. 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside of the PRC involving PRC Taxable Assets, or whether the PRC tax authorities will reclassify such transaction by applying SAT Circular No. 7. SAT Circular No. 7 may be determined by the tax authorities to be applicable to our Reorganization, if such transaction were determined by the tax authorities to lack reasonable commercial purpose. As a result, we may be subject to tax under SAT Circular No. 7 and may be required to expend valuable resources to comply with SAT Circular No. 7 or to establish that we should not be taxed under SAT Circular No. 7, which may have a material adverse effect on our business, financial condition, results of operations and growth prospects.

The PRC regulations of loans and investments by offshore holding companies to Chinese entities may hinder us from using the net proceeds of the [REDACTED] to fund our business operations in China.

Any capital contributions or loans that our offshore holding companies make to our operating subsidiaries in China are subject to PRC regulations. In particular, any of our loans to our Chinese subsidiaries cannot exceed the difference between the total amount of investment our Chinese subsidiaries are approved to make under relevant PRC laws and the registered capital of our Chinese subsidiaries, and such loans must be registered with the local branch of SAFE. In addition, our capital contributions to our Chinese subsidiaries must be approved by MOFCOM or its local counterpart. We cannot guarantee that we will be able to complete all of the relevant necessary government registrations or obtain all required government approvals on a timely basis. Should we fail to complete such registrations and obtain such approvals, our ability to utilize the net proceeds from the [**REDACTED**] to capitalize our Chinese subsidiaries or otherwise fund our business operations in China in the manner described in the section headed "Future Plans and Use of Proceeds" in this document may be adversely affected, which could in turn adversely affect the liquidity of our Chinese subsidiaries, our ability to expand our Chinese subsidiaries' operations and the financial positions and results of operations of our Chinese subsidiaries.

We face risks related to the outbreak of epidemics, which could have a material adverse effect on our business and results of operations.

Our business is subject to the general economic, environmental and social conditions. In particular, it is possible for our business to be materially and adversely affected by the outbreak of epidemics. For example, over the past few decades, China has suffered health epidemics related to the outbreak of A (H5N1 and H7N9) influenza, or avian flu, A (H1N1) influenza and severe acute respiratory syndrome, or SARS. Any prolonged recurrence of avian influenza A, influenza A, SARS or other adverse public health developments in China may have a material and adverse effect on our business operations. These could include restrictions on our ability to travel or ship products, as well as temporary closure of our factories and distribution facilities. Such closures and/or travel or shipment restrictions would severely disrupt our business operations and adversely affect our results of operations. Similarly, war, terrorist activity, threats of war or terrorist activity, social unrest and the corresponding heightened travel security measures instituted in response to such events, as well as geopolitical uncertainty and international conflict and tension, would affect economic development. In turn, there could be a material adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO THE SHARES AND THE [REDACTED]

Because there has been no prior public market for our Shares, their market price may be volatile and an active trading market in our Shares may not develop.

Prior to the [**REDACTED**], there has been no public market for our Shares. The [**REDACTED**] may differ significantly from the market price of our Shares following the [**REDACTED**]. We have applied for [**REDACTED**] and permission to trade our Shares on the Hong Kong Stock Exchange. A [**REDACTED**] on the Stock Exchange, however, does not guarantee that an active trading market for our Shares will develop, or if it does develop, that it will be sustainable following the [**REDACTED**] or that the market price of our Shares will not decline after the [**REDACTED**].

Furthermore, the price and trading volume of our Shares may be volatile. The following factors, among others, may cause the market price of our Shares after the [**REDACTED**] to vary significantly from the [**REDACTED**]:

- variations in our revenue, earnings and cash flow;
- unexpected business interruptions resulting from natural disasters, epidemics or power shortages;
- major changes in our key personnel or senior management;
- our inability to obtain or maintain regulatory approval for our operations;
- our inability to compete effectively in the market;
- political, economic, financial and social developments in China, the U.S. and globally;
- fluctuations in stock market prices and volume;
- changes in analysts' estimates of our financial performance; and
- involvement in material litigation.

Future issuances or sales, or perceived issuances or sales, of substantial amounts of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares and our ability to raise capital in the future.

The market price of our Shares could decline as a result of future sales of substantial amounts of Shares or other securities relating to the Shares in the public market, including by the Company's substantial shareholders, or the issuance of new Shares by the Company, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of the Shares could also materially and adversely affect our ability to raise capital in the future at a time and at a price favorable to us, and our Shareholders will experience dilution in their holdings upon our issuance or sale of additional securities in the future.

The market price of the Shares after trading begins could be lower than the [REDACTED].

The initial price to the public of the Shares sold in the [**REDACTED**] will be determined on the [**REDACTED**]. However, the Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be the fifth Business Day after the [**REDACTED**]. As a result, [**REDACTED**] may not be able to sell or otherwise deal in the Shares during that period. Accordingly, holders of the Shares are subject to the risk that the price of the Shares after trading begins could be lower than the [**REDACTED**] as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

Future financing may cause a dilution in your shareholding or place restrictions on our operations.

We may need to raise additional funds in the future to finance further expansion of our capacity and business relating to our existing operations, acquisitions or strategic partnerships. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata basis to existing Shareholders, the percentage ownership of such Shareholders in the Company may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by the Shares. Alternatively, if we meet such funding requirements by way of additional debt financing, we may have restrictions placed on us through such debt financing arrangements which may:

- further limit our ability to pay dividends or require us to seek consents for the payment of dividends;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flows from operations to service our debt, thereby reducing the availability of our cash flow to fund capital expenditure, working capital requirements and other general corporate needs; and
- limit our flexibility in planning for, or reacting to, changes in our business and our industry.

Potential [REDACTED] will experience immediate and substantial dilution as a result of the [REDACTED].

[**REDACTED**] will pay a price per Share that substantially exceeds the per Share value of the Company's tangible assets after subtracting the Company's total liabilities and will therefore experience immediate dilution when [**REDACTED**] purchase the Shares in the [**REDACTED**]. As a result, if the Company were to distribute its net tangible assets to the Shareholders immediately following the [**REDACTED**], [**REDACTED**] purchasing in the [**REDACTED**] would receive less than the amount they paid for their Shares. See the section headed "Appendix II — Unaudited Pro Forma Financial Information."

There can be no assurance if and when we will pay dividends in the future.

During the Track Record Period, we declared a special one-time cash dividend in the amount of HK$154.0 million which was paid on January 30, 2015. For further details, see "Financial Information — Dividend Policy". Our ability to pay dividends in the future will depend on factors including whether we are able to generate sufficient earnings. Distributions of dividends will be determined by our Board at their discretion in accordance with relevant regulations and will be subject to Shareholder approval. A

decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows, financial condition, operating and capital expenditure requirements, distributable profits, our Articles of Association, and any applicable laws and regulations, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, regulatory restrictions and any other factors determined by our Board from time to time to be relevant to the declaration or suspension of dividend payments. As a result, although we have paid a dividend in the past, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. We currently do not intend to have our subsidiaries pay any dividends to the Company in the foreseeable future. We intend to use the retained earnings of our subsidiaries for expansion of our operations. Additionally, we currently have no plans to pay dividends to the Shareholders in the foreseeable future. See the section headed "Financial Information — Dividend Policy" for additional details regarding our dividend policy.

We cannot guarantee the accuracy of facts, forecasts and other statistics obtained from official government sources and other third parties contained in this document, and statistics in this document provided by Frost & Sullivan are subject to assumptions and methodologies set forth in the "Industry Overview" section of this document.

Facts, forecasts and other statistics in this document relating to the economy and the electric scooter industry on a national, regional and provincial basis have been collected from materials from official government sources. We cannot assure you regarding, nor make any representation as to, the accuracy or completeness of such information. Neither we or any of our respective affiliates or advisors, nor the [**REDACTED**] or any of their affiliates or advisors, have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. Statistics, industry data and other information relating to the economies and the industry derived from official government sources used in this document may not be consistent with other information available from other sources and should not be unduly relied upon. Due to possible flawed collection methods, discrepancies between published information, different market practices or other issues, the statistics, industry data and other information relating to the economies and the industry derived from official government sources and provided by Frost & Sullivan might be inaccurate or might not be comparable to statistics produced from other sources. The statistics contained in the "Industry Overview" and other sections of this document provided by Frost & Sullivan should be read in conjunction with the assumptions and methodologies set forth in the "Industry Overview" of this document. In all cases, you should carefully consider how much weight or importance you should attach or place on such statistics, industry data and other information relating to the economies and the industry.

This document contains forward-looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for periods of time to which such statements relate.

This document contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words "aim," "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "going forward," "intend," "ought to," "may," "might," "plan," "potential," "predict," "project," "seek," "should," "will," "would" and similar expressions, as they relate to us or our management, are intended to identify forward-looking

statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this document. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing us which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- our future debt levels and capital needs;
- future developments, trends and conditions in the markets in which we operate;
- our strategies, plans, objectives and goals;
- general economic conditions;
- changes to regulatory or operating conditions in the markets in which we operate;
- our ability to reduce costs;
- our dividend policy;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors;
- certain statements in "Financial Information" with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this document that are not historical facts.

Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.

[REDACTED] may not be able to participate in rights offerings or elect to receive stock dividends and may experience dilution of their holdings.

We may, from time to time, distribute rights to our Shareholders, including rights to acquire securities. We will not distribute rights to a holder of our Shares in the United States unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration, or in a transaction not subject to registration, under the U.S. Securities Act or are registered under the U.S. Securities Act. We cannot assure you that we will be able to establish an exemption or exclusion from registration under the U.S. Securities Act, and we are under no obligation to file a registration statement with respect to any rights or underlying securities or to endeavor to have a registration statement declared effective under the U.S. Securities Act. Accordingly, holders of the Shares in the United States or other jurisdictions that have relevant restrictions may be unable to participate in rights offerings and may experience dilution of their holdings as a result. In addition, if we are unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, we may allow the rights to lapse, in which case holders of the Shares will receive no value for these rights.

You should rely only on this document and not place any reliance on any information contained in press articles or other media in making your [REDACTED] decision.

You should rely only on the information contained in this document and the [**REDACTED**] to make your [**REDACTED**] decision. We have not authorized anyone to provide you with information that is not contained in, or is different from what is contained in, this document. Prior or subsequent to the publication of this document, there has been or may be press and media coverage regarding us and the [**REDACTED**]. We have not authorized any such press and media reports, and the financial information, financial projections, valuations and other information purportedly about us contained in any such unauthorized press and media coverage may be untrue and may not reflect what is disclosed in this document. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication, and accordingly do not accept any responsibility for any such press or media coverage or the inaccuracy or incompleteness of any such information. To the extent that any such information appearing in the press and media is inconsistent or conflicts with the information contained in this document, we disclaim it, and accordingly you should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely only on the information included in this document and the [**REDACTED**].

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

In preparation for the [**REDACTED**], the Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Since the core business operations of the Group are primarily in the PRC, the executive Directors are and will continue to be based in the PRC after [**REDACTED**]. As a result, the Company does not, and will not, in the foreseeable future, have a sufficient management presence in Hong Kong as required under Rule 8.12 of the Listing Rules. Further, it would be impractical and commercially unnecessary for the Company to appoint an additional executive Director who is ordinarily resident in Hong Kong or to relocate its existing PRC based executive Directors to Hong Kong.

Accordingly, we have applied to the Stock Exchange for[, and the Stock Exchange has agreed to grant,] a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain regular and effective communication with the Stock Exchange, we put in place the following measures:

(i) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as the Company's principal channel of communication with the Stock Exchange. The two authorized representatives of the Company are Mr. Yeming Liu, an executive Director, and Ms. Sau Ping Wong, a joint company secretary of the Company. Ms. Sau Ping Wong is ordinarily resident in Hong Kong;

(ii) we will inform the Stock Exchange promptly in respect of any changes in our authorized representatives;

(iii) each of the authorized representatives will be available to meet with the Stock Exchange within a reasonable period of time upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email;

(iv) each of the authorized representatives has means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. To enhance the communication between the Stock Exchange, the authorized representatives and the Directors, we have implemented a policy that (i) each Director will provide their respective office phone numbers, mobile phone numbers, facsimile numbers and email addresses to the authorized representatives; and (ii) all of the Directors and authorized representatives will provide their office phone numbers, mobile phone numbers, facsimile numbers and email addresses to the Stock Exchange;

(v) any meeting between the Stock Exchange and the Directors will be arranged through the authorized representatives;

(vi) the Directors, who are not ordinarily resident in Hong Kong, have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and are able to meet with the Stock Exchange within a reasonable period;

(vii) we have, in compliance with Rule 3A.19 of the Listing Rules, appointed Cinda International Capital Limited as our compliance advisor who will, among other things, in addition to the two authorized representatives of the Company, act as the Company's additional channel of communication with the Stock Exchange for the period commencing from the [**REDACTED**] and ending on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the [**REDACTED**]. Cinda International Capital Limited will have full access at all times to the authorized representatives of the Company and the Directors; and

(viii) we will also retain legal advisors to advise on on-going compliance requirements, other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after the Listing.

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the joint company secretaries of the Company must be individuals who, by virtue of their academic or professional qualifications or relevant experience, are, in the opinion of the Stock Exchange, capable of discharging the functions of company secretaries.

According to Note 1 to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

(i) a member of The Hong Kong Institute of Chartered Secretaries;

(ii) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); and

(iii) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

Further, under Note 2 to Rule 3.28 of the Listing Rules, the Stock Exchange will consider the following factors of the individual in assessing "relevant experience":

(i) length of employment with the Company and other issuers and the roles he played;

(ii) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance and the Codes on Takeovers and Mergers and Share Buy-backs;

(iii) relevant training taken and/or to be taken in addition to the minimum requirements under Rule 3.29 of the Listing Rules (i.e. taking no less than 15 hours of relevant professional training in each financial year of the Company); and

(iv) professional qualifications in other jurisdictions.

We have appointed Mr. Yu Shen (沈瑜) as a joint company secretary of the Company. Mr. Shen is experienced in business management and has a thorough understanding of the administrative affairs of the Group. Mr. Shen is also our executive Director and has served as the assistant to the Chairman and supervisor of the president's office since joining the Group in May 2005, assisting our Chairman and president in external affairs and public relations management. For further details of Mr. Shen, please refer to the section headed "Directors and Senior Management — Board of Directors" in this document.

Having regard to Mr. Shen's knowledge and experience in handling our administrative and external affairs, the Company believes that Mr. Shen has a thorough understanding of the operations of the Group and is able to perform his duties as a joint company secretary of the Company. Given that Mr. Shen is not a member of The Hong Kong Institute of Chartered Secretaries, a solicitor, a barrister or a professional accountant, as required under Note (1) of Rule 3.28 of the Listing Rules, Mr. Shen does not possess the qualifications as stipulated in the notes of Rule 3.28 of the Listing Rules and may not be able to solely fulfil the requirements under Rules 3.28 and 8.17 of the Listing Rules. As such, we have appointed Ms. Sau Ping Wong (黃秀萍) to act as a joint company secretary of the Company and to provide assistance to Mr. Shen for an initial period of three years commencing from the [**REDACTED**]. Ms. Wong is a senior manager of the listing services department of TMF Hong Kong Limited (a fellow subsidiary of KCS Hong Kong Limited). She has over 14 years of professional experience in the company secretarial field and has acquired extensive knowledge and experience in corporate governance and compliance affairs of listed companies. Ms. Wong graduated from City University of Hong Kong with a Master of Arts degree in Professional Accounting and Information Systems. Ms. Wong is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Accordingly, Ms. Wong possesses the qualifications which satisfy the requirements as stipulated under Rules 3.28 and 8.17 of the Listing Rules.

Over the course of such three-year period, Ms. Wong will work closely with Mr. Shen to jointly discharge the duties and responsibilities as joint company secretaries of the Company and assist and guide Mr. Shen to enable him to acquire the "relevant experience" under Note (2) to Rule 3.28 of the Listing Rules. Ms. Wong will communicate with Mr. Shen on a regular basis regarding matters in relation to corporate governance, the Listing Rules as well as other applicable laws and regulations of Hong Kong which are relevant to the operations and affairs of the Company.

We will ensure that Ms. Wong has access to relevant training and support to familiarize herself with the Listing Rules and the duties required of a joint company secretary of a Cayman Islands [**REDACTED**] on the Stock Exchange, and Ms. Wong has undertaken to attend such trainings. Mr. Shen and Ms. Wong have further undertaken to take no less than 15 hours of relevant professional training in each financial year of the Company to familiarize themselves with the requirements of the Listing Rules and other regulatory requirements of Hong Kong. Both Mr. Shen and Ms. Wong will be advised by the legal advisors of the Company as to Hong Kong laws and the compliance advisor of the Company as and when appropriate and required.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules. The waiver is valid for an initial period of three years from the [**REDACTED**] and will be revoked immediately if Ms. Wong ceases to provide assistance to Mr. Shen as a joint company secretary of the Company during the three years after the [**REDACTED**]. Upon expiry of this three-year period, we will re-evaluate the qualifications and experience of Mr. Shen to consider whether the requirements stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied solely by Mr. Shen and the need for on-going assistance from Ms. Wong.

CONNECTED TRANSACTIONS

We have entered into certain transactions which would constitute continuing connected transactions for the Company under the Listing Rules following the completion of the [**REDACTED**]. We have applied to the Stock Exchange for[, and the Stock Exchange has agreed to grant], a waiver from strict compliance with the requirements set out in Chapter 14A of the Listing Rules for certain continuing connected transactions. For details of such continuing connected transactions and the waiver, please refer to the section headed "Connected Transactions" in this document.

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Jinggui Dong (董經貴)	No. 62, Hehuachi Chaqiao Village Anzhen Street Xishan District, Wuxi Jiangsu Province China	Chinese
Ms. Jinghong Qian (錢靜紅)	No. 62, Hehuachi Chaqiao Village Anzhen Street Xishan District, Wuxi Jiangsu Province China	Chinese
Mr. Yeming Liu (劉曄明)	Room 202, Door No. 1, No. 4 Building No. 2, Chaonei Beixiao Street Dongcheng District Beijing China	Chinese
Mr. Rui Shi (石銳)	Room 101, Unit 1, Building No. 1 No. 61, Wuxing Street Hanbin District, Ankang Shaanxi Province China	Chinese
Mr. Yu Shen (沈瑜)	Room 202 No. 66, Huiquan Garden Beitang District Wuxi, Jiangsu Province China	Chinese
Non-executive Director		
Mr. Xiang Fan (范翔)	Room B, No. 10, 19th Floor, Block A No. 83 Fuxing Road Haidian District Beijing China	Chinese

Name	**Residential Address**	**Nationality**
Independent Non-executive Directors		
Mr. Zongwei Li (李宗煒)	Room 1101, No. 5 Lane 2021, Changyang Road Yangpu District Shanghai China	Chinese
Mr. Biguang Wu (吳邶光)	Room 302, Door 2, Building 17 Yangzhuangbeiqu, Shijingshan District Beijing China	Chinese
Mr. Naisheng Yao (姚乃勝)	Room 602-01, Unit 4, No. 106 Zhongguancun East Road, Haidian District Beijing China	Chinese

Further information about the Directors and other senior management members are set out in the section headed "Directors and Senior Management" in this document.

PARTIES INVOLVED

Name	Address
Sole Sponsor, [REDACTED]	**China Securities (International) Corporate Finance Company Limited** 18/F Two Exchange Square 8 Connaught Place Central Hong Kong
Legal advisors to the Company	*as to Hong Kong and U.S. laws:* **Paul Hastings** 21–22/F Bank of China Tower 1 Garden Road Hong Kong *as to U.S. and European Union sanctions law related to Iran, Sudan and Russia* **Paul Hastings LLP** 875 15th Street. N.W. Washington, D.C. 20005 U.S. *as to Australian sanctions law related to Iran, Sudan and Russia* **HWL Ebsworth Lawyers** Level 5, HWL Ebsworth Building 6 National Circuit Barton ACT 2600 Australia *as to PRC law:* **Beijing Lutong United Law Firm** Floor 6, Building B, Beijing INN Plaza No. 5 Dongshuijing Hutong, Dongcheng District Beijing, China

	as to Cayman Islands law: **Appleby** 2206–19 Jardine House 1 Connaught Place Central Hong Kong
Legal advisors to the [REDACTED]	*as to Hong Kong and U.S. law:* **Sidley Austin** 39/F, Two International Finance Centre, Central Hong Kong *as to PRC law:* **Jingtian & Gongcheng** 34/F, Tower 3, China Central Place 77 Jianguo Road, Chaoyang District Beijing, China
Reporting accountants	**Ernst & Young** *Certified Public Accountants* 22nd Floor, CITIC Tower 1 Tim Mei Avenue Central, Hong Kong
Industry consultants	**Frost & Sullivan** Suite 2802–2803, Tower A Dawning Center 500 Hongbaoshi Road Shanghai, China
Internal control advisor	**Protiviti Shanghai Company Limited** Unit 2618-38, Central Plaza, No. 381 Huai Hai Zhong Road, Huangpu District, Shanghai, China
	[REDACTED]
Compliance Advisor	**Cinda International Capital Limited** 45/F, COSCO Tower 183 Queen's Road Central Hong Kong

CORPORATE INFORMATION

Registered office	Appleby Trust (Cayman) Ltd. Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Head office and principal place of business in the PRC	Xishan Road Dacheng Industrial Zone Anzhen Town Xishan District Wuxi, Jiangsu Province China
Principal place of business in Hong Kong	36/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
Company website	**www.yadea.com.cn** *(The information on the website does not form part of this document)*
Joint company secretaries	Mr. Yu Shen (沈瑜) Room 202 No. 66, Huiquan Garden Beitang District Wuxi, Jiangsu Province China Ms. Sau Ping Wong (黃秀萍), *ACIS, ACS* 36/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
Authorized representatives	Mr. Yeming Liu (劉曄明) Room 202, Door No.1, No.4 Building No.2, Chaonei Beixiao Street Dongcheng District Beijing China Ms. Sau Ping Wong (黃秀萍), *ACIS, ACS* 36/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong

Audit Committee	Mr. Zongwei Li (李宗煒) *(Chairman)* Mr. Xiang Fan (范翔) Mr. Biguang Wu (吳邠光)
Remuneration Committee	Mr. Biguang Wu (吳邠光) *(Chairman)* Mr. Yeming Liu (劉曄明) Mr. Naisheng Yao (姚乃勝)
Nomination Committee	Mr. Jinggui Dong (董經貴) *(Chairman)* Ms. Jinghong Qian (錢靜紅) Mr. Naisheng Yao (姚乃勝) Mr. Biguang Wu (吳邠光) Mr. Zongwei Li (李宗煒)

[**REDACTED**]

Principal Bankers	Bank of Nanjing, Wuxi Xishan Branch No. 1 East Xihu Road Wuxi, Jiangsu Province China China Construction Bank, Cixi Branch No. 279 Shishan Road Cixi, Zhejiang Province China China Everbright Bank, Tianjin Huayuan Branch No. 62–68 Caizi Yuan Junction of Huayuan Road and Yashi Avenue Nankai District, Tianjin China

The information and statistics set out in this section have been extracted and derived from various official government publications, publicly available sources and private publications, unless otherwise indicated. We believe that the sources of this information and statistics are appropriate sources for such information and statistics and reasonable care has been exercised by our Directors in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information false or misleading. Neither we nor the Sole Sponsor, the [**REDACTED**] *or our or their respective directors, advisors and affiliates have independently verified such information and statistics. Accordingly, Neither we nor the Sole Sponsor,* [**REDACTED**] *or our or their respective directors and advisors or any other parties involved in the* [**REDACTED**] *makes any representation as to the accuracy and completeness of such information and statistics. As such, the information from official and non-official sources contained herein should not be unduly relied upon. Furthermore, due to the inherent time-lag involved in collecting any industry and economic data, some of the data contained in this section may only represent the state of affairs at the time such data were collected. As such, you should also take into account subsequent movements in the industry and the PRC economy when you evaluate the information contained in this section.*

REPORT COMMISSIONED FROM FROST & SULLIVAN AND SOURCE OF INFORMATION

In connection with the [**REDACTED**], we engaged Frost & Sullivan, an independent third party, to conduct a study of the electric two-wheeled vehicle industry in China. Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 1,800 industry consultants, market research analysts, technology analysts and economists. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. Frost & Sullivan has been covering the Chinese market since the 1990s. Frost & Sullivan has four offices in China and direct access to the knowledgeable experts and market participants in the electric two-wheeled vehicle industry and its industry consultants, on average, have more than five years of experience.

We have included certain information from the Frost & Sullivan Report in this document because we believe such information facilitates an understanding of the Chinese electric two-wheeled vehicle market by prospective [**REDACTED**]. The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Frost & Sullivan Report included primary interviews and secondary research. Primary interviews were conducted with industry participants in the electric two-wheeled vehicle industry to obtain objective and factual data and prospective predictions and the secondary research involved reviewing company reports and publicly available resources including official government publications. Frost & Sullivan considered the source of information reliable because (i) it is general market practice to adopt official data and publicly available government sources; and (ii) the information obtained from interviews is for reference only and the findings in this report are not directly based on the results of these interviews.

Frost & Sullivan has a proven track record in providing market research studies to government and private clients in the regions covered by the Frost & Sullivan Report. In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) China's economy is likely to maintain a steady growth in the next decade; (ii) China's social, economic and political environment is likely to remain stable in the forecast period, ensuring the stable and healthy development of the electric

two-wheeled vehicle market; and (iii) there is no war or large scale disaster during the forecast period. We have agreed to pay Frost & Sullivan a fee of RMB1,030,000 for the preparation of the Frost & Sullivan Report. The payment of such amount is not contingent upon the success of the [**REDACTED**] or the findings of the Frost & Sullivan Report.

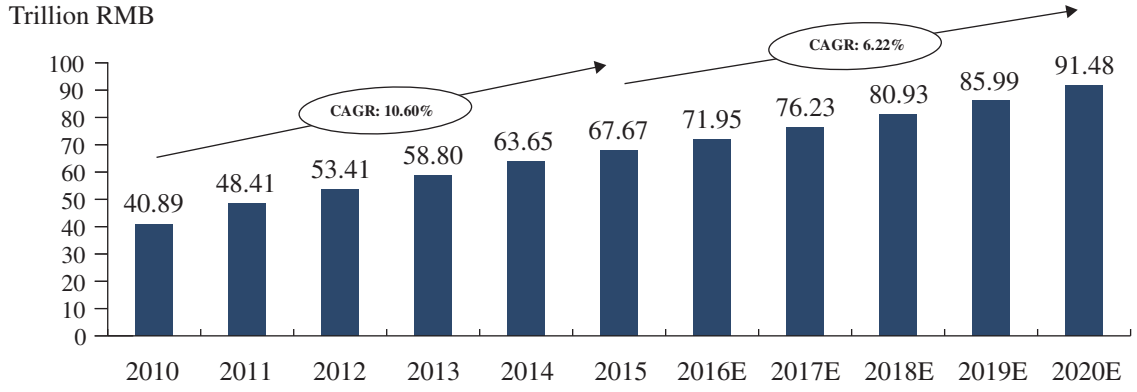
Our Directors confirm that, after reasonable investigation, there has been no material adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact in any material respect on the information in this section.

OVERVIEW OF MACROECONOMIC ENVIRONMENT IN CHINA

GDP in China

Over the past years, the Chinese economy has maintained a solid growth even under the shock of the global financial crisis. China's GDP experienced fast growth from 2010 to 2015, with a CAGR of 10.60%. Nonetheless, it is expected that the overall growth of the economy will slow down in the next three to five years, and PRC authorities plan to keep utilizing policies, such as "Action Plan on the China-proposed Silk Road Economic Belt and the 21st-Century Maritime Silk Road Initiative", "Asian Infrastructure Investment Bank", so as to maintain stable economic growth. In the mean time, structural adjustment of the economy is predicted to be pushed forward strongly by the Chinese authorities to improve the quality and efficiency of economic development. From 2015 to 2020, it is expected that China's nominal GDP will maintain a CAGR of 6.2%.

Nominal GDP (China), 2010–2020E



Source: Frost & Sullivan

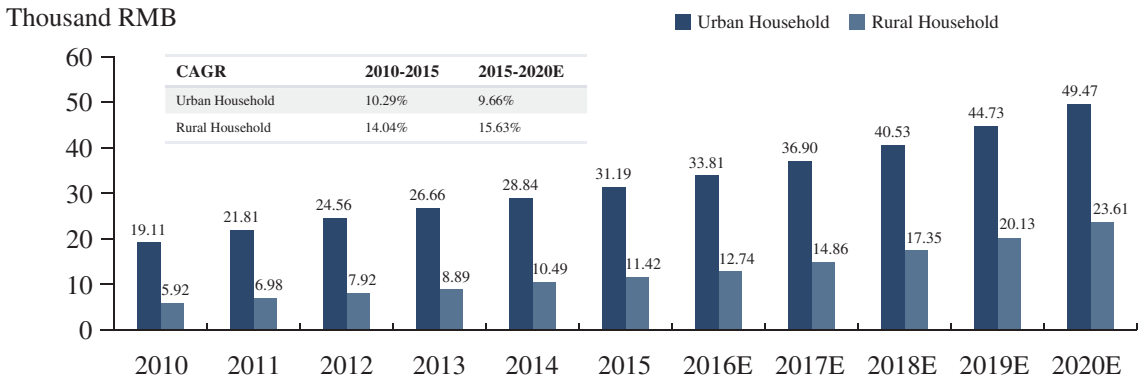
Per Capita Disposable Income and Expenditure in China

Significant increases in disposable income have created a sizeable consumer class, which is a strong driving force to the increase in the overall consumption. The per capita disposable income of urban households increased significantly, from RMB19,110 in 2010 to RMB31,190 in 2015 with a CAGR of 10.3%. Following China's strong economic growth, the per capita disposable income of urban households is expected to further increase to RMB49,470 by 2020, representing a CAGR of 9.7% from 2015 to 2020.

The per capita disposable income of rural households increased from RMB5,920 in 2010 to RMB11,420 in 2015, representing a CAGR of 14.0%. The per capita disposable income of rural

households is expected to reach RMB23,610 by the end of 2020, with a CAGR of 15.6% during the period of 2015 to 2020. An increase in the income of rural households reflects a rapidly growing macro-economy in rural areas, where the potential market is tremendous and promising.

Per Capita Disposable Income of Urban and Rural Household (China), 2010–2020E



Source: Frost & Sullivan

OVERVIEW OF THE ELECTRIC TWO-WHEELED VEHICLE MARKET

Definitions and Classifications of Electric Scooters and Electric Bicycles

In general, electric two-wheeled vehicles are divided into two categories – electric scooters and electric bicycles. The appearance of an electric bicycle resembles that of an ordinary bicycle, with fewer plastic parts coated, and more of the vehicle frame exposed. The battery is placed under the pedal or the seat. Electric bicycles usually have a riding function, and the vehicles are comparatively light and portable.

Electric scooters are further categorized into two classes – electric mopeds and electric motorcycles. An electric moped has more plastic parts coated and less of the vehicle frame exposed. The battery is placed under the seat, which makes the driving experience more comfortable. Compared with a standard electric bicycle, an electric moped has better motor performance, a longer cruise mileage and a larger loading capacity.

An electric motorcycle has a similar exterior appearance to that of an electric moped, with most part of the vehicle body coated with plastic parts. An electric motorcycle has a larger and more powerful motor, a longer cruise mileage and a larger loading capacity. It also has a stronger braking system and a better overall performance. Specific qualifications and licenses are required to produce electric motorcycles.

According to standards which are commonly accepted in the electric two-wheeled vehicles industry, the parameters of electric scooters and electric bicycles are shown as below:

Product	Electric Scooters		Electric Bicycles
	Electric Motorcycles	Electric Mopeds[(1)]	
Motor	Maximum continuous rated power >4kw	≤240W	≤240W
Speed	Maximun speed > 50km/h	≤20 km/h	≤20km/h
Load capacity	150kg	75kg	75kg
Cruising range	60–80km	50–80km	50km

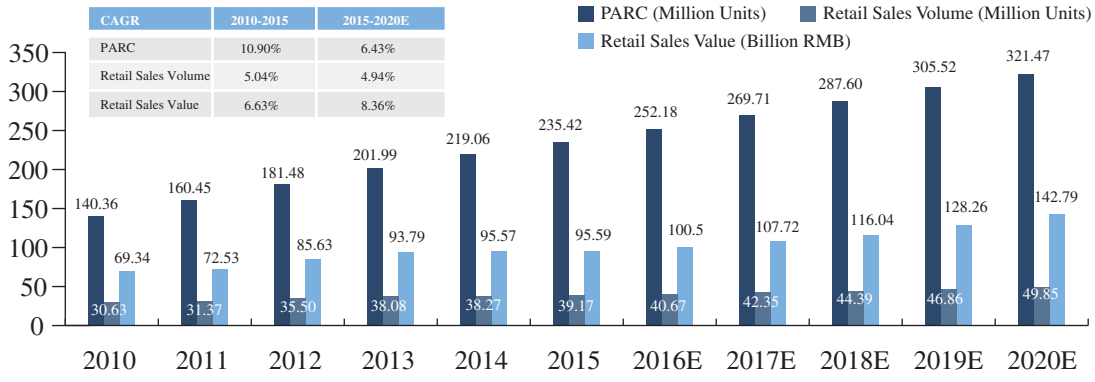
The average product lifecycle of electric two-wheeled vehicles is three to five years.

Note: For the avoidance of doubt, though, according to industry standards, electric mopeds fall within the scope of electric scooters, electric mopeds are classified as electric bicycles under the National Standards.

Overview of the Global Electric Two-wheeled Vehicles Market

In the global market, the PARC and sales volume of electric two-wheeled vehicles have experienced continuous growth since 2010. According to Frost & Sullivan, during the period between 2010 and 2015, the retail sales volume rose from 30.6 million units to 39.2 million units, while the PARC increased from 140.4 million units to 235.4 million units. It is forecast that the retail sales volume and PARC will maintain continuous growth and reach 49.9 million units and 321.5 million units, respectively, by the end of 2020.

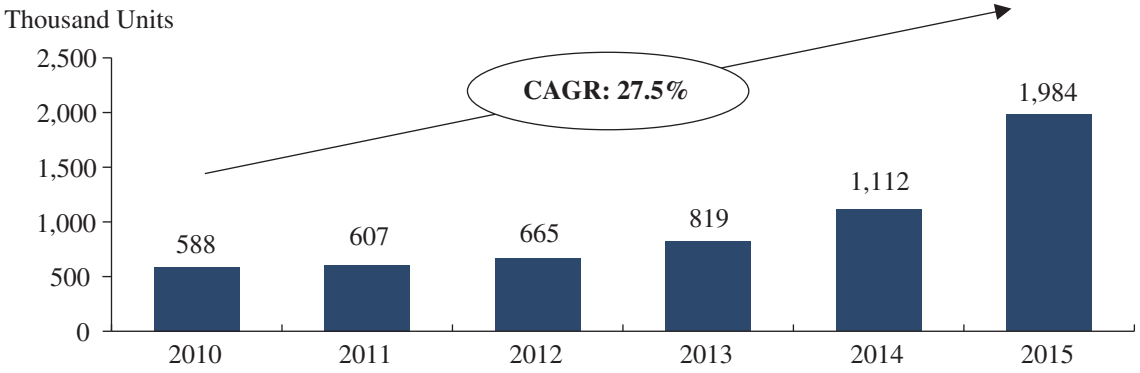
Electric Scooters and Electric Bicycles by PARC and Retail Sales Volume (Global), 2010–2020E



Source: Frost & Sullivan

The volume of exports of electric two-wheeled vehicles from China to the global market increased rapidly from 588 thousand units in 2010 to 1,984 thousand units in 2015, representing a CAGR of 27.5%. Meanwhile, the portion of global total sales volume consisting of exports from China also increased from 1.9% to 5.1% during that time. The exports from China represented approximately 5.1% of the global sales in 2015 and is forecast to increase to 8.0% by the end of 2020, as a result of growing Chinese manufacturer production capacity and technology.

Exporting Volume of Electric Two-wheeled Vehicles (China), 2010–2015



Source: Frost & Sullivan

Overview of the Electric Two-wheeled Vehicles Market in China

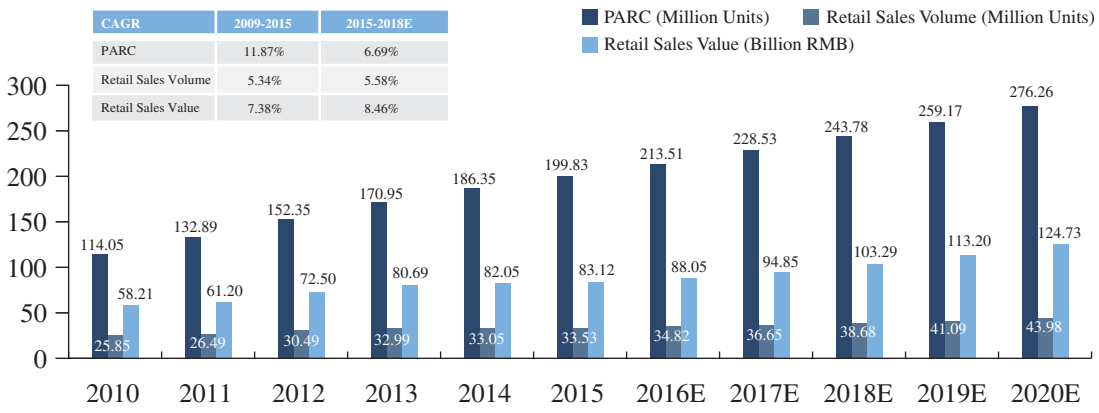
In general, two-wheeled vehicles mainly include bicycles, electric two-wheeled vehicles and motorcycles. From 2010 to 2015, the total sales volume of two-wheeled vehicles increased from 75.3 million units to 83.5 million units, representing a CAGR of 2.1%. At the same time, the sales volume of electric two-wheeled vehicles as a percentage of total two-wheeled vehicle sales volume increased from 34.3% in 2010 to 40.2% in 2015, indicating that electric two-wheeled vehicles are gradually replacing traditional two-wheeled vehicles like bicycles and motorcycles.

China is the largest consumer market for electric two-wheeled vehicles in the world. The rapid growth of the electric two-wheeled vehicle industry in China has been driven largely by rising disposable income and increasing demand for convenient transportation. More than half of the market demand is driven by the purchase of a new product to replace an old one. According to Frost & Sullivan, by the end of 2015, China's retail sales volume and PARC accounted for 86.8% and 84.9% of those of the world respectively.

The electric two-wheeled vehicle industry in China is growing with increasing demand and supply, according to Frost & Sullivan. Meanwhile, as consumers seek well-designed and branded products, market players have increasingly focused on brand building and product design. As such, manufacturers with well-known brands and strong research and development capabilities are expected to enjoy a higher growth potential.

According to Frost & Sullivan, the PARC of electric scooters and electric bicycles reached 199.8 million units in 2015 and is estimated to climb to 276.3 million units in 2020. The retail sales volume of electric scooters and electric bicycles in China increased from 25.9 million units in 2010 to 33.5 million units in 2015, with a CAGR of 5.3%. It is estimated that the retail sales volume in China will reach 44.0 million units by the end of 2020, with a CAGR of 5.6%. Meanwhile, the retail sales value of electric scooters and electric bicycles in China has experienced fast growth during the last few years, rising from RMB58.2 billion in 2010 to RMB83.1 billion in 2015, with a CAGR of 7.4%. Along with increasing demand and rising retail prices, the sales value in China is expected to rise to RMB124.7 billion by 2020, a CAGR of 8.5% from 2015. Consequently, the electric two-wheeled vehicle industry in China will maintain steady growth in the coming years.

Market Size by PARC, Retail Sales Volume and Retail Sales Value (China), 2010–2020E

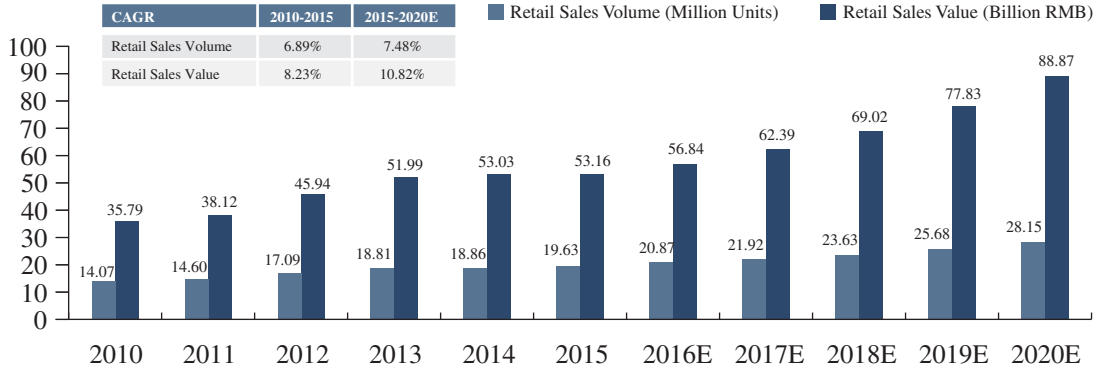


Source: Frost & Sullivan

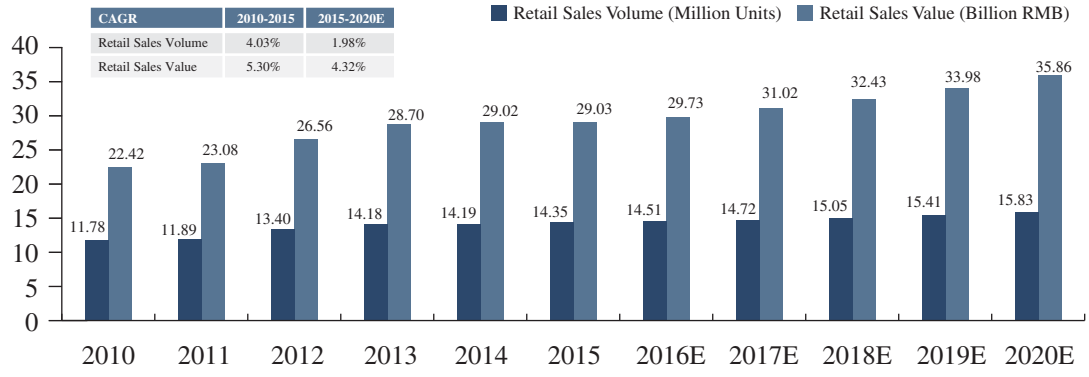
As the electric two-wheeled vehicle market has developed, there is a clear trend that electric scooter products have gradually been substituted for electric bicycle products. In general, major drivers that lead to such consumption upgrade include comfort, safety, better individualization, strong power and larger load capacity.

As a result, according to Frost & Sullivan, the retail sales volume of electric scooters in China is expected to reach 28.2 million units while the retail sales value in China is expected to reach RMB88.87 billion in 2020, CAGRs of 7.5% and 10.8%, respectively, as compared to expected CAGRs of 2.0% and 4.3% for the retail sales volume and retail sales value, respectively, of electric bicycles during the same period. For electric bicycles, the retail sales volume is expected to reach 15.8 million units while the retail sales value is expected to reach RMB35.9 billion in 2020.

Market Size of Electric Scooter by Retail Sales Volume and Retail Sales Value (China), 2010–2020E



Market Size of Electric Bicycle by Retail Sales Volume and Retail Sales Value (China), 2010–2020E



Source: Frost & Sullivan

Regulatory Evolution of the Electric Bicycle[(1)] Industry

The following is a regulatory history of electric bicycles in China.

1999 to 2003: Relatively Unregulated

The electric bicycle first became popular in the late 1990's. Its rapid ascent in popularity among Chinese consumers occurred for obvious reasons—the electric bicycle travelled relatively fast with little effort and was affordably priced. To meet that demand, a large number of manufacturers of varying sizes, experience and capabilities entered the market. As a result, China witnessed an electric bicycle industry that, along with its rapid growth, became very fragmented with thousands of brands of great variances in terms of brand recognition, manufacturing quality and product reliability.

The first regulations of electric bicycles were adopted in 1999. The General Technical Requirements for Electric Bicycles (National Standards, GB17761-1999), which were promulgated in May 1999 and became effective in October 1999, were the main general standards governing electric bicycles product quality. However, no regulatory body or government agency was designed and established to be in charge of implementation (such as setting license registration requirements and rules of the road) and enforcement. In addition, the electric bicycle was developed at a time of a growing regulatory trend to restrict the use of motorcycles due to concerns about safety and environmental friendliness. There was still significant uncertainty as to whether the electric bicycle should be regulated as a motorcycle (i.e. a "motorized vehicle" in the language of the law) or a bicycle (which, as a "non-motorized vehicle" was largely unregulated).

The result of these regulatory uncertainties was that, despite the promulgation of the National Standards, there remained little actual regulatory oversight over the product, the industry, and the rules of the road for electric bicycles in China.

Note:

(1) Electric bicycle as defined by the National Standards refers to both electric bicycles and electric mopeds. For 2013, 2014 and 2015, our revenue generated from sales of both electric bicycles and electric mopeds contributed 99.4%, 98.6% and 99.0% of our total revenue from sales of electric two-wheeled vehicles, respectively.

2004 to 2008: Increasing Regulation but Varying Approaches

The Road Traffic Safety Law of the PRC, promulgated in May 2004 had a significant impact on the regulatory development of electric bicycles. To resolve the previous confusion, the law clearly stated electric bicycles would be categorized as "non-motorized vehicles" and would be regulated as such. In particular, the law required that "non-motorized vehicles" should be "registered based on laws and regulations" before use. The Road Traffic Safety Law, therefore, set a clear direction for the adoption of a product catalogue regime on the regulation of electric bicycles nationwide. In general, under a product catalogue regime, if a branded product meets the government-set technical standards, such product, upon completion of an application process, will be included in the product catalogue and qualify for sale and use.

The Road Traffic Safety Law delegated the promulgation and implementation of detailed regulations on "non-motorized vehicles", including electric bicycles, to provincial level governments. In practice, however, development and implementation of these regulations required significant time, and the Road Traffic Safety Law did not specify a time frame for implementation. As a result, the direction set by the PRC central government regulation, i.e. through product catalogue, gained little momentum, and there remained substantial inconsistencies in regulatory approaches among the various regions in China. While some cities have developed and implemented a product catalogue regime, many cities and provinces at the time had no regulations on electric bicycles. Certain other cities effectively imposed an outright prohibition on the use of electric bicycles through restrictions on granting of license plates or use in some areas. Between 2004 and 2008, 12 cities implemented such regulations, including Wuhan (August 2005), Haikou (December 2006), Shenyang (January 2007), Foshan (December, 2008), Shenzhen (May 2007) and Xiamen (December 2008) to the city centers and other specific areas but not to the suburbs of the cities where the electric bicycles may continue to be used legally, and Taiyuan (August 2005), Zhuhai (July 2005), Guangzhou (November 2006), Changzhou (January 2007), Fuzhou (July 2007), Dongguan (August 2007) where such regulations applied to the entire cities.

2009 to Present: Toward a Well-regulated Market with Product Catalogue Regime

As the demand and market for electric bicycles continue to grow (particularly driven by increasing environmental consciousness), and as the consumption power of Chinese consumers continue to increase, brand recognition and product quality became increasingly important. Government support for environmentally friendly products has also continued. For instance, in June 2010, the PRC government promulgated a government subsidies program for manufacturers of "highly efficient" engines (including those manufacturers of products incorporating such engines)[1]. The electric bicycle industry experienced an increasing consolidation towards the leading brands, which generally have more resources in product development, manufacturing and as a result better product quality than the lesser known brands and smaller manufacturers.

Note:

*(1) The Ministry of Finance and NDRC of PRC encourage the manufacture of "highly efficient" engines by promulgating and implementing the "Implementation Rules of Energy Saving, Consumer Benefiting, Highly Efficient Engine Promotion" (節能產品惠民工程高效電機推廣實施細則) ("**Implementation Rules**"), which came into force on May 31, 2010. Since our Group's products fell under the scope of "highly efficient" engines as defined in the Implementation Rules, and we met all eligibility requirements, we were approved to be included in the Catalogue of the Energy Saving, Consumer Benefiting, Highly Efficient Engine Promotion (節能產品惠民工程高效電機推廣目錄) in 2013. As a result, we have received relevant subsidies from the government.*

The regulatory landscape for electric bicycles, which before then was rather disjointed, also began to coalesce. The regulatory approach that increasingly gained acceptance throughout China was regulation through a product catalogue regime, which was consistent with the direction set by the 2004 Road Traffic Safety Law, particularly as the law was implemented at the local levels across China.

To date, all four municipalities have promulgated and implemented product catalogues for electric bicycles. Of the 23 provinces, nine regulate through product catalogues, with the remaining in the process of promulgating such product catalogues. Of the five autonomous regions, two have promulgated and implemented product catalogues, with the remaining in the process of promulgation.

Of the abovementioned 12 cities that promulgated regulations to restrict the use of electric bicycles between 2004 and 2008, seven (including Taiyuan (August 2014), Wuhan (June 2011), Haikou (September 2011), Changzhou (November 2010), Shenyang (June 2012), Fuzhou (April 2010) and Foshan (May 2013)), have loosened such restrictions and instead have regulated through license registration or by developing product catalogues.(1) Furthermore, since 2009 there have been no new regulations at the local level that imposed outright prohibition or restriction on use of electric bicycles.

As of the Latest Practicable Date, only five cities prohibit or restriction the use of electric bicycles: Guangzhou, Shenzhen, Dongguan, Zhuhai and Xiamen.(2) Guangdong province, where the former four of the five cities are located, promulgated a regulation to implement a product catalogue regime for electric bicycles in October 2013. Although the regulation set out the technical standards, the product catalogues (which would contain qualified product brands) have not been published to date, but are expected to be published in the near future. With respect to Xiamen, the prohibition on the use of electric bicycles applies only to a limited number of roads.

KEY DEVELOPMENT DRIVERS AND MARKET OPPORTUNITIES OF THE ELECTRIC TWO-WHEELED VEHICLE INDUSTRY IN CHINA

Key Development Drivers

Key development drivers of the electric two-wheeled vehicle industry in China can be categorized into three categories: demand side, supplier side and regulatory side.

Demand side:

Rising disposable income. According to Frost & Sullivan, the per capita disposable income of urban and rural households in China increased significantly from 2010 to 2015. Meanwhile, it is estimated that the per capita disposable income of urban and rural households will reach RMB49,470 and RMB23,610 respectively by 2020. As more consumers can afford electric two-wheeled vehicles, especially electric scooters, the sales volume of electric two-wheeled vehicles is expected to grow further. On the other hand, current users of electric two-wheeled vehicles are able to allocate more budgets to purchase the upgrading products, which will lead to a faster turnover rate and stimulate growth.

Notes:

(1) In 2013 and 2014, our aggregate revenue derived from distributors in Taiyuan, Shenyang and Foshan during the respective period when regulations restricting electric bicycles were in effect totaled RMB11.6 million and RMB6.1 million, respectively, or 0.23% and 0.10% of our total revenue, respectively. As advised by our PRC Legal Advisors, revenue derived from our distributors in these cities were legal income as the relevant prohibitions or restrictions apply to the use of rather than the sale of electric bicycles, and therefore we are not subject to any government penalties for our sales of electric bicycles in the relevant cities.

(2) In 2013, 2014 and 2015, revenue derived from our distributors in these regions totalled RMB26.5 million, RMB71.4 million and RMB112.2 million, respectively, representing 0.52%, 1.23% and 1.74% of our total revenue, respectively.

Gradually maturing consumer preference and consumption habits. According to Frost & Sullivan, consumer purchase behavior has become increasingly mature and rational. The key factors that consumers consider during their purchases have changed from production quality and price to diversified functionality, riding comfortability, product appearance, and design and, secondarily, branding. Moreover, consumers are attracted to high-end brands and willing to pay more for intelligent and stylish products with greater user experience and riding pleasure. In view of the gradually maturing consumer preference and consumption habits, manufacturers continue to invest in product research and development, which will stimulate the overall development and virtuous cycle of the market.

Increasing demand for convenient transportation. Public transportation systems in urban cities have been under great pressure in China. According to Frost & Sullivan, the average time spent on commutes to work (round-trip) is 107 minutes in Beijing and 89 minutes in Shanghai. Commuters spend a significant amount of time on their daily commutes. As environmental friendly, convenient and cost efficient vehicles, electric two-wheeled vehicles are suitable for short-distance transportation, and have become increasingly popular.

Supply side:

Increasing brand building and marketing, and continuing investment in product research and development. In order to broaden market influence and capture more potential consumers, market players now put an increasing emphasis on brand building and marketing. Meanwhile, continuous investment in product research and development by manufacturers are expected to stimulate an industrial upgrade of the whole market.

Continuing improvement in product design and industry consolidation. The designs and styles of electric two-wheeled vehicles greatly affect consumer purchase decisions. Upon realizing the advantages they derive from well-designed products, manufacturers of electric two-wheeled vehicles are less likely to be confined in the competition that results from product homogenization, thus promoting product differentiation in the electric two-wheeled vehicle industry. Meanwhile, the electric two-wheeled vehicle industry has begun to consolidate, as competition has concentrated on several large-scale manufacturers. Therefore, the competitive advantages of large-scale and branded companies will become more prominent, and the competition concentration is expected to increase further, leading to an industrial restructuring.

Regulatory side:

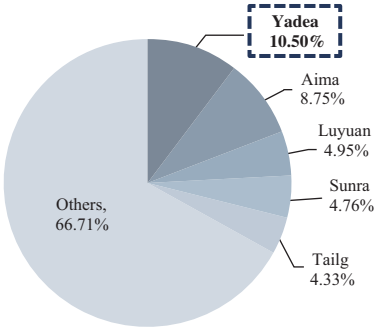
Continuing support of development of electric vehicle products. Due to severe air pollution and serious environmental problems, the PRC government has implemented a series of measures to support the development of electric vehicle products to protect the environment, including electric two-wheeled vehicle products. These policies are expected to stimulate the continued development of the electric two-wheeled vehicle industry.

Improving regulatory control. To regulate the electric two-wheeled vehicle market, the central and regional governments in China have published a series of laws, rules and regulations which serve to regulate the product standards. A continuous improvement of the legal environment helps ensure a sustainable and healthy development of the market. Thus, industry leaders will gain more and more benefit from the regulated market. According to Frost & Sullivan, in terms of revenue, our market share of the Chinese electric two-wheeled vehicle market increased from approximately 9.33% in 2013 to approximately 10.50% in 2015.

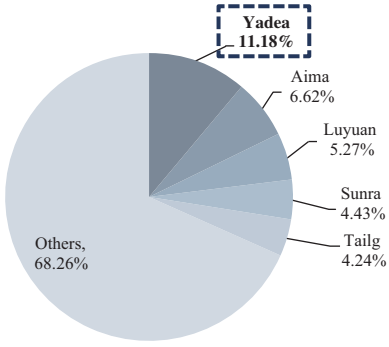
COMPETITIVE LANDSCAPE OF THE ELECTRIC TWO-WHEELED VEHICLE MARKET IN CHINA

The electric two-wheeled vehicle market in China has experienced integration and consolidation during the past few years. In 2010, there were over 2,500 electric two-wheeled vehicle brands in the market. Due to the rapid growth of the electric two-wheeled vehicle industry in China, there were a large number of small- and medium-size players in the market. By the end of 2015, the industry had consolidated to about 250 manufacturers above designated scale (規模以上企業), which are manufacturers with an annual revenue of not less than RMB200 million. Among all players in the electric scooters and electric bicycles market, We ranked the highest in terms of revenue and net profit, accounting for 10.5% and 24.0% of the total market in 2015, respectively.

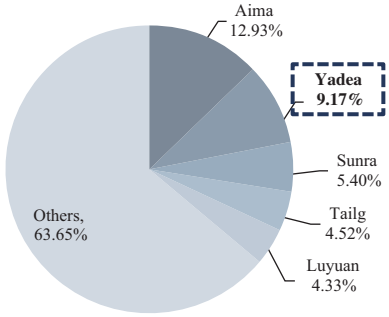
Overall Market Share of Major Competitors by Revenue (China), 2015



Electric Scooter Market Share by Revenue (China), 2015



Electric Bicycle Market Share by Revenue (China), 2015



Source: Frost & Sullivan

The table below sets forth the background of the top five competitors in the electric two-wheeled vehicle industry in China:

Company	Market Share by Revenue (2015)	Establishment Year	Headquarters	Production Capacity (2015)
the Group .	10.50%	2001	Wuxi	5.0 million units
Aima	8.75%	1999	Tianjin	5.9 million units
Luyuan . . .	4.95%	1997	Jinhua	1.9 million units
Sunra	4.76%	1999	Wuxi	3.5 million units
Tailg	4.33%	2004	Shenzhen	2.0 million units

Source: Frost & Sullivan

According to Frost & Sullivan, the top five players in the electric two-wheeled vehicle industry in the PRC had gross profit margins ranging from 15.0% to 18.9% in 2015, with the Company having the highest gross profit margin. This reflects a combination of the Company's focus on high-end products and its leading industry position.

BARRIERS TO ENTRY IN THE ELECTRIC TWO-WHEELED VEHICLE INDUSTRY IN CHINA

There are several market entry barriers that prevent competitors from entering the electric two-wheeled vehicle market. The key barriers to entry to the market include:

- *Branding*. Leading companies have already generated a high level of brand awareness among consumers. Also, leading companies are able to develop different branding or various product line strategies according to the diverse demands of target customers, which will help them further accumulate brand reputation, and once the brand awareness increases and brand positioning is recognized in the minds of consumers, it will be difficult to be replaced.

- *Research and development capacity*. Leading manufacturers have already established well-organized in-house research and development systems to support new product development, such as intelligent products, and existing product upgrade. Comparatively, new entrants usually do not have enough capital investment and experienced team to support research and development, resulting in competitive disadvantages in product design and quality.

- *Distribution*. It is expected to take a long time for new entrants to build a solid and widespread distribution network. In comparison, leading companies have already established a strong distribution network, with deeper and wider marketing channels in major cities, as well as in rural areas. As the sales of electric two-wheeled vehicles rely heavily on the distribution network, it is hard for new entrants to alter the leading positions of existing large-scale companies.

- *After-sales services.* Before making purchase decisions, consumers put more emphasis on after-sales networks and service quality. It is difficult for new entrants to build a large and mature network to compete.

- *Comprehension of consumer demand.* Existing market players usually have a better understanding of consumer demand, which allows them to make timely adjustments on products and sales strategies to adapt to changes in consumer demand and preferences. New entrants, such as motorcycle and bicycle manufacturers, however, will have difficulties in recognizing, understanding and capturing consumer demand and requirements to provide corresponding products and services.

- *Capital.* Large-scale factories and sophisticated supply chain management require intensive capital investment. It is unlikely that a new competitor will be able to threaten existing large enterprises in light of such high requirements on capital and experience.

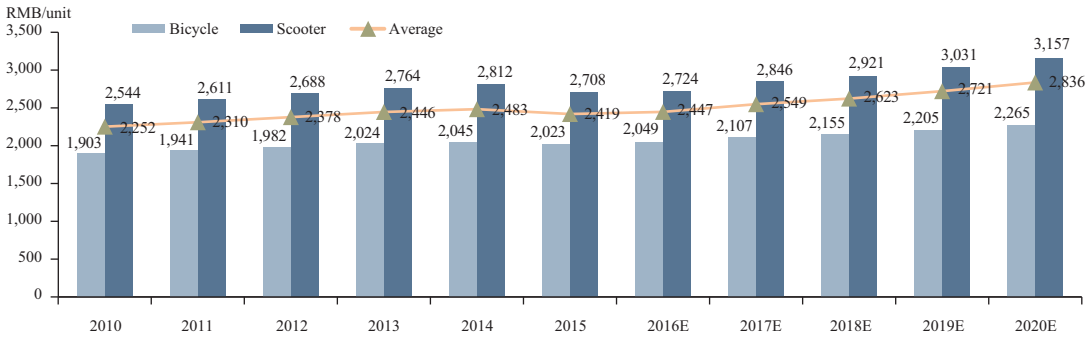
- *Regulations*. A new national standard for electric two-wheeled vehicles is expected to be issued by the PRC government. The rigorous requirements and stringent regulations on electric two-wheeled vehicles under the new standard will serve as a barrier to entry. It is believed that small and medium enterprises which do not have the technology to comply with the requirements will be eliminated.

PRICE TRENDS OF ELECTRIC TWO-WHEELED VEHICLES IN CHINA

The average retail sales price of electric two-wheeled vehicles has increased from RMB2,252 in 2010 to RMB2,419 in 2015, representing a CAGR of 1.4%. In light of the rising living standards and the trend of developing high-end products, consumers have higher requirements for the safety and appearance of electric two-wheeled vehicles, which in turn generally create demand for more expensive products with higher quality. Accordingly, the average retail sales price of electric two-wheeled vehicles is projected to increase to RMB2,836 at the end of 2020, according to Frost & Sullivan.

Both average retail prices (including batteries and chargers) and average wholesale prices (excluding batteries and chargers) decreased in the second half of 2014 and in 2015 due to the drop in the average prices of raw materials (especially batteries and motors) and increasing market competition. The average retail price (including batteries and chargers) of electric two-wheeled vehicles was RMB2,483 in 2014, which dropped slightly to RMB2,419 in 2015. The average wholesale price for 2015 was RMB1,385, also representing a slight decrease, from RMB1,432 in 2014.

Average Retail Sales Price in Retail Stores of Electric Scooters and Electric Bicycles (China), 2010–2020E



Source: Frost & Sullivan

The table below shows the average retail selling prices (including the price of batteries and chargers) and average wholesale-prices (excluding the price of batteries and chargers) of high-end and low-end electric two-wheeled scooters and bicycles in 2015:

	Retail Price for 2015 (including batteries and chargers)		Wholesale Price for 2015 (excluding batteries and chargers[1])	
	Electric Bicycles	**Electric Scooters**	**Electric Bicycles**	**Electric Scooters**
High-end	>RMB2,239	>RMB3,139	>RMB1,201	>RMB1,694
Low-end.	<RMB1,591	<RMB2,288	<RMB815	<RMB1,106

Note:

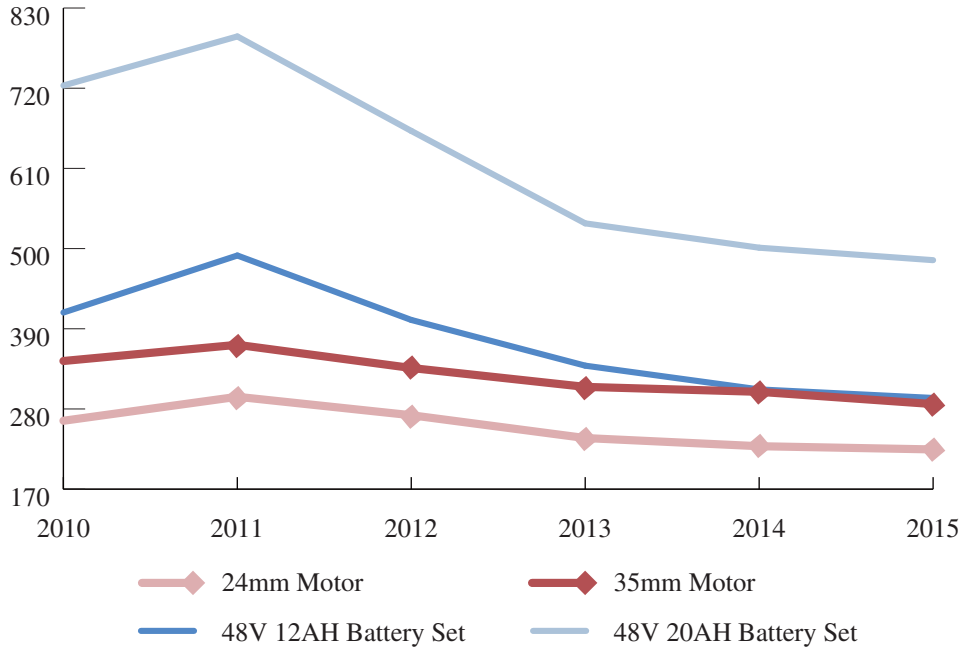
1 *When selling our products to distributors, the revenue of batteries and chargers are normally calculated separately from the revenue of the electric two-wheeled vehicles.*

Price Trend of Key Raw Materials

The manufacture of electric scooters and electric bicycles are affected by fluctuations in prices of raw materials, mainly batteries and electric motors. Prices of batteries and electric motors are in turn affected by fluctuations in commodities such as lead, copper and steel. Since batteries and electric motors are among the major raw materials used for our Group's electric two-wheeled vehicles, fluctuations in the prices of these two raw materials are key factors which affect our Group's cost of production.

The following chart illustrates the market prices of our major raw materials in China from 2010 to 2015, including 48V 12AH battery set, 48V 20AH battery set, 24mm motor and 35mm motor:

Average Retail Price of Battery and Electric Motor (China), 2010–2015



Source: Frost & Sullivan

Battery

The average retail price of batteries was mainly affected by the price of raw materials and the demand for electric scooters and electric bicycles. Stimulated by the increased demand from electric two-wheeled vehicle industry, the average retail price of a 48V 12AH battery set and a 48V 20AH battery set experienced an increase from approximately RMB412.3 and approximately RMB723.7 in 2010 respectively to approximately RMB490.5 and approximately RMB791.0 in 2011 respectively. However, the average retail price of electric batteries has declined in recent years due to slight decreases in the cost of the raw materials used in production. The average retail price of a 48V 12AH battery set and a 48V 20AH battery set experienced a recovery in July and August 2015, as the demand for battery set was stronger than expected. Then the average retail price of a 48V 12AH battery set and a 48V 20AH battery set finally dropped to RMB295.1 and RMB484.1, respectively, in December 2015.

Electric Motor

Relative to the demand from electric two-wheeled vehicle industry and the price of its raw materials, the average retail price of electric motor has evolved in similar trend. The average retail price of 24mm motor and 35mm motor reached approximately RMB296.7 and approximately RMB368.0 respectively in 2011, which were mainly driven by the increasing demand of electric two-wheeled vehicle industry. From 2011 onwards, due to the decline of the prices of raw materials, the average retail price of 24mm motor and 35mm motor dropped to approximately RMB224.5 and approximately RMB286.7 respectively in 2015.

REGULATIONS ON IMPORTS TO TURKEY

During the Track Record Period, Turkey was our largest export market, accounting for 81.9%, 84.1% and 48.6% of our international sales revenue in 2013, 2014 and 2015, respectively. Below is a summary of relevant Turkish regulations on imports, according to Frost & Sullivan.

Trade Barriers

On October 3, 2005, the European Commission began EU accession proceedings with the Republic of Turkey. The process of EU membership is expected to take between ten and fifteen years. Prior to beginning its move towards EU accession, on January 1, 1996, Turkey and the EU formed a customs union. The agreement covers industrial products and processed agricultural goods. The Republic of Turkey adopted the EU's common external tariff (CCT), resulting in lower duties for imports from countries outside the union countries, including the United States. Within the union, there are zero duty rates and no quotas for non-agricultural items of EU and European Free Trade Association (EFTA) origin. The current import regime is organized in five chapters that list more than 20,000 items, identified with 12 digit harmonized tariff system numbers. The Government of Turkey (GOT) estimates that, as a result of its accession to the European Customs Union, the average duty rate for imports from the European Union and EFTA countries has dropped from approximately ten percent to zero. For products imported from countries outside the union countries, including the United States, the average duty rate has dropped from ten percent to approximately 4.1 percent.

Import Tariffs

Import duties are calculated based upon the CIF value. Turkey is a signatory to Article VII of the General Agreements on Tariffs and Trade (GATT). The agreement stipulates that the customs valuation is the transaction value (the price that is actually paid or payable plus costs and expenses). Turkey is also obliged to comply with other Article VII provisions including the rapidity of clearance of goods, currency convertibility, and appeal privileges and rights. Turkish regulations do not allow for advance rulings on customs HS classification or on the applicable import duties on particular products.

Customs surcharges including a value-added tax (VAT) being levied on most imported goods and services. The importer is responsible for paying the VAT. The VAT is calculated based upon a CIF basis plus duty rate and any other applicable charges levied before the goods clear customs. The VAT for most agricultural products (basic food) ranges from one to eight percent and can reach up to 18 percent for certain processed products. Capital goods, certain raw materials, imports by government agencies and state owned enterprises, and investment products with incentive certificates are exempt from import fees.

Import Requirements

The 1996 Turkish import regime abolished the requirement that every importer needs an import license and that the importer must obtain an import authorization from a bank. An importer only needs a tax number to import all but restricted items, e.g., firearms, hazardous materials, etc., which can be imported only by authorized establishments, or for which the approval of the Directorate General of Security is required. All agricultural imports require control certificates, which are issued by the Ministry of Agriculture and Rural Affairs' General Directorate of Protection and Control.

Products requiring after-sales service, such as motor vehicles, household electrical goods, office equipment and computers, cash registers, TV and video equipment, heaters, gas-fired burners, industrial machinery, automobiles, and wireless equipment require an import permit from the Ministry of Industry and Trade. In order to obtain such a permit, importers must guarantee that they will provide after sales services and spare-parts, either by establishing offices or by signing agreements with existing service/parts firms. Requirements regarding the distribution of maintenance facilities within the country varies depending on the type of the product. For certain product groups where maintenance is frequently needed, a wide spread network of maintenance facilities in each of Turkey's seven geographic regions is required. In July 2001, the GOT codified a regulation which requires additional maintenance facilities to be established for companies importing automobiles into the Turkish Republic.

To import products into Turkey, the EU, Norway, Liechtenstein and Iceland, exporters are required to apply CE markings for products covered by specific product legislation. CE marking product legislation offers manufacturers a number of choices and requires decisions to determine which safety/health concerns need to be addressed, which conformity assessment module is best suited to the manufacturing process, and whether or not to use EU-wide harmonized standards.

Consumer Protection

Turkey's new consumer protection law came into effect in May 2014. The new law governs various kinds of consumer transactions and practices concerning consumers, whereas the former law concentrated on goods and services in the market. The new law requires the following:

- In terms of defective goods, law has been amended to mirror the scope of European Council Directive numbered 1999/44 and states that the burden of proof for showing that products are in conformity with the contract of sale is on the seller for six months after the delivery of goods.

- The period applicable to the right of withdrawal of consumers from 7 days to 14 days. Door step sales regulated under the former law are now regulated as off-business premises sales under the new law. It is stated that as these kinds of contracts have a high potential of influencing consumers by using marketing strategies and tools.

- All consumer-related contracts and information notes should be in writing and have at least a font size of 12. The language of the contract should be comprehensible, clear, plain, and legible. Copies of such contracts or information notes should be submitted to consumers in physical or electronic form. If a contract does not contain any of the mandatory provisions, such deficiency shall not affect the validity of the contract; however, it will have to be immediately remedied by the drafting party.

- Payments in instalments are regulated, the new law allows the consumer to withdraw from the sale contract within seven days without providing any reason or paying any penalty.

TECHNICAL STANDARDS IN THE INTERNATIONAL MARKET

According to relevant EU regulations and as advised by our Industry Expert, Frost & Sullivan, any electric two-wheeled vehicles must obtain the CE Marking certificate and EC Type-approval certificate before selling to the European Economic Area and Turkey. CE Marking, affixed on products, are key conformity marking signaling compliance with all applicable EC directives, and enables the free movement of products within the European Economic Area and Turkey; the EC type approval certificate, on the other hand, approves the satisfaction of a particular vehicle, whether unique or not, with the relevant administration provisions and technical requirements of the relevant EU regulations.

All EU member states shall designate relevant accredited technical inspection centers/authorities to test the safety and quality of the products to be imported to their countries and issue the above mentioned international technical inspection certificates. Such certificates, once issued by designated inspection agencies, are recognized in all member states in EU and Turkey.

With respect to our international sales, all of our exported products have obtained CE Marking certificate and EC Type-approval certificate from RDW and TÜV SÜD before selling to European Economic Area and Turkey. RDW is the Department of Road Transport of the Netherlands, the administrative authority in the Netherlands that is responsible for supervising the inspection tests and issuing the international inspection Certificates. It has developed extensive expertise through its years of experience in executing its statutory and assigned tasks in the area of licensing of vehicles and vehicle parts, supervision and enforcement, registration, information provision and issuing documents; TÜV SÜD is an international technical service organization focusing on consulting, testing, certification and training. It is headquartered in Munich, Germany with more than 22,000 employees across 800 locations. TÜV SÜD is designated by Central Authority of the German Federal States for Safety ("ZLS") to issue the relevant certificates.

The Industry Expert, Frost & Sullivan, is of the view that CE Marking and EC Type-approval certificates represent some of the highest standards in the world, and TÜV SÜD and RDW, being the designated technical inspection centers/authorities of EU member states, are internationally recognized testing agencies and are competent to issue CE Marking and EC Type-approval certificates.

I. PRODUCTION LICENSES FOR ELECTRIC BICYCLES

The Regulations of the People's Republic of China on the Administration of Production Licenses for Industrial Products (《中華人民共和國工業產品生產許可證管理條例》) (the "**Production License Regulations**") were promulgated on July 9, 2005 by the State Council and became effective on September 1, 2005 to regulate the quality and safety of products. Subsequently, the Measures for the Implementation of the Regulations of the People's Republic of China on the Administration of Production Licenses for Industrial Products (《中華人民共和國工業產品生產許可證管理條例實施辦法》) (the "**Production License Measures**"), which were promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China ("**AQSIQ**") on September 15, 2005 for the implementation of the Production License Regulations, and the revised version were promulgated on April 21, 2014, and implemented on August 1, 2014. Pursuant to the Production License Regulations and the Production License Measures, relevant authorities above the provincial level are responsible for issuing production licenses to enterprises that engage in the production of various industrial products directly related to public safety, human health and the safety of life and property, such as meat, dairy products, beverages, rice, cooking oil, alcohol, electric blankets, pressure pots, safety helmets, hazardous chemicals as well as their packaging materials and containers. From time to time, the AQSIQ formulates and revises the catalogue for the implementation of the system of production licenses for industrial products. Enterprises which engage in producing products that are listed in the catalogue are required to apply to the competent authorities to obtain a production license. Any enterprises which have not obtained a production license from producing the relevant products. Enterprises which violate the regulation will face warnings, fines, confiscations of illegally manufactured products and the sale proceeds thereof, or suspensions or even closures of their businesses. In cases of serious violations, criminal liability may also be imposed on the violating enterprises. The production licenses are valid for three to five years. Before the expiry of the production licenses, enterprises are required to follow the renewal procedure to renew the licenses in order to continue production.

According to the Announcement of the Product Catalogue Implementing the Production Licensing System (2010 No. 90) (《關於公佈實行生產許可證制度管理的產品目錄的公告》(2010年第90號)) promulgated by the AQSIQ on August 25, 2010, the electric bicycles produced by the Company are classified as electrical bicycles and are listed in the Product Catalogue Implementing the Production Licensing System (《實行生產許可證制度管理的產品目錄》).

II. PRODUCTION LICENSES FOR ELECTRIC SPECIALTY VEHICLES

The Regulations on Safety Supervision of Special Equipment (《特種設備安全監察條例》) (which became effective in 2003 and were revised in 2009) and relevant regulations were promulgated by the State Council. Special equipment refers to boilers, pressure containers (including gas cylinders), pressure pipelines, elevators, lifting machines, passenger ropeways, large amusement facilities and special motor vehicles for special indoor (plant) use, which involve life safety and are associated with elevated degrees of risk. Without approval from the Bureau of Safety Supervision of Special Equipment under the State Council (國務院特種設備安全監察管理局), manufacturers of special equipment, including battery-powered sightseeing vehicles and battery-powered platform trucks, such as sightseeing vehicles for special indoor (plant) use and specialized motor vehicles for special indoor (plant) use, shall not carry out any production and assembly activities.

III. PRODUCTION STANDARDS FOR ELECTRIC BICYCLES

1. Standards for Electric Bicycles

The General Technical Requirements for Electric Bicycles (National Standards, GB17761-1999) (《電動自行車通用技術條件》(國家標準GB17761-1999)), which came into effect in 1999, are the main general standards governing electric bicycles. According to the General Technical Requirements for Electric Bicycles (National Standards, GB17761-1999) (《電動自行車通用技術條件》(國家標準GB17761-1999)) promulgated by the AQSIQ on May 28, 1999 and which came into effect on October 1, 1999, inspections of electric bicycles are divided into ex-factory inspections and type inspections (including periodic inspections and identification inspections), and electric bicycles must pass the inspection by the quality inspection department of the manufacturing plant and obtain an inspection certificate before the bicycles are allowed to leave the factory. Ex-factory inspections are conducted on a one-by-one basis in batches. The ex-factory products must meet the technical requirements for the inspected items or the requirements of the contracts between the purchasers and the suppliers. The National Standards have specified veto items (including maximum speed, braking performance, frame/front fork assembly strength), major items (including vehicle weight, etc.) and general items. A product is considered qualified if its type inspection results meet the following criteria: if its veto items completely meet the standard requirements, if 15 or more of the major items meet the standard requirements, and, simultaneously, if nine or more of the general items meet the standard requirements.

		Provisions of the standards				
Categories of items	**Items inspected**	**Technical requirements**	**Inspection methods**	**Ex-factory inspection**	**Periodic inspection**	**Identification inspection**
Veto items	Maximum Speed	5.1.1	6.1.1	×	✓	✓
	Braking performance	5.2.1	6.2.1	×	✓	✓
	Frame/front fork assembly strength	5.2.2	6.2.2	×	✓	✓
Major items	Overall weight	5.1.2	6.1.2	×	✓	✓
	Pedal riding performance	5.1.3	6.1.3	×	✓	✓
	Riding distance	5.1.4	6.1.4	×	✓	✓
	Maximum cycling noise level	5.1.5	6.1.5	×	✓	✓
	Motor power	5.1.7	6.1.7	×	✓	✓
	Handlebar stem torque	5.2.3.2	6.2.3.2	×	✓	✓
	Horizontal tube and handlebar stem torque	5.2.3.4	6.2.3.4	×	✓	✓
	Handlebar stem and front fork stem torque	5.2.3.5	6.2.3.5	×	✓	✓
	Wheel static load	5.2.4.1	6.2.4.1	×	✓	✓
	Wheel clamping force	5.2.4.2	6.2.4.2	×	✓	✓
	pedal spacing	5.2.5	6.2.5	×	✓	✓
	Seat adjustment clamping strength	5.2.6.2	6.2.6.2	×	✓	✓

Categories of items	Items inspected	Provisions of the standards: Technical requirements	Provisions of the standards: Inspection methods	Ex-factory inspection	Periodic inspection	Identification inspection
	Insulating ability	5.2.8.2	6.2.8.2	✓	✓	✓
	Nominal voltage of the accumulator battery	5.2.8.4	6.2.8.4	✓	✓	✓
	Brake power cut-off device	5.2.8.5	6.2.8.5	✓	✓	✓
	Undervoltage and over-current protection	5.2.8.6	6.2.8.6	✓	✓	✓
	Overall riding requirements	5.5	6.5	×	△	✓
General items	Power consumption per 100 km	5.1.6	6.1.6	×	✓	✓
	Handlebar stem safety line	5.2.3.1	6.2.3.1	×	✓	✓
	Tire width	5.2.4.3	6.2.4.3	×	✓	✓
	Seat tube safety line	5.2.6.1	6.2.6.1	×	✓	✓
	Reflector and horn device	5.2.7	6.2.7	×	✓	✓
	Electrical installations	5.2.8.1	6.2.8.1	×	✓	✓
	Accumulator battery sealing	5.2.8.3	6.2.8.3	×	✓	✓
	Overall requirements	5.3.1	6.3.1	✓	✓	✓
	Wheel rim radial and end circular run-out	5.3.2	6.3.2	×	✓	✓
	Front/rear wheel rim and front fork/frame flat and vertical sides spacing	5.3.3	6.3.3	×	✓	✓
	Front and rear wheel center plane spacing	5.3.4	6.3.4	×	✓	✓
	Physical appearance requirements of vehicles	5.4	6.4	✓	✓	✓
	Manual specifications	5.6	6.6	✓	✓	✓

Remarks:

✓ *represents items that must be inspected;*
△ *represents items that are inspected on an as needed basis; and*
× *represents items that are not required to be inspected.*

The following is a description of the specifications of select items in the above table.

Veto items

Maximum speed: less than 20km/hour

Braking performance: Braking distance in dry conditions and in wet conditions at maximum speed is less than 4m and less than 15m respectively.

Frame/front fork assembly strength:

When a heavy object falls, the permanent distortion of distance between the front and rear axles does not exceed 40mm. No visible cracks are seen in the shock test.

Major items

Overall weight: less than 40kg

Pedal riding performance: Pedal riding distance in 30 minutes shall be no less than 7km.

Nominal voltage of the accumulator battery: less than 48V

According to the Standardization Law of the People's Republic of China (《中華人民共和國標準化法》) and its implementation regulations which was implemented on April 1, 1989, the standards are divided into mandatory standards and recommended standards. Mandatory standards are standards that are formulated for the protection of human health, personal and property safety and standards that are legally enforceable pursuant to legal and administrative regulations, while other standards are recommended standards. Certain standards which apply to electric bicycles are mandatory standards.

The Law of the People's Republic of China on Product Quality (the Product Quality Law) (《中華人民共和國產品質量法》) (the "**Product Quality Law**"), was adopted by the Standing Committee of the National People's Congress on February 22, 1993 and was amended on July 8, 2000 and August 27, 2009, respectively. The Product Quality Law applies to all production and marketing activities in the PRC. This law was made for the purpose of reinforcing the supervision and management of product quality, clarifying product liabilities, protecting the key rights and interests of consumers and maintaining the social and economic order.

The State Council has established a regulatory department to regulate nationwide product quality, while local authorities conduct such duty at the local level. Products for sale must comply with relevant quality and safety standards. Enterprises are prohibited from manufacturing or selling counterfeit products in any way, including counterfeiting brand labels or providing false information in relation to the manufacturers of the products. Failure to comply with national or industry human health standards, and any other relevant violations, may lead to civil liability and penalties, such as damages, fines, suspensions or closures of businesses or confiscations of illegally manufactured and sold products and the sales proceeds thereof. In serious cases of violations, the responsible individuals or enterprises may be held criminally liable. The manufacturers of the products shall pay compensation for the personal and property damages that are caused by the potential defects of the products.

2. Ex-factory Inspections and Quality Control

According to the Bicycle Production License Implementing Regulations (《助力車產品生產許可證實施細則》) (the "**Implementing Regulations**") issued and implemented by the AQSIQ on January 19, 2011 with its appendix revised in March 2014, the Implementing Regulations shall apply to electric bicycles and gasoline bicycles. At the same time, such regulations also require that a bicycle product shall be subject to inspection pursuant to the National Standards before leaving the

factory and the items to be inspected shall include its insulating ability, nominal battery voltage, braking power-off device, undervoltage, over-current protection performance and the product's compliance with the general requirements, the overall appearance requirements and the specifications set out in the manual.

The Notice on the Strengthening the Administration of Electric Bicycles (《關於加強電動自行車管理的通知》) was jointly issued by the Ministry of Public Security of the PRC, the Ministry of Industry and Information Technology of the PRC, the State Administration for Industry and Commerce of the PRC and the AQSIQ on March 18, 2011 to regulate the production, sale and use management of electric bicycles. According to the abovementioned notice, the Provincial General Administration for Quality Supervision and Inspection and Quarantine and the Provincial Industry and Information Technology Department (省質量監督檢驗檢疫局及省工業和信息化廳) shall, among other things, (i) strengthen the supervision and management towards electric bicycle manufacturers and ensure that the manufacturers strictly comply with national production standards and (ii) penalize electric bicycle manufacturers and sellers who fail to meet the National Standards by ordering them to rectify issues of non-compliance within specified periods, imposing fines or revoking their business licenses etc.

According to the Electric Bicycle Technical Safety Requirements (《電動自行車安全技術要求》) (the "**Zhejiang Local Standards**") issued on August 29, 2005 and implemented on October 1, 2005 by the Zhejiang Bureau of Quality and Technical Supervision of the PRC, inspections of electric bicycles are divided into ex-factory inspections and type inspections (including periodic inspections and identification inspections), and electric bicycles must pass the inspection of the quality inspection department of the manufacturing plant and obtain an inspection certificate before the bicycles are allowed to leave the factory. Ex-factory inspections are conducted on a one-by-one basis in batches. The ex-factory products must meet the technical requirements for the inspection items or the provisions of the contracts between the purchasers and the suppliers. The Zhejiang Local Standards have specified veto items (including maximum speed, braking performance, frame/front fork assembly strength), major items (including vehicle weight, etc.) and general items. A product is considered qualified if its type inspection results meet the following criteria: if its veto items completely meet the standard requirements, 13 or more of the major items meet the standard requirements and eight or more of the general items meet the standard requirements.

According to the Notice of the Jiangsu Provincial Government Office on Forwarding the Opinions of the Provincial Public Security Bureau and Other Departments on the Enhancement of Electric Bicycle Management (《江蘇省政府辦公廳轉發省公安廳等部門關於加強電動自行車管理意見的通知》) issued and implemented by the Office of the People's Government of the Jiangsu Province on September 8, 2011, products which are not listed on the "List of Registered Electric Bicycle Production Enterprises and Products in the Jiangsu Province"(《江蘇省電動自行車生產企業及產品備案表》) may not be sold in the Jiangsu Province and may not be registered by the Public Security Department. According to the Notice of the Distribution of the Administrative Measures for the Registration of Electric Bicycles in the Jiangsu Province (《江蘇省電動自行車備案管理辦法》) and the Technical Parameter Standards for the Administration of Registration of Electric Bicycle Products in the Jiangsu Province (For Trial Implementation) (《江蘇省電動自行車產品備案管理技術參數規範(試行)》) issued by the Economic and Information Commission of Jiangsu Province, the Public Security Bureau of Jiangsu Province, the Industrial and Commercial Administrative Bureau of Jiangsu Province and the Quality and Technology Supervision Bureau of Jiangsu Province in December 2011, the overall performance of registered electric bicycle products

must comply with National Standards and meet the requirements set out in the Technical Parameter Standards for the Administration of Registration of Electric Bicycle Products in the Jiangsu Province (For Trial Implementation) (《江蘇省電動自行車產品備案管理技術參數規範(試行)》). The standards set out in the Technical Parameter Standards for the Administration of Registration of Electric Bicycle Products in the Jiangsu Province (For Trial Implementation) (《江蘇省電動自行車產品備案管理技術參數規範(試行)》) are as follows: an electric bicycle product in respect of which registration has been applied for shall, in all respects, be classified to be a qualified product in accordance with the inspection conducted pursuant to the General Technical Requirements for Electric Bicycles (National Standards, GB17761-1999) (《電動自行車通用技術條件》(國家標準GB17761-1999)) whereas its technical parameters must also meet the following requirements: (i) the distance between the centers of its front and back wheels must be less than or equal to 1,350mm; (ii) the widths of its front and rear decorative parts must be less than or equal to 500mm; (iii) the length of its middle axis must be less than or equal to 400mm; (iv) the widths of its front and back tires must be less than or equal to 76.2mm; and (v) its weight (excluding batteries) shall be less than or equal to 55kg.

According to the Notice of the Office of the Peoples' Government of Guangdong Province on the Administrative Measures Concerning Electric Bicycle Manufacturing Enterprises and Product List of Guangdong Province (《廣東省電動自行車生產企業及產品目錄管理辦法》) forwarded to the Provincial Public Security Bureau and other departments, which was issued and implemented by the Office of the People's Government of Guangdong Province on September 30, 2013, a system shall be implemented in the Guangdong Province under which a list of electric bicycles approved for registration shall be announced, and only products that are admitted to the abovementioned list may be registered and be allowed to travel on the roads. Electric bicycle sales units should check and inspect incoming goods in accordance with the abovementioned list and shall not sell products that fail to comply with the various parameters published on the list. Electric bicycles shall conform to the following technical parameters: the maximum speed, overall weight, pedal performance and motor power etc. shall meet the national safety standards and the products should be manufactured in accordance with the national technical standards and the parameters published on the abovementioned list. To date, such a list of electric bicycles in the Guangdong Province has not yet been published.

At present, the local standards have not been formulated in Tianjin. Currently, the standards for the production, ex-factory inspection and quality control of electric bicycles that are implemented in Tianjin are executed with reference to the National Standards.

3. Electric Motorcycle Standards Available for Reference

The Announcement of Approved National Standards (Zong No. 148) (《國家標準批准發佈公告》(總第148號)) issued by the Standardization Administration of the PRC on June 25, 2009 has specified four sets of standards for electric motorcycles and light electric motorcycles (the "**New Standards**"), namely the Safety Requirements for Electric Motorcycles and Light Electric Motorcycles (《電動摩托車和電動輕便摩托車安全要求》) (GB 24155-2009), the Power Performance Test Method for Electric Motorcycles and Light Electric Motorcycles (《電動摩托車和電動輕便摩托車動力性能試驗方法》) (GB/T 24156-2009), the Energy Consumption Rate and Driving Range Test Method for Electric Motorcycles and Light Electric Motorcycles (《電動摩托車和電動輕便摩托車能量消耗率和續駛里程試驗方法》) (GB/T 24157-2009) and the General Technical Requirements on Electric Motorcycles and Light Electric Motorcycles (《電動摩托車和

電動輕便摩托車通用技術條件》(GB/T 24158-2009). However, pursuant to the Notice on the Implementation of Standards Relating to Electric Motorcycles (Guo Biao Wei Gong (2009) N0. 98) (《關於電動摩托車相關標準實施事項的通知(國標委工一[2009]98號)》) issued by the Standardization Administration of the PRC on December 15, 2009, the implementation of the standards involving Light Electric Motorcycles as set out in the New Standards shall be suspended, while amendment work on the General Technical Requirements for Electric Bicycles (National Standards, GB17761-1999) (《電動自行車通用技術條件》(國家標準GB17761-1999)) shall be accelerated.

Pursuant to the General Technical Requirements for Electric Motorcycles and Electric Mopeds (《電動摩托車和電動輕便摩托車通用技術條件》), the implementation of which has been suspended, electric motorcycles are motorcycles driven by electricity and are divided into electric two-wheel motorcycles and electric tricycles: (i) electric two-wheel motorcycles are two-wheel motorcycles driven by electricity with a maximum speed of over 50 km per hour; and (ii) electric tricycles are tricycles driven by electricity with a maximum speed of over 50 km per hour and an overall weight of not over 400 kg. Light electric motorcycles are light motorcycles driven by electricity and are divided into light electric two-wheel motorcycles and light electric tricycle motorcycles: (i) light electric two-wheel motorcycles are driven by electricity with a maximum speed of over 20 km per hour but not over 50 km per hour; and (ii) light electric tricycle motorcycles are driven by electricity with a maximum speed of not over 50 km per hour and an overall weight not over 400 kg.

IV. REQUIREMENTS RELATING TO THE LICENSING OF AND ROAD USE BY ELECTRIC TWO-WHEELED VEHICLES

The Road Traffic Safety Law was adopted on October 28, 2003 and came into effect on May 1, 2004. It was last amended on April 22, 2011, and the amended Road Traffic Safety Law came into effect on May 1, 2011.

The Road Traffic Safety Law distinguishes "non-motorized vehicles" from "motorized vehicles". According to Article 119 of the Road Traffic Safety Law, "non-motorized vehicles" refer to such means of transport as are driven or drawn by man or animals on roads, motor wheelchairs for the disabled and electrically operated bicycles which have power sets but the designed maximum speed per hour, the light quality and the external size of which are in conformity with the relevant PRC standards for non-motorized vehicles. As such, the electric bicycles are categorized as "non-motorized vehicles", while the electric motorcycles are "motorized vehicles". The Road Traffic Safety Law has different requirements for non-motorized vehicles and motorized vehicles, such as regards driver qualification (motorized vehicle drivers are required to have a driver's license, while drivers of non-motorized vehicles are not), driving requirements (motorized vehicles are required to be driven in road lanes, while non-motorized vehicles and pedestrians are required to use the sides of roads), and license plate requirements (motorized vehicles are acquired to have a license plate hung in a certain way in accordance with relevant regulations, while no such requirement is imposed on non-motorized vehicles).

Also, according to article 18 of the Road Traffic Safety Law, the non-motorized vehicles that are required to register can be used on the roads only after registering with the government. In addition, the scope of such non-motorized vehicles shall be specified by local governments based on local conditions, and any non-motorized vehicles should meet the technical standards in terms of overall weight, braking performance, overall size and reflector and horn device.

A number of local governments in the PRC, including the municipal governments of Guangzhou Shenzhen, Dongguan, Zhuhai and Xiamen, have promulgated rules and regulations (provisions) which, among other things, completely prohibit the riding of electric bicycles/electric scooters and the riding of non-local electric two-wheeled vehicles in prescribed districts, and also restrict the usage of electric two-wheeled vehicles. Pursuant to the Road Traffic Safety Administrative Provisions of the Shenzhen Special Economic Zone (《深圳經濟特區道路交通安全管理條例》) promulgated on October 31, 2011 and amended on December 25, 2012 by the Shenzhen People's Congress, no electric bicycles or electric scooters shall be used on the roads. Pursuant to the Registration Measures for Electric Bicycles in Xiamen (《廈門市電動自行車登記辦法》) which were promulgated by the Public Security Bureau of Xiamen on January 30, 2012 and which came into effect on March 1, 2012, electric bicycles are prohibited from travelling in the Huli District and the Siming District. Pursuant to the Notice on the Distribution of the Plans for Refusal of Registration and Road Use by Electric Bicycles in Dongguan from the Dongguan People's Government of the Guangdong Province (《廣東省東莞市人民政府關於印發東莞市電動自行車不予登記、不准上路行駛實施方案的通知》) issued and implemented by the Dongguan People's Government of Guangdong Province on July 25, 2007, it is the spirit of the Reply on the Prohibition of Electric Bicycles from Registration and Road Use in Dongguan (Yue Fu Han (2007) No. 146) (《關於東莞市不准予電動自行車登記上路行駛問題的批覆》(粵府函[2007]146號)) issued by the provincial government that no electric bicycles shall be registered or used on the roads within the entire city.

The local governments in other parts of the PRC, such as Beijing, Shenyang, Nanjing, Shanghai, Hefei, Wuhan, Chongqing, Changsha, Guiyang, Haikou and Sanya, (i) require that dealers shall apply to the relevant traffic control departments for the approval of the sale of electric two-wheeled vehicles (generally referred to as "admission to the relevant list"); (ii) require that end customers shall register their electric two-wheeled vehicles (generally referred to as "being licensed"); and (iii) restrict or prohibit the sale and /or use of electric two-wheeled vehicles which fail to conform to the standards required for electric two-wheeled vehicles. For instance, the Administrative Measures for Non-Motor Vehicles in Shanghai (《上海市非機動車管理辦法》) promulgated by the People's Congress of Shanghai on October 20, 2013 stipulates that any non-motor vehicles sold in Shanghai shall be registered with the relevant authorities. Under the Administrative Measures for Electric Bicycles in Fuzhou (《福州市電動自行車管理辦法》) which were promulgated in Fuzhou on April 16, 2010 and which took effect on May 20, 2010, sale of electric vehicles which fail to conform to National Standards shall be prohibited, and electric two-wheeled vehicles shall be registered by their end-users. Pursuant to provisions of the Notice on Further Strengthening the Administration of Electric Bicycles in Wuhan (《武漢市關於進一步加強電動自行車管理的通告》) and the Administrative Measures for the Registration and Licensing of Electric Bicycles in Wuhan (《武漢市電動自行車登記上牌目錄管理辦法》), electric bicycles within the administrative region of this city shall be registered, and, according to the relevant requirements, "non-compliant vehicles" shall not be registered and shall be prohibited from travelling on the roads.

Henan, Hebei and Jilin Provinces have not promulgated provincial regulations that prohibit the travelling of electric bicycles within each of the abovementioned provincial areas or require that they shall only travel on the roads after being registered.

V. LAWS AND REGULATIONS IN RELATION TO PRODUCTION SAFETY

Pursuant to the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》) which took effect on November 1, 2002 and which was amended on August 31, 2014, the State Administration of Work Safety (國家安全生產監督管理總局) is in charge of the overall administration

of work safety. This law provides that units engaged in manufacturing business activities shall conform to the national or industry standards formulated for the protection of production safety, and shall meet the criteria for production safety as stipulated in the legal and administrative regulations and in the national or industry standards. Enterprises shall take necessary measures to set up and maintain proper equipment, monitor production safety procedures, designate specific personnel, conduct on-site training and take all other measures required by law to ensure the safety of employees and the public. Responsible persons who, or enterprises which, fail to perform the production safety management duties shall be ordered tomake rectifications within prescribed periods and/or pay fines. Parties who fail to rectify within such prescribed periods will be ordered to suspend production and business for rectification. In serious cases of violations involving production safety accidents, the responsible persons shall be held criminally liable.

VI. LAWS AND REGULATIONS RELATING TO THE IMPORTS AND EXPORTS OF PRODUCTS

The Foreign Trade Law of the People's Republic of China (《中華人民共和國對外貿易法》), which was promulgated on May 12, 1994 and revised on April 6, 2004, and the Measures for the Archival Filing and Registration of Foreign Trade Operators (《對外貿易經營者備案登記辦法》), which were promulgated by the Ministry of Commerce of the PRC on June 25, 2004 and became effective on July 1, 2004, require that foreign trade operators who engage in the import and export of goods or technologies shall file a registration with the Ministry of Commerce of the PRC or an institution authorized by the Ministry of Commerce of the PRC. In addition, if a company imports or exports goods as a consignor or a consignee, it shall register with the local customs authority and obtain the People's Republic of China Customs Declaration Registration Certificate for Consignors and Consignees (《中華人民共和國海關進出口貨物收發貨人報關註冊登記證書》) pursuant to the Provisions for the Registration of Customs Declaration Agents (《中華人民共和國海關對報關單位註冊登記管理規定》), which were promulgated on March 31, 2005 and became effective on June 1, 2005. The Provisions of the People's Republic of China for the Administration of Registration of Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》), which were promulgated and took effect on March 13, 2014, repealed the foregoing regulations but remained the registration requirement for the customs declaration enterprises.

Pursuant to the Law of the People's Republic of China on Import and Export Commodity Inspection (《中華人民共和國進出口商品檢驗法》), which was promulgated by the Standing Committee of the National People's Congress on February 21, 1989 and revised on June 29, 2013, and the Regulations for the Implementation of the Law of the People's Republic of China on Import and Export Commodity Inspection (《中華人民共和國進出口商品檢驗法實施條例》), which were approved by the State Council on August 10, 2005, became effective on December 1, 2005 and were amended on July 18, 2013, the AQSIQ shall take charge of the inspections of import and export commodities nationwide, while local inspection authorities shall administer the inspections of import and export commodities in the regions they are responsible for. The content of the inspections shall include items such as quality, specifications, quantity, weight and packaging, as well as compliance with requirements such as safety, hygiene, health, environmental protection, prevention of fraud. In addition, the inspections are regulated by the inspection standards specified under the laws.

VII. LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Pursuant to the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), which was promulgated and became effective on December 26, 1989, and was amended on

April 24, 2014, the Environmental Protection Administrative Department of the State Council shall establish national standards for environment quality. Provinces, autonomous regions and centrally administered municipalities may establish local environment quality standards with regard to items that have not been specified in the national standards, and shall submit the standards to the Environmental Protection Administrative Department of the State Council for record.

Pursuant to the Law of the People's Republic of China on Appraising of Environment Impacts (《中華人民共和國環境影響評價法》), which was promulgated on October 28, 2002 and became effective on September 1, 2003, construction units shall, prior to the commencement of the construction projects, prepare an environmental impact report stating the possible impacts that the construction projects may have on the environment or measures for preventing or lessening the impacts, and submit such report to the governmental department(s) for approval. New facilities that are constructed in accordance with the approval shall not be put into operation until the relevant department(s) is/are satisfied that the environmental quality standards have been complied with.

Pursuant to the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》), which were promulgated on November 29, 1998 by the Standing Committee of the National People's Congress and became effective on November 29, 1998, a construction project must undergo an environmental impact assessment, obtain the environmental impact assessment approval, and be subject to an examination in accordance with the environmental quality standards. An environmental impact report in respect of the construction project must be submitted to the Environmental Protection Administrative Department prior to the construction of new facilities and the expansions or alterations of existing facilities, which may cause material impacts on the environment. New production facilities shall not commence operation until the relevant department(s) is/ are satisfied that the relevant environmental quality standards have been complied with. Environmental protection facilities should be designed and constructed and should commence operation simultaneously with the construction of the main projects.

The Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) was approved by the Standing Committee of the National People's Congress on May 11, 1984 and revised on May 15, 1996 and February 28, 2008. Such law implements the licensing system for pollution discharge. Enterprises and institutions which directly or indirectly discharge industrial waste water or medical sewage to the water bodies shall obtain the pollution discharge license before discharging waste water and sewage water. All enterprises and institutions are prohibited from discharging the above-mentioned waste water and sewage to the water bodies where they do not hold a pollution discharge license or where performing the above discharge would violate the terms of the pollutant discharge license.

Pursuant to the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), which was promulgated by the Standing Committee of the National People's Congress on December 29, 2004 and became effective on April 1, 2005, and was amended on April 24, 2015 the State Council shall adopt economic and technological policies and measures which could be extensively implemented, recalled in full and properly utilized. Manufacturers, distributors, importers and users shall be responsible for the prevention and control of the solid waste pollution.

Pursuant to the Prevention and Technological Policies for Pollution of Hazardous Waste (《危險廢物污染防治技術政策》), which was promulgated by Ministry of Environmental Protection of the PRC on

December 17, 2001, and the Prevention and Technological Policies for Pollution of Waste Batteries (《廢電池污染防治技術政策》), which was promulgated by Ministry of Environmental Protection of the PRC on October 9, 2003, waste lead-acid batteries shall be recycled and shall not be disposed of in other ways. The collection and delivery of waste lead-acid batteries shall be within the scope of hazardous waste management. Furthermore, the Prevention and Technological Policies for Pollution of Used Batteries (《廢電池污染防治技術政策》) further stipulates that manufacturers and importers of rechargeable batteries, such as lead-acid batteries and lithium-ion batteries, and manufactures who manufacture products by using rechargeable batteries shall be responsible for the recycling of waste batteries. The responsible parties shall direct and arrange for the establishment of a recycling system for waste batteries in accordance with the marketing channels for their own products or appoint relevant entities under the recycling system to carry out the recycling effectively.

VIII. LAWS AND REGULATIONS RELATING TO PATENT

Protection under the Patent Law

Pursuant to the People's Republic of China Patent Law (《中華人民共和國專利法》), which was promulgated on March 12, 1984 (as amended on August 25, 2000 and December 27, 2008) and the Implementation Regulations of the Patent Law of the People's Republic of China (《中華人民共和國專利法實施細則》), which were promulgated on June 15, 2001 (as amended on December 28, 2002 and January 9, 2010), there are three categories of patent protection: invention patent protection, utility model patent protection and design patent protection. Invention patents provide protection to new technical solutions or measures relating to a product, a process or improvement thereof. Patents for utility model provide protection to new technical solutions or measures relating to the shape, the structure, or their combination, of a product, which are fit for practical use. Design patents provide protection to new designs of the shape, pattern, color, or their combination, of a product, which create an aesthetic feeling and are fit for industrial application.

Invention Patents

A product for which the invention patent protection is applied shall possess such features as novelty and originality, and it shall comply with the requirement that it has not previously been publicly disclosed and published in any publications. After receiving an application for an invention patent, the patent administration authority shall normally make an announcement on the date falling 18 months after the patent application date. Upon the request of the applicant, the patent administration authority may announce the patent application on an earlier date. Within three years from the date of application for the invention patent, the patent administration authority may conduct a substantive examination for the application upon a request made by the applicant at any time. If necessary, and if the patent administration authority can find no reasons for rejecting the invention patent application after conducting a substantive examination, the authority will make the decision to grant the invention patent right, issue an invention patent certificate, make an announcement of the grant and register the invention patent. The invention patent shall be valid for 20 years from its date of application.

Once an invention patent is granted, unless otherwise stated by the laws, and without the authorization of the patentee, no individual or entity shall manufacture, use, sell or import the products protected under such patent, or manufacture, use, sell or import the products obtained directly from the production technologies or methods protected under such patent.

Utility Model Patents

A product for which the utility model patent protection is applied shall possess such features as novelty and originality. If the patent administration authority can find no reasons for rejecting a utility model patent application after conducting a preliminary examination, the authority will make the decision to grant the utility model patent right and register the utility model patent. The utility model patent shall comply with the requirement that it has not previously been publicly disclosed and published in any publications. The utility model patent shall be valid for 10 years from its date of application.

Once a utility model patent is granted, unless otherwise stated by the laws, and without the authorization of the patentee, no individual or entity shall manufacture, use, sell or import the products protected under such patent, or manufacture, use, sell or import the products obtained directly from the production technologies or methods protected under such patent.

Design Patents

A product for which the design patent protection is applied shall not be identical or similar to designs which have previously been published, or used by the public, in the PRC, nor shall they infringe any legal interests of a third party. The application procedures and protection periods are the same as those for utility model patents. Once a design patent is granted, without the authorization of the patentee, no individual or entity shall manufacture, sell or import the products protected under such patent.

IX. LAWS AND REGULATIONS RELATING TO TRADEMARKS

The People's Republic of China Trademark Law (《中華人民共和國商標法》) was promulgated in 1982 and revised on October 27, 2001 and August 30, 2013, and the Implementation Regulations for the People's Republic of China Trademark Law (《中華人民共和國商標法實施條例》) were promulgated on August 3, 2002, and were revised on April 29, 2014. These laws provide a basic legal framework for the regulation of trademarks in the PRC. The Trademark Office of SAIC under the State Council ("**Trademark Office**") is responsible for the registration and administration of trademarks in China.

The PRC laws provide that the following acts constitute infringement of the exclusive right to use a registered trademark:

- use of a trademark that is identical with or similar to a registered trademark in respect of the same type of commodities or similar commodities without the authorization of the trademark registrant;

- sale of commodities that infringe the exclusive right to use the registered trademark;

- counterfeiting or making, without authorization, representations with regard to a registered trademark of another person, or the marketing of such representations regarding a registered trademark in selling a product;

- replacing a registered trademark and putting on the market a product on which the registered trademark has been replaced, without the consent of the trademark registrant; and

- causing other damage to the exclusive right to use the registered trademark of another person.

X. LAWS AND REGULATIONS RELATING TO CURRENCY EXCHANGE

Renminbi is not presently a freely convertible currency. Under the current PRC regulations, conversion of Renminbi is permitted in the PRC for general foreign exchange transactions for entrant projects (進場項目), including trading and service-related foreign exchange transactions, payment of dividends and repayment of foreign debts. Conversion of Renminbi for most capital terms, such as direct investments, investments in the PRC securities markets and round-trip investments, however, is still subject to approval from the SAFE.

The Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents Engaging in Overseas Investment Financing and Inbound Investment via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投、融資及返程投資外匯管理有關問題的通知》) was promulgated by the SAFE on July 4, 2014 to supersede Notice No.75. The new notice refined and made adjustments to matters such as the registration procedures and standard. The new notice specifies that the circumstances under which registration was required under the preceding Notice No. 75 continue to apply under the new notice. Relevant registrations made prior to the promulgation of the new notice must comply with Notice No.75 which was effective at the time of such registrations. Persons who fulfill the registration criteria but who have not registered are prohibited from engaging in foreign exchange transactions and are subject to penalties and even criminal liability if they violate this prohibition. In accordance with the above mentioned administration regulations, foreign-invested enterprises may trade or remit foreign currencies for non-recurring items through banks that are authorized to conduct foreign exchange transactions in China and are subject to certain procedural requirements, such as the submission of valid preliminary commercial documents. Obtaining an approval from the SAFE is the preliminary requirement for most capital transactions. Capital investments conducted by foreign-invested enterprises outside of the PRC are still subject to the regulations of of the PRC, such as the requirement to obtain prior approvals for certain transactions from the Ministry of Commerce of the PRC, the SAFE and the NDRC.

XI. RESTRICTIONS ON CERTAIN DOMESTIC AND FOREIGN TRANSACTIONS

Special Requirements for the Registration of Foreign Exchange

Notice No. 75 was promulgated by the SAFE in October 2005 and became effective on November 1, 2005. It requires that a domestic resident (whether a natural person or a legal person) who, using domestic corporate assets or equities held by such person, establishes or controls a foreign enterprise for the purpose of equity financing, must register such arrangement with the SAFE in the respective region.

The Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engaging in Overseas Investment Financing and Inbound Investment via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投、融資及返程投資外匯管理有關問題的通知》) was promulgated by the SAFE on July 4, 2014 to supersede Notice No. 75. The new notice refined and made adjustments to matters such as the registration procedures and standard. The abovementioned No. 75 Notice specifies that the circumstances under which registration is required continue to apply under the new notice. Relevant registrations prior to the promulgation of the new notice shall comply with the No. 75 Notice which was still effective at the time of the registration. Any persons who fulfill the registration criteria but who have not registered will be prohibited from engaging in foreign exchange swaps, and are subject to penalties and even criminal liability.

Special Requirements for Mergers and Acquisitions Conducted by Foreign Investors

The Regulations for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "**Order No. 10**") were jointly issued by MOFCOM, SASAC, SAT, SAIC, CSRC and SAFE on August 8, 2006 and became effective on September 8, 2006. They were revised by MOFCOM on June 22, 2009.

According to the Order No. 10, where a domestic entity or natural person, in the name of an entity that such person has legally established or controlled outside of the PRC, merges with such person's or entity's affiliated company within the PRC, that such person or entity is required to report the arrangement to MOFCOM for approval. The Regulations for the Alteration of Investors' Equity Interests in a Foreign-Invested Enterprise (《外商投資企業投資者股權變更的若干規定》) promulgated on May 28, 1997 is applicable to other transactions, including such reorganizations.

XII. LAWS AND REGULATIONS RELATING TO LABOR AND SOCIAL INSURANCE

The Labor Law of the People's Republic of China (《中華人民共和國勞動法》) was promulgated on July 5, 1994 by the Standing Committee of the National People's Congress and revised on August 27, 2009. It became effective on January 1, 1995. The People's Republic of China Employment Contract Law (《中華人民共和國勞動合同法》) was promulgated on June 29, 2007 by the Standing Committee of the National People's Congress. It became effective on January 1, 2008 and was revised on December 28, 2012, and the revision took effect from July 1, 2013. Pursuant to the above mentioned laws, any persons who have established an employment relationship must enter into an employment contract within one month of the commencement of employment, or the employer shall be required to pay the employee a monthly salary which is two times the original salary. Labor contracts are classified into three categories: fixed-term labor contracts, non-fixed-term labor contracts and labor contracts with terms subject to the completion of specific tasks. An employee who has worked for an employer for 10 consecutive years, or who has entered into a fixed-term labor contract twice consecutively and intends to renew the labor contract must enter into a non-fixed-term labor contract.

Pursuant to the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) (the "**New Social Insurance Law**"), which was promulgated on October 28, 2010 and implemented on July 1, 2011 by the Standing Committee of the National People's Congress, the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), which were promulgated and implemented by the State Council on January 22, 1999, the Trial Measures on Maternity Insurance for Employees of Enterprises (《企業職工生育保險試行辦法》), which were promulgated by the former Ministry of Labor of the PRC on December 14, 1994 and implemented on January 1, 1995, the Regulations on Management of Housing Provident Funds (《住房公積金管理條例》), which were promulgated by the State Council and implemented on April 3, 1999 and revised on March 24, 2002, the Regulations on Work-Related Injury Insurance (《工傷保險條例》), which were promulgated by the State Council on April 27, 2003 and implemented on January 1, 2004 and revised by the State Council on December 20, 2010, and the pension, medical and unemployment insurance regulations of each province and municipality, employers must pay pension insurance, basic medical insurance, unemployment insurance, injury insurance, maternity insurance and make housing fund contributions for their employees. Employers who have not fully paid the social insurance premium on a timely basis since the New Social Insurance Law became effective, may be ordered by the social insurance premium collection agency to pay up the premiums and to pay a penalty calculated at the rate of 0.05% of the premium amount per day accruing from the date of non-payment. Any person failing to pay the overdue balance is subject to a penalty in an amount that is more than double but less than three times the overdue amount.

XIII. LAWS AND REGULATIONS RELATING TO TAXATION

Enterprise Income Tax

Pursuant to the Enterprise Income Tax Law of the People's Republic of China (the "**Enterprise Income Tax Law**") (《中華人民共和國企業所得税法》), which was promulgated on March 16, 2007 and became effective on January 1, 2008, and the Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得税法實施條例》) (the "**Implementation Rules of the Enterprise Income Tax Law**"), which were promulgated on December 6, 2007 and became effective on January 1, 2008, a unified income tax rate of 25% is applicable to enterprises in the PRC and the foreign-invested enterprises and foreign enterprises which have established entities or offices in the PRC.

The preferential tax rates of 15% will apply to companies qualifying as new and high technology enterprises according to relevant PRC laws. In order to qualify as a new and high technology enterprise, companies must satisfy certain criteria including:

(i) Possess core intellectual property rights in China,

(ii) Offer products (services) falling with a category supported by the State,

(iii) Attain the ratio of the scientific and technical personnel with an educational background of junior college or higher to the total staff of at least 30 % in that current year, and have over 10% of its staff in that current year engaged in research and development,

(iv) Have research and development expenses of not less than 6% of its revenue if its annual revenue from the most recent year is less than RMB50 million, not less than 4% if its annual revenue from the most recent year is between RMB50 million and RMB200 million and not below 3% if its annual revenue from the most recent year is greater than RMB200 million; and at least 60% of its total research and development expenses must be incurred in China, and

(v) The company must generate more than 60% of its annual revenue from sales of high-tech products or services.

Value-added Tax

The Provisional Regulations on Value-added Tax of the People's Republic of China (《中華人民共和國增值税暫行條例》), which became effective on January 1, 2009, and the Implementation Rules for the Provisional Regulations on Value-added Tax of the People's Republic of China (《中華人民共和國增值税暫行條例實施細則》), which were amended on October 28, 2011, are applicable to domestic enterprises and foreign-invested enterprises that engage in the sale of goods, the provision of processing or maintenance services or the import of goods into the PRC. Value-added tax ("**VAT**") payable is calculated as output VAT minus input VAT. The input VAT payable during purchases by a company can be recovered from the output VAT received from its customers. Any portion for which the output VAT exceeds input VAT is payable to the tax authority. The standard VAT rate is 17%, whereas the VAT rate with respect to certain categories of goods for sale or imported goods is 13%.

OUR HISTORY

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on July 17, 2014. We are a leading electric two-wheeled vehicle brand in China. We focus on designing, researching, developing and selling electric two-wheeled vehicles, which include electric scooters and electric bicycles.

Prior to 1997, Mr. Dong and Ms. Qian were employed at a motorcycle factory for six years and four years, respectively, where they acquired relevant industry knowledge and experience. Foreseeing a development trend in green energy and great potential for energy efficient vehicles, as well as a market demand for electric vehicles as a means of transportation, Mr. Dong and his spouse, Ms. Qian, formed a working group in 1997 to acquire a deeper understanding of the electric vehicle industry. Mr. Dong and Ms. Qian also began frequently attending industry related seminars and conferences to expand their networks and acquire the latest industry knowledge and resources. Following the development and growth of the working group, Mr. Dong and Ms. Qian established Jiangsu Yadea in 2001 (then named Wuxi Dongshi Vehicle Industry Co., Ltd. (無錫董氏車業有限公司)) with their personal funds to engage in the production and sales of electric vehicles.

Our Milestones

The following is a summary of the key development milestones of our Group:

Year		Event
2001	June	• Jiangsu Yadea, the first PRC subsidiary of the Group, was established as Wuxi Dongshi Vehicle Industry Co., Ltd (無錫董氏車業有限公司)
2007	April	• Yadea Import Export was established and we began our expansion into international markets
	November	• Jiangsu Yadea was recognized as a "Jiangsu Engineering Research Center for Electric Vehicles (江蘇省電動車工程技術研究中心)" by Jiangsu Department of Science and Technology (江蘇省科學技術廳) and Jiangsu Department of Finance (江蘇省財政廳)
2008	May	• Jiangsu Yadea became an electric bicycle technology committee unit member of the Bicycle Committee for Standardization of the China National Bicycle Association (全國自行車標準化委員會電動自行車分技術委員會單位)
2009	December	• Acquisition of Zhejiang Yadea by our Group
2012	August	• Zhejiang Yadea obtained the license for production of electric motorcycles, being the first company in the electric two-wheeled vehicle industry to obtain such license according to Frost & Sullivan

Year		Event
2013	September	• Yadea Group released Internet of Things electric two-wheeled vehicles, and was selected as the only enterprise representative in the electric two-wheeled vehicle industry to contribute to the compilation of the standard specifications related to the Internet of Things electric two-wheeled vehicle application platform technology
2014	July	• Expansion of our Wuxi facility which increased our Group's production capacity for electric scooters
	October	• The Company entered into the [**REDACTED**] Share Subscription Agreement with the First [**REDACTED**] Investor, a wholly-owned subsidiary of the Goldman Sachs Group, Inc.
2015	April	• Expansion of our Tianjin facility which has increased our Group's production capacity of electric bicycles
	June	• The First [**REDACTED**] Investor transferred a total of 438 Series A Preferred Shares to the Second [**REDACTED**] Investor pursuant to the series A Preferred Shares Transfer Agreement
		• We entered into a strategic cooperation agreement with Lightning Motors, a U.S. company specializing in researching and developing advanced electric two wheeled vehicles, to jointly develop and produce high-end products
	December	• We acquired approximately 11.1% of Lightning Motors

OUR SUBSIDIARIES ESTABLISHED IN THE PRC

Our operating subsidiaries in the PRC include Yadea Group, Jiangsu Yadea, Tianjin Industry, Tianjin Weiye, Yadea Import Export, Zhejiang Yadea, Guangdong Yadea, Jiangsu Xindi, Yadea Sales, Shanghai Yadea and Guangdong Yadea Motorcycle.

Yadea Group

Yadea Group was established on December 17, 2010 as Jiangsu Yadea Investment Co., Ltd. (江蘇雅迪投資有限公司) by Mr. Dong (as to 60%) and Ms. Qian (as to 40%) with a registered capital of RMB100,000,000, which was fully paid up at the time of establishment. Yadea Group was renamed Yadea Technology Group Co., Ltd. (雅迪科技集團有限公司) on August 11, 2011. Yadea Group is the holding company of all of our operating subsidiaries in the PRC and is principally engaged in the production of our electric scooters.

Jiangsu Yadea

Jiangsu Yadea was established on June 20, 2001 as Wuxi Dongshi Vehicle Industry Co., Ltd. (無錫董氏車業有限公司) by Mr. Dong (as to 90%) and Mr. Huiyu Qian (錢惠裕)[(1)] (as to 10%) with a registered capital of RMB500,000, which was fully paid up at the time of establishment. In preparation for the acquisition of a certain land parcel by Jiangsu Yadea, the registered capital was increased to RMB80,000,000 on November 11, 2008 after several capital increases, and each increase in registered capital was fully paid up by the time of the increase. The registered capital was subsequently decreased to RMB30,000,000 on June 25, 2009 after Jiangsu Yadea decided not to proceed with the acquisition of such land parcel. The registered capital was subsequently increased to RMB140,000,000 and RMB250,000,000 on June 7, 2010 and September 9, 2010, respectively, in preparation for the acquisition of a certain land parcel by Jiangsu Yadea. The increases in registered capital were fully paid up by the time of each increase.

Jiangsu Yadea was renamed as Jiangsu Dongshi Yadea Technology Development Co., Ltd. (江蘇董氏雅迪科技發展有限公司) on December 22, 2005 and Jiangsu Yadea Technology Development Co., Ltd. (江蘇雅迪科技發展有限公司) on December 18, 2006.

On June 30, 2014, to streamline the business of the Group in order to focus our resources on our core business activities, namely the production of electric two-wheeled vehicles and ancillary products, Jiangsu Yadea was demerged into Jiangsu Yadea and Jiangsu Yadea Investment Co., Ltd. (江蘇雅迪投資有限公司), with the latter holding its non-core assets unrelated to our core business activities, including bank investments and investments in certain small loan companies. Due to the demerger of Jiangsu Yadea, the registered capital of Jiangsu Yadea was decreased from RMB250,000,000 to RMB150,000,000. Please refer to the sub-section headed "— Reorganization — Onshore Reorganization — Step 1: Disposal of the non-core assets of Jiangsu Yadea by way of demerger" in this section for details of the demerger.

On July 10, 2014, Mr. Dong and Mr. Huiyu Qian (錢惠裕)[(1)] transferred each of their respective equity interests in Jiangsu Yadea to Yadea Group for a consideration of RMB135,000,000 and RMB15,000,000, respectively, as part of the Reorganization. The considerations for the transfers were fully settled on December 23, 2014 and were determined with reference to the registered capital of Jiangsu Yadea at the time of the transfers. Following the transfers, Jiangsu Yadea became wholly owned by Yadea Group.

Jiangsu Yadea is principally engaged in the sales of our electric two-wheeled vehicles, and was previously principally engaged in the production of our electric scooters and electric specialty vehicles.

Note:

(1) To facilitate his assistance to Ms. Qian in relation to the administration of the corporate matters of Jiangsu Yadea, Mr. Huiyu Qian (錢惠裕), the father of Ms. Qian, held his equity interest in Jiangsu Yadea for the benefit of Ms. Qian until the relevant transfer to Yadea Group in July 2014. Ms. Qian was entitled to all of the rights and obligations arising from such equity interest held by Mr. Huiyu Qian (錢惠裕) in Jiangsu Yadea.

Tianjin Industry

Tianjin Industry was established on January 25, 2011 by Mr. Dong (as to 25%), Ms. Qian (as to 25%) and Yadea Group (as to 50%) with a registered capital of RMB50,000,000, of which RMB10,000,000 was paid up at the time of its establishment and RMB40,000,000 was paid up on January 19, 2013.

On May 15, 2011, Ms. Qian transferred a 5% equity interest in Tianjin Industry to Yadea Group for a consideration of RMB2,500,000 as part of our internal shareholding restructuring. The consideration for the transfer was fully settled on December 23, 2014 and was determined with reference to the registered capital of Tianjin Industry at the time of the transfer. Following the transfer, Tianjin Industry was held as to 25%, 20% and 55% by Mr. Dong, Ms. Qian and Yadea Group, respectively.

On August 22, 2014, Mr. Dong and Ms. Qian transferred each of their respective equity interests in Tianjin Industry to Yadea Group for a consideration of RMB12,500,000 and RMB10,000,000, respectively, as part of the Reorganization. The considerations for the transfers were fully settled on December 23, 2014 and were determined with reference to the registered capital of Tianjin Industry at the time of the transfers. Following the transfers, Tianjin Industry became wholly owned by Yadea Group.

Tianjin Industry is principally engaged in the production of our electric bicycles.

Tianjin Weiye

Tianjin Weiye was established on August 25, 2009 by Mr. Dong (as to 80%) and Ms. Qian (as to 20%) with a registered capital of RMB500,000, which was fully paid up at the time of its establishment.

On April 29, 2011, Mr. Dong transferred a 55% equity interest in Tianjin Weiye to Yadea Group for a consideration of RMB275,000 as part of our internal shareholding restructuring. The consideration for the transfer was fully settled on December 23, 2014 and was determined with reference to the registered capital of Tianjin Weiye at the time of the transfer. Following the transfer, Tianjin Weiye was held as to 25%, 20% and 55% by Mr. Dong, Ms. Qian and Yadea Group, respectively.

On August 22, 2014, Mr. Dong and Ms. Qian transferred each of their respective equity interests in Tianjin Weiye to Yadea Group for a consideration of RMB125,000 and RMB100,000, respectively, as part of the Reorganization. The considerations for the transfers were fully settled on December 23, 2014 and were determined with reference to the registered capital of Tianjin Weiye at the time of the transfers. Following the transfers, Tianjin Weiye became wholly owned by Yadea Group.

Tianjin Weiye is principally engaged in the production of our electric bicycle parts.

Yadea Import Export

Yadea Import Export was established on April 5, 2007 by Ms. Qian (as to 60.8%) and Ms. Jinmei Zhu (朱金妹)[(1)] (as to 39.2%) with a registered capital of RMB510,000, which was fully paid up at the time of its establishment.

On December 30, 2010, Ms. Qian and Ms. Jinmei Zhu (朱金妹)[(1)] transferred a 30.8% equity interest and a 20.2% equity interest, respectively, in Yadea Import Export to Yadea Group for a consideration of RMB157,000 and RMB103,100, respectively, as part of our internal shareholding restructuring. The considerations for the transfers were fully settled on December 23, 2014 and were determined with reference to the registered capital of Yadea Import Export at the time of the transfers. Following the transfers, Yadea Import Export was held as to 30%, 19% and 51% by Ms. Qian, Ms. Jinmei Zhu (朱金妹)[(1)] and Yadea Group, respectively.

On June 25, 2014, Ms. Qian and Ms. Jinmei Zhu (朱金妹)[(1)] transferred each of their respective equity interests in Yadea Import Export to Yadea Group for a consideration for RMB153,000 and RMB96,900, respectively, as part of the Reorganization. The considerations of the transfers were fully settled on December 23, 2014 and were determined with reference to the registered capital of Yadea Import Export at the time of the transfers. Following the transfers, Yadea Import Export became wholly owned by Yadea Group.

Yadea Import Export is principally engaged in the export sales of our electric two-wheeled vehicles.

Zhejiang Yadea

Since its location and facilities complemented the production needs of the Group, Zhejiang Yadea (which was then named Cixi Kangxin Motorcycle Co., Ltd. (慈溪康鑫摩托車有限公司)) was acquired by Mr. Dong, Ms. Qian and Jiangsu Yadea as to 80%, 10% and 10%, respectively, from Kangxin Group Co., Ltd. (康鑫集團有限公司) and Mr. Xin Shen (沈鑫), both Independent Third Parties, on December 28, 2009. The consideration for the transfers was nil, which was determined with reference to the negative net asset value of Zhejiang Yadea at the time of the transfers. Upon the acquisition, Zhejiang Yadea continued to be responsible for its then existing debts. Zhejiang Yadea has a registered capital of RMB100,000,000.

Zhejiang Yadea was renamed as Zhejiang Yadea Motorcycle Co., Ltd. (浙江雅迪機車有限公司) on December 28, 2009.

On December 25, 2010, Jiangsu Yadea transferred its equity interest in Zhejiang Yadea to Yadea Group for a consideration of RMB10,000,000 as part of our internal shareholding restructuring. The consideration for the transfer was determined with reference to the registered capital of Zhejiang Yadea at the time of the transfer. Following the transfer, Zhejiang Yadea was held as to 80% by Mr. Dong, 10% by Yadea Group and 10% by Ms. Qian.

Note:

(1) To facilitate her assistance to Ms. Qian in relation to the administration of the corporate matters of Yadea Import Export, Ms. Jinmei Zhu (朱金妹), the mother of Ms. Qian, held her equity interest in Yadea Import Export for the benefit of Ms. Qian until the relevant transfer to Yadea Group in June 2014. Ms. Qian was entitled to all of the rights and obligations arising from such equity interest held by Ms. Jinmei Zhu (朱金妹) in Yadea Import Export.

On December 25, 2010, Mr. Dong transferred his equity interest in Zhejiang Yadea to Yadea Group for a consideration of RMB80,000,000 as part of our internal shareholding restructuring. The consideration for the transfer was fully settled on December 23, 2014 and was determined with reference to the registered capital of Zhejiang Yadea at the time of the transfer. Following the transfer, Zhejiang Yadea was held as to 90% by Yadea Group and 10% by Ms. Qian.

On July 10, 2014, Ms. Qian transferred her equity interest in Zhejiang Yadea to Yadea Group for a consideration of RMB10,000,000 as part of the Reorganization. The consideration for the transfer was fully settled on December 23, 2014 and was determined with reference to the registered capital of Zhejiang Yadea at the time of the transfer. Following the transfer, Zhejiang Yadea became wholly owned by Yadea Group.

Zhejiang Yadea is principally engaged in the production of our electric scooters.

Guangdong Yadea

Guangdong Yadea was established on March 14, 2011 by Yadea Group with a registered capital of RMB10,000,000. The registered capital was fully paid up at the time of its establishment.

Guangdong Yadea is principally engaged in the production of our electric scooters.

Jiangsu Xindi

Jiangsu Xindi was established on April 28, 2014 by Yadea Group (as to 5.71%) and Wuxi Longda Metals Co., Ltd. (無錫隆達金屬材料有限公司) ("**Wuxi Longda**") (as to 94.29%), an Independent Third Party, with a registered capital of RMB70,000,000. The registered capital was fully paid up on November 28, 2014.

In order to utilize the land and property of Jiangsu Xindi to expand the Group's facilities, Yadea Group acquired from Wuxi Longda its entire equity interest in Jiangsu Xindi for a consideration of RMB64,976,375 on June 20, 2014. The consideration for the transfer was fully settled on October 9, 2014 and was determined with reference to the registered capital of Jiangsu Xindi at the time of the transfer. Following the transfer, Jiangsu Xindi became wholly owned by Yadea Group.

Jiangsu Xindi had not yet commenced operations as of the Latest Practicable Date.

Yadea Sales

Yadea Sales was established on February 7, 2014 by Yadea Group with a registered capital of RMB50,000,000. Pursuant to the constitutional documents of Yadea Sales, the registered capital is to be paid up by January 2, 2024. Yadea Sales is principally engaged in the sales of our electric two-wheeled vehicles.

Shanghai Yadea

Shanghai Yadea was established on May 15, 2015 by Yadea Group with a registered capital of RMB10,000,000. Pursuant to the constitutional documents of Shanghai Yadea, the registered capital is to be paid up by May 1, 2025.

Shanghai Yadea had not yet commenced operations as of the Latest Practicable Date.

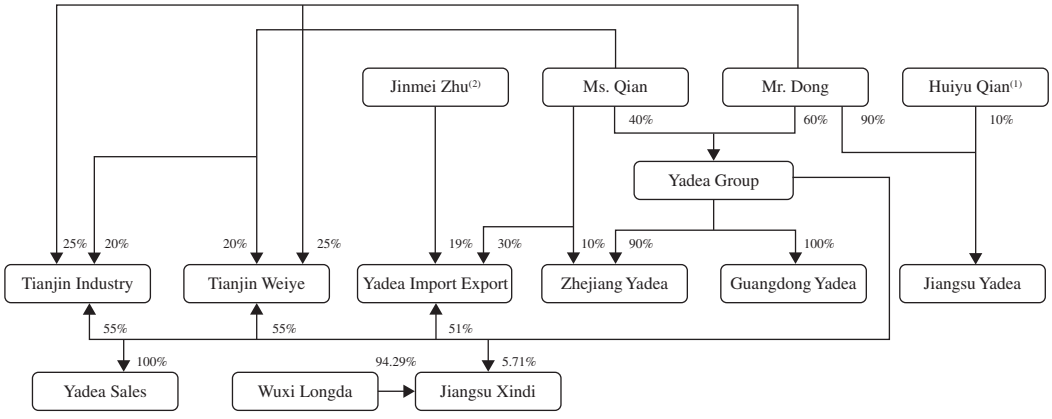
Guangdong Yadea Motorcycle

Guangdong Yadea Motorcycle was established on July 15, 2015 by Zhejiang Yadea with a registered capital of RMB10,000,000. Pursuant to the constitutional documents of Guangdong Yadea Motorcycle, the registered capital is to be paid up by August 30, 2025. Guangdong Yadea Motorcycle had not yet commenced operations as of the Latest Practicable Date.

REORGANIZATION

We have undertaken various steps to restructure the Group in preparation for the [**REDACTED**]. The Reorganization can be broadly categorized into two parts: (1) the offshore reorganization (the "**Offshore Reorganization**"), which comprises steps undertaken in respect of the Company and our subsidiaries incorporated outside of the PRC; and (2) the onshore reorganization (the "**Onshore Reorganization**"), which comprises steps undertaken in respect of our subsidiaries incorporated in the PRC.

Set forth below is a diagram of our corporate structure immediately before the Reorganization:



Notes:

(1) Mr. Huiyu Qian (錢惠裕), the father of Ms. Qian, held his equity interest in Jiangsu Yadea for the benefit of Ms. Qian, and Ms. Qian was entitled to all of the rights and obligations arising from such equity interest held by Mr. Huiyu Qian (錢惠裕) in Jiangsu Yadea.

(2) Ms. Jinmei Zhu (朱金妹), the mother of Ms. Qian, held her equity interest in Yadea Import Export for the benefit of Ms. Qian, and Ms. Qian was entitled to all of the rights and obligations arising from such equity interest held by Ms. Jinmei Zhu (朱金妹) in Yadea Import Export.

Offshore Reorganization

Step 1: Establishment of the offshore shareholding structure

The Company

On July 17, 2014, the Company was incorporated in the Cayman Islands as an exempted company with limited liability. At the time of its incorporation, the authorized share capital of the Company was US$50,000 divided into 50,000 shares with a par value of US$1.00 each. On the same day, the Company allotted and issued one ordinary share with a par value of US$1.00 at par to Reid Services Limited, which was then transferred by Reid Services Limited to Ming Sheng for a consideration of US$1.00 on July 21, 2014.

On July 21, 2014, the Company allotted and issued 340 ordinary shares, 299 ordinary shares, 130 ordinary shares, 70 ordinary shares, 70 ordinary shares, 46 ordinary shares and 44 ordinary shares, each with a par value of US$1.00, at par to Ke Ding, Ming Sheng, Ding Shun Qi, Zhi Cheng, Ding Chen, Jin Hui and Ling Yun, respectively, in recognition of the contributions to the Group of Mr. Yeming Liu (劉曄明), Mr. Mingyou Chen (陳名友), Mr. Jiazhong Wang (王家中), Mr. Bo Xue (薛波), Mr. Shuchang Xu (許舒暢), Mr. Xuerong Chen (陳雪榮) and Mr. Chaoyang Zhou (周朝陽), respectively, who are all employees of the Group.

Subsequently, on July 22, 2014, the Company allotted and issued 13,300 ordinary shares and 5,700 ordinary shares, each with a par value of US$1.00, at par to Dai Wei and Fang Yuan, respectively. Upon completion of the above allotments and issues, the Company was held as to 66.5%, 28.5%, 1.7%, 1.5%, 0.65%, 0.35%, 0.35%, 0.23% and 0.22% by Dai Wei, Fang Yuan, Ke Ding, Ming Sheng, Ding Shun Qi, Zhi Cheng, Ding Chen, Jin Hui and Ling Yun, respectively.

On November 27, 2014, Dai Wei acquired 160 ordinary shares of the Company with a par value of US$1.00 each at par from Ming Sheng. The consideration of US$160 was fully paid at the time of transfer. As a result of the transfer, the Company was held as to 67.3%, 28.5%, 1.7%, 0.70%, 0.65%, 0.35%, 0.35%, 0.23% and 0.22% by Dai Wei, Fang Yuan, Ke Ding, Ming Sheng, Ding Shun Qi, Zhi Cheng, Ding Chen, Jin Hui and Ling Yun, respectively.

On December 10, 2014, 1,930 out of 50,000 ordinary shares with a par value of US$1.00 each in the authorized share capital of the Company were re-designated and reclassified as Series A Preferred Shares with a par value of US$1.00 each and 1,930 Series A Preferred Shares with a par value of US$1.00 each were issued to the First [**REDACTED**] Investor pursuant to the [**REDACTED**] Share Subscription Agreement. Upon completion of the share re-designation, reclassification and issue, the total issued share capital of the Company was increased from 20,000 shares to 21,930 shares, comprising 20,000 ordinary shares with a par value of US$1.00 each and 1,930 Series A Preferred Shares with a par value of US$1.00 each. As a result of the First [**REDACTED**] Investment, the Company was held as to 61.4%, 26.0%, 1.6%, 0.64%, 0.59%, 0.32%, 0.32%, 0.21%, 0.20% and 8.8% by Dai Wei, Fang Yuan, Ke Ding, Ming Sheng, Ding Shun Qi, Zhi Cheng, Ding Chen, Jin Hui, Ling Yun and the First [**REDACTED**] Investor, respectively. For details of the [**REDACTED**] Share Subscription Agreement and the First [**REDACTED**] Investment, please refer to the sub-section headed "— [**REDACTED**] Investments" in this section.

On June 15, 2015, the First [**REDACTED**] Investor transferred 438 Series A Preferred Shares with a par value of US$1.00 each to the Second [**REDACTED**] Investor pursuant to the Series A Preferred Shares Transfer Agreement. As a result of the transfer, the Company was held as to 61.4%, 26.0%, 1.6%, 0.64%, 0.59%, 0.32%, 0.32%, 0.21%, 0.20%, 6.8% and 2.0% by Dai Wei, Fang Yuan, Ke Ding, Ming Sheng, Ding Shun Qi, Zhi Cheng, Ding Chen, Jin Hui, Ling Yun, the First [**REDACTED**] Investor and the Second [**REDACTED**] Investor, respectively. For details of the Series A Preferred Shares Transfer Agreement and the Second [**REDACTED**] Investment, please refer to the sub-section headed "— [**REDACTED**] Investments" in this section.

On August 28, 2015, in preparation for the [**REDACTED**], each ordinary share with a par value of US$1.00 in the authorized share capital of the Company was subdivided into 100,000 Ordinary Shares with a par value of US$0.00001 each, and each Series A Preferred Share with a par value of US$1.00 in the authorized share capital of the Company was subdivided into 100,000 Series A Preferred Shares with a par value of US$0.00001 each. As a result of the share subdivision, the authorized share capital of the Company comprises 4,807,000,000 Ordinary Shares with a par value of US$0.00001 each and 193,000,000 Series A Preferred Shares with a par value of US$0.00001 each.

Yadea Group Management

On July 24, 2014, Yadea Group Management was incorporated in the BVI with a maximum number of authorized shares of 50,000 shares of par value of US$1.00 each in a single class. On the same day, Yadea Group Management allotted and issued 100 ordinary shares at par to the Company and became wholly owned by the Company.

Yadea HK

On August 5, 2014, Yadea HK was incorporated in Hong Kong. On the same day, Yadea HK allotted and issued 100 ordinary shares to Yadea Group Management for a consideration of HK$100 and became wholly owned by Yadea Group Management.

Step 2: Acquisition of Wuxi Consulting

On December 8, 2014, Yadea HK acquired 95% and 5% equity interests in Wuxi Consulting from Mr. Ching Feng Liao (廖璟烽), an Independent Third Party, and Wuxi Yuanjiabai for nil consideration, which was determined with reference to the net asset value of Wuxi Consulting at the time of transfer. Following the transfers of shares, Wuxi Consulting became a wholly foreign-owned enterprise of Yadea HK on December 8, 2014. For details of Wuxi Consulting, please refer to the sub-section headed "— Reorganization — Onshore Reorganization — Step 3: Establishment and subsequent changes of Wuxi Consulting" below.

Onshore Reorganization

Step 1: Disposal of the non-core assets of Jiangsu Yadea by way of demerger

To streamline the business of the Group in order to focus our resources on our core business activities, namely the production of electric two-wheeled vehicles and ancillary products, Jiangsu Yadea was demerged into Jiangsu Yadea and Jiangsu Yadea Investment Co., Ltd. (江蘇雅迪投資有限公司) on June 30, 2014, with the latter holding its non-core assets unrelated to our core business activities, including bank investments and investments in certain small loan companies. As a result of the demerger of Jiangsu Yadea, the registered capital of Jiangsu Yadea was decreased from RMB250,000,000 to RMB150,000,000 to reflect the value of the disposed assets. As of the Latest Practicable Date, Jiangsu Yadea Investment Co., Ltd. (江蘇雅迪投資有限公司) was held by Mr. Dong as to 90% and Mr. Huiyu Qian (錢惠裕), the father of Ms. Qian, as to 10%.

Step 2: Transfer of Jiangsu Yadea, Tianjin Industry, Tianjin Weiye, Yadea Import Export, Zhejiang Yadea and Jiangsu Xindi to Yadea Group

In early 2014, Yadea Group began to acquire the entire equity interests in Jiangsu Yadea, Tianjin Industry, Tianjin Weiye, Yadea Import Export, Zhejiang Yadea and Jiangsu Xindi from their respective shareholders. Following the transfers, which were completed on August 22, 2014, Yadea Group became the holding company of all of our operating subsidiaries incorporated in the PRC. Please refer to the sub-section headed "— Our Subsidiaries Established in the PRC" in this section for details of the transfers under this step.

Step 3: Establishment and subsequent changes of Wuxi Consulting

Wuxi Consulting, an investment holding company, was established on June 30, 2014 as a sino-foreign joint enterprise by Yadea Investment Holdings Limited (as to 95%) and Wuxi Yuanjiabai, with a registered capital of RMB1,000,000. The registered capital was fully paid up on January 7, 2015.

On November 12, 2014, Yadea Investment Holdings Limited transferred its entire equity interest in Wuxi Consulting to Mr. Ching Feng Liao (廖璟烽), an Independent Third Party, for nil consideration, which was determined with reference to the net asset value of Wuxi Consulting at the time of transfer. Following the transfer, Wuxi Consulting was owned by Mr. Ching Feng Liao (廖璟烽) and Wuxi Yuanjiabai as to 95% and 5%, respectively.

Step 4: Conversion of Wuxi Consulting into a wholly foreign-owned enterprise

Wuxi Consulting became a wholly foreign-owned enterprise of Yadea HK on December 8, 2014. For details of the acquisition of Wuxi Consulting by Yadea HK, please refer to the sub-section headed "— Reorganization — Offshore Reorganization — Step 2: Acquisition of Wuxi Consulting" above.

Step 5: Acquisition of Yadea Group by Wuxi Consulting

On December 9, 2014, Wuxi Consulting acquired the entire equity interests in Yadea Group from Mr. Dong and Ms. Qian for a consideration of RMB78,614,657.3 and RMB52,409,771.5, respectively. The considerations were determined with reference to the audited net asset value of Yadea Group as of December 31, 2013. Following the transfers, Wuxi Consulting became the holding company of all of our subsidiaries incorporated in the PRC.

[REDACTED] INVESTMENTS

The [REDACTED] Share Subscription Agreement

The [**REDACTED**] Share Subscription Agreement was entered into by and among the Company, the First [**REDACTED**] Investor, the Controlling Shareholders, Yadea Group Management and Yadea HK on October 27, 2014, pursuant to which we issued 1,930 Series A Preferred Shares with a par value of US$1.00 each to the First [**REDACTED**] Investor on December 10, 2014 for a consideration equivalent to RMB125,000,000 in U.S. dollars. As a result, the total issued share capital of the Company was increased from 20,000 shares with a par value of US$1.00 each to 21,930 shares, comprising 20,000 ordinary shares with a par value of US$1.00 each and 1,930 Series A Preferred Shares with a par value of US$1.00 each.

The consideration is equivalent to a subscription price of RMB64,766.84 per Share and was determined through arm's length negotiations among relevant parties, taking into account the business prospects, results of operations and financial condition of the Group. Such consideration is equivalent to a subscription price of HK$[**REDACTED**] per Share upon the completion of the [**REDACTED**], representing a [**REDACTED**]% discount to the [**REDACTED**] of HK$[**REDACTED**] (being the mid-point of the [**REDACTED**] range).

The table below sets out the key particulars of the First [**REDACTED**] Investment:

Name of the First [**REDACTED**] Investor:	Kuanjie (Cayman) Investment Center LP (previously known as Broad Street (Cayman) Investment Center LP). For details of the First [**REDACTED**] Investor, please refer to the sub-section headed "— [**REDACTED**] Investments — Information on the [**REDACTED**] Investors — First [**REDACTED**] Investor"
Date of the [**REDACTED**] Share Subscription Agreement:	October 27, 2014
Consideration:	An amount equivalent to RMB125,000,000 in U.S. dollars. Such consideration is equivalent to a subscription price of HK$[**REDACTED**] per Share upon completion of the [**REDACTED**] and is equivalent to a [**REDACTED**]% discount to the [**REDACTED**] of HK$[**REDACTED**] (being the mid-point of the [**REDACTED**] range)
Payment date of the consideration:	December 9, 2014
Lock-up period:	N/A

Use of proceeds from the First [**REDACTED**] Investment:	The Company declared a special one-time cash dividend in the amount of HK$154,000,000 to be dividend on a pro rata basis to the existing Shareholders on January 29, 2015 in recognition of their contributions to the Group. The First [**REDACTED**] Investor had waived its right to receive its entitled portion of the dividend and such waived amount was remained in the share premium account of the Company
Strategic benefits of the First [**REDACTED**] Investment:	Our Directors are of the view that the Company can benefit from the First [**REDACTED**] Investor's commitment to the Company as its investment demonstrates its confidence in the operations of the Group and serves as an endorsement of the Company's performance, strength and prospects

Special Rights

In relation to the First [**REDACTED**] Investment, the [**REDACTED**] Shareholders Agreement was entered into by and among the Company, the Controlling Shareholders, the Minority Shareholder Holdcos, the Minority Shareholders, the [**REDACTED**] Investment Subsidiaries and the First [**REDACTED**] Investor on October 27, 2014, pursuant to which the First [**REDACTED**] Investor was granted certain special rights, a summary of which is set out below. All such special rights (except for certain restrictions on transfer of shares, a right of first refusal and tag-along rights), details of which are set out below, granted to the First [**REDACTED**] Investor thereunder shall cease to be in effect upon the closing of a Qualified [**REDACTED**]. Please refer to the paragraphs headed "Restrictions on transfer of shares", "Right of first refusal" and "Tag-along rights" below for details regarding the restrictions on transfer of shares, right of first refusal and tag-along rights which will survive the termination of the [**REDACTED**] Shareholders Agreement upon the [**REDACTED**].

Right to nominate a non-executive Director

The First [**REDACTED**] Investor is entitled to nominate at least one non-executive Director (the "**Investor Director**") or to appoint and maintain in office up to such portion of the total number of Directors which will reflect the ratio of its shareholding in the Company on an as converted basis. No voting with respect to the removal of the Investor Director shall take place unless upon the request of the First [**REDACTED**] Investor. In the event that the Investor Director resigns or is removed, the First [**REDACTED**] Investor has the right to nominate such Investor Director's successor or replacement. Unless the First [**REDACTED**] Investor fails to nominate such successor or replacement within eight business days (as defined in the [**REDACTED**] Shareholders Agreement) after the resignation or removal of the Investor Director, no business shall be transacted until the successor or replacement nominated by the First [**REDACTED**] Investor has been elected. Upon the [**REDACTED**], the re-appointment and retirement of the Investor Director will be subject to the requirements under the Articles and the Listing Rules.

Restrictions on transfer of shares

Except for any transfers of shares of the Company or equity interests in the Company from either Dai Wei or Fang Yuan to a Minority Shareholder Holdco, or vice versa, provided that the aggregate shares of the Company or equity interest in the Company involved in such transfers shall each not exceed 5% of the shares of the Company as of the date of the [**REDACTED**] Shareholders Agreement, none of the Controlling Shareholders, the Minority Shareholder Holdcos or the Minority Shareholders shall transfer any shares of or equity interests in the Company, Dai Wei, Fang Yuan or the Minority Shareholder Holdcos, as applicable, prior to the completion of a Qualified [**REDACTED**] and the expiration of the applicable lock-up period after the completion of a Qualified [**REDACTED**] without the prior written consent of the First [**REDACTED**] Investor.

Written notice prior to transfer of Shares

After the completion of a Qualified [**REDACTED**] and the expiration of the applicable lock-up period after the Qualified [**REDACTED**], in the case that either Dai Wei or Fang Yuan decides to sell its respective shares of the Company (i) on the stock exchange on which the ordinary shares of the Company are listed in bona fide market transactions to unidentified purchasers; or (ii) in offerings through brokers or dealers as [**REDACTED**] or agents in bona fide placements to multiple unaffiliated investors, Dai Wei or Fang Yuan (as the case may be) shall give notice to the First [**REDACTED**] Investor in writing three business days (as defined in the [**REDACTED**] Shareholders Agreement) prior to such sale.

Right of first refusal

If any of the Shareholders who are subject to the [**REDACTED**] Subscription Agreement proposes to transfer any Shares to any third parties who are not subject to the [**REDACTED**] Subscription Agreement, the First [**REDACTED**] Investor is entitled to a right of first refusal with respect to such transfer.

Tag-along rights

In the event that a proposed transfer of ordinary shares of the Company involves at least either Dai Wei or Fang Yuan, the First [**REDACTED**] Investor is entitled to a tag-along right to require the transferee to purchase from the First [**REDACTED**] Investor, for the same consideration per ordinary share and upon the same terms and conditions as to be paid and given to the transferring shareholder(s), up to a maximum of the number of shares of the Company held by the First [**REDACTED**] Investor multiplied by a fraction (the numerator being the number of ordinary shares proposed to be transferred by the transferring shareholder(s) and the denominator being the total number of ordinary shares held by the transferring shareholder(s)), in each case on an as converted but otherwise non-diluted basis, provided that the First [**REDACTED**] Investor is entitled to require the transferee to purchase up to the entire number of shares of the Company held by the First [**REDACTED**] Investor if the transfer by at least either Dai Wei or Fang Yuan will result in Mr. Dong's or Ms. Qian's beneficial ownership (direct or indirect) of the shares of the Company to be 50% or less than his/her indirect ownership of the shares of the Company as of the date of the [**REDACTED**] Subscription Agreement.

Preemptive rights

Pursuant to the [**REDACTED**] Shareholders Agreement, the Company shall not issue any securities of any type or class unless the Company has offered the First [**REDACTED**] Investor the right to purchase, on a pro rata basis, such new securities on the same terms and conditions as are offered to the proposed recipients of the new securities.

Reserved matters

The Company shall not, and shall cause the members of the Group and its and their respective directors, officers, employees, advisors and agents not to, without the affirmative written consent or approval of the First [**REDACTED**] Investor, take actions involving certain matters, including, among others, change of principal business activities, amendment of the Memorandum and Articles of Association, change in authorized or issued share capital, mergers or acquisitions, appointment, termination or replacement of external auditors, significant capital expenditures in an amount or in a total amount for related expenditures in excess of RMB80 million, incurrence of indebtedness for more than RMB300 million or provision of guarantee for more than RMB100 million in one transaction or a series of related transactions in any six-month period, and commencement, termination or settlement of any litigation, arbitration or other proceedings in an amount reasonably or expected to exceed RMB5 million or that would have a material impact on the business of the Company.

Conversion rights

The Series A Preferred Shares are convertible as follows:

Optional conversion:	Each fully paid Series A Preferred Share may be converted, at any time at the option of the holder thereof, into the number of fully paid and non-assessable ordinary shares of the Company equal to (i) RMB64,766.84 or its equivalent amount in U.S. dollars per Share, divided by (ii) the Series A Conversion Price then in effect
Mandatory Conversion:	The Series A Preferred Shares are automatically converted immediately (i) prior to the completion of a Qualified [**REDACTED**] or (ii) upon the written consent of the holder(s) of a majority of the Series A Preferred Shares in issue. Each fully paid Series A Preferred Share shall be converted into the number of fully paid and non-assessable ordinary shares of the Company equal to (i) RMB64,766.84 or its equivalent amount in U.S. dollars per Share, divided by (ii) the Series A Conversion Price then in effect

"**Series A Conversion Price**" means RMB64,766.84 or its equivalent amount in U.S. dollars per share, subject to the occurrence of (i) subdivision of the issued ordinary shares of the Company into a larger number of shares; (ii) combination of the issued ordinary shares of the Company into a smaller number of shares; or (iii) any capital reorganization or reclassification of the ordinary shares of the Company, in which cases the Series A Conversion Price as in effect immediately prior thereto shall be adjusted so that the holder of any Series A Preferred Shares thereafter converted shall be entitled to receive the same number of ordinary shares or securities of the Company and other consideration that such holder would have owned or been entitled to receive had such Series A Preferred Shares been converted immediately prior to the effectiveness of such subdivision, combination, reorganization or reclassification. Alternatively, if the Company at any time issues or sells any ordinary shares of the Company or the equivalent of ordinary shares of the Company at a price per ordinary share (the "**New Issue Price**") that is less than the Series A Conversion Price in effect on the date which the Company fixes the [**REDACTED**] for the ordinary shares or their equivalent, the Series A Conversion Price in effect immediately prior to such issuance shall be adjusted such that it is equal to the New Issue Price.

As of the Latest Practicable Date, each Series A Preferred Share was convertible into one Ordinary Share. In any event, the adjustment to the conversion price of the Series A Preferred Shares will not be linked to the [**REDACTED**] or the market capitalization of the Company upon [**REDACTED**] and will be in line with the principles and requirements promulgated by the Stock Exchange.

Put Option

The First [**REDACTED**] Investor is entitled, to the extent permitted by applicable laws, to require that all or a portion of the Series A Preferred Shares (or ordinary shares of the Company issuable upon conversion thereof or otherwise derived therefrom) held by the First [**REDACTED**] Investor be purchased by any of the Controlling Shareholders at a price equal to the original consideration paid for such shares under the [**REDACTED**] Subscription Agreement plus a premium calculated at an annual return of 10% of such original consideration, compounded annually, from and after January 1, 2018 if a Qualified [**REDACTED**] has not been completed by then.

[**REDACTED**]

For as long as a Qualified [**REDACTED**] has not been completed, from and after two years from the date of the [**REDACTED**] Shareholders Agreement, the First [**REDACTED**] Investor is entitled to require the Company to prepare for and complete an [**REDACTED**] of the ordinary shares of the Company and shall have the right to lead the execution of the [**REDACTED**] on behalf of the Company, including by replacing and appointing the chief financial officer of the Company to be primarily responsible for the day-to-day execution of the [**REDACTED**]. From and after three years from the date of the [**REDACTED**] Shareholders Agreement, for as long as a Qualified [**REDACTED**] has not been completed, each of Mr. Dong and Ms. Qian undertakes (i) to fully support an [**REDACTED**] of the ordinary shares of the Company and use his/her best efforts to enable the completion of an [**REDACTED**] of the ordinary shares as soon as practicable; (ii) to cause Dai Wei and Fang Yuan and their nominees on the Board to vote or otherwise approve an [**REDACTED**]; and (iii) to approve and cause the Company to complete all actions and matters required for or in furtherance of an [**REDACTED**] of the ordinary shares of the Company.

The Series A Preferred Shares Transfer Agreement

On June 11, 2015, the First [**REDACTED**] Investor and the Second [**REDACTED**] Investor entered into the Series A Preferred Shares Transfer Agreement pursuant to which the First [**REDACTED**] Investor agreed to sell to the Second [**REDACTED**] Investor, and the Second [**REDACTED**] Investor agreed to purchase from the First [**REDACTED**] Investor, a total of 438 Series A Preferred Shares with a par value of US$1.00 each for a consideration of RMB99.86 million. The consideration is equivalent to a subscription price of RMB227,990.87 per Share and was determined through arm's length negotiations among the relevant parties, taking into account the business prospects, results of operations and financial condition of the Group. Such consideration is equivalent to a subscription price of HK$[**REDACTED**] per Share upon completion of the [**REDACTED**], representing a [**REDACTED**]% discount to the [**REDACTED**] of HK$[**REDACTED**] (being the mid-point of the [**REDACTED**] range).

The table below sets out the key particulars of the Second [**REDACTED**] Investment:

Name of the Second [**REDACTED**] Investor:	Junjin Investment Management Ltd. For details of the Second [**REDACTED**] Investor, please refer to the sub-section headed "— [**REDACTED**] Investments — Information on the [**REDACTED**] Investors"
Date of the Series A Preferred Shares Transfer Agreement:	June 11, 2015
Payment date of the consideration:	June 15, 2015
Consideration:	RMB99.86 million, which is equivalent to a subscription price of HK$[**REDACTED**] per Share upon completion of the [**REDACTED**] and a [**REDACTED**]% discount to the [**REDACTED**] of HK$[**REDACTED**] (being mid-point of the [**REDACTED**] range)
Lock-up period:	N/A
Reason of the Second [**REDACTED**] Investment:	The Company procured the relevant parties to enter into the Series A Preferred Shares Transfer Agreement in order to introduce a new shareholder without diluting the shareholding of existing shareholders

Special rights

In relation to the Second [**REDACTED**] Investment and in accordance with the [**REDACTED**] Shareholders Agreement, the Company, the Controlling Shareholders, the First [**REDACTED**] Investor and the Second [**REDACTED**] Investor entered into the Deed of Adherence on June 15, 2015, pursuant to which the Second [**REDACTED**] Investor unconditionally, irrevocably and perpetually waived, and undertook not to exercise, any and all of the rights it may otherwise have with respect to the Series A Preferred Shares acquired pursuant to the [**REDACTED**] Shareholders Agreement and the Memorandum and Articles of Association as a permitted assign of the First [**REDACTED**] Investor. Pursuant to the Deed of Adherence, the Second [**REDACTED**] Investor shall not be deemed to have any of the rights of the First [**REDACTED**] Investor under the [**REDACTED**] Shareholders Agreement and the Memorandum and Articles of Association.

Information on the [REDACTED] Investors

First* [REDACTED] *Investor

Kuanjie (Cayman) Investment Center LP (previously known as Broad Street (Cayman) Investment Center LP) is an exempted limited partnership registered in the Cayman Islands. Its general partner is Broad Street (Cayman) GP Limited, a wholly-owned subsidiary of The Goldman Sachs Group, Inc., an Independent Third Party and a company listed on the New York Stock Exchange (ticker symbol: GS). Its limited partner is Shanghai Broad Street Investment Center, whose limited partner is Broad Street (Beijing) 2011 Investment Center (Limited Partnership), an investment fund managed and controlled by affiliates of The Goldman Sachs Group, Inc.

Other than in respect of its shareholding interest in the Company, as disclosed in this document, and its nomination of Mr. Xiang Fan (范翔) as a Director, the First [**REDACTED**] Investor and its ultimate beneficial owners are independent from the Group and any connected persons of the Company.

Second* [REDACTED] *Investor

Junjin Investment Management Ltd is an exempted company incorporated with limited liability and existing under the laws of the Cayman Islands. It is wholly owned by Shanghai Junjin Investment Management Limited Company, which is an Independent Third Party and a company established under the laws of the PRC on June 4, 2015.

Other than in respect of its shareholding interest in the Company, as disclosed in this document, the Second [**REDACTED**] Investor and its ultimate beneficial owners are independent from the Group and any connected persons of the Company.

[REDACTED]

Since the shareholding of the [**REDACTED**] Investors in the Company upon [**REDACTED**] is less than 10%, the Shares held by the [**REDACTED**] Investors will be counted towards part of the [**REDACTED**].

Sole Sponsor's View

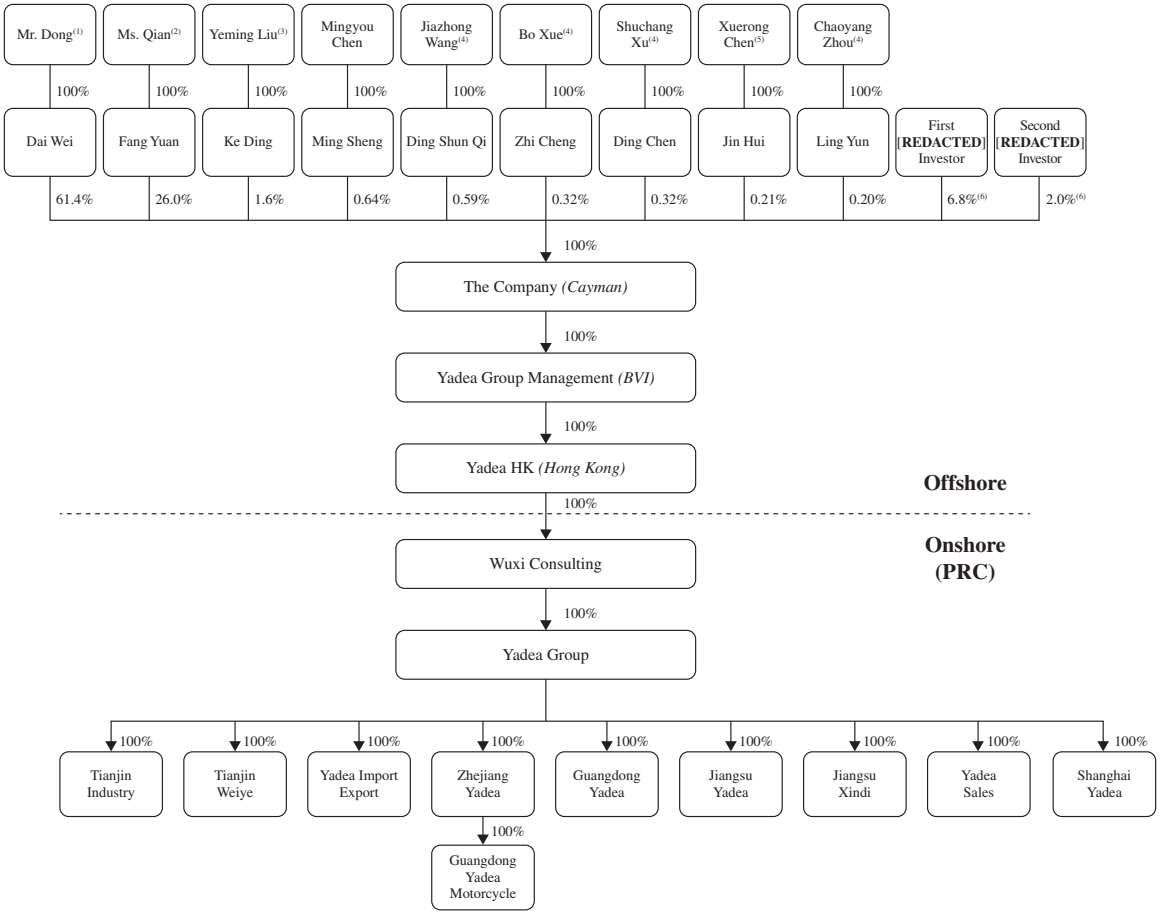
The Sole Sponsor is of the view that the investments by the [**REDACTED**] Investors is in compliance with the Guidance Letter HKEx-GL29-12 issued by the Stock Exchange in January 2012, the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and updated in July 2013 and the Guidance Letter HKEx-GL44-12 issued by the Stock Exchange in October 2012.

SALE OF THE [REDACTED] BY THE [REDACTED]

As part of the [**REDACTED**], the [**REDACTED**] will offer [**REDACTED**] [**REDACTED**] for sale pursuant to the [**REDACTED**]. Please refer to the section headed "Structure of the [**REDACTED**]" for details of the [**REDACTED**] by the [**REDACTED**].

CORPORATE STRUCTURE FOLLOWING THE REORGANIZATION AND BEFORE THE [REDACTED]

Set forth below is a diagram illustrating our corporate structure upon completion of the Reorganization and immediately before completion of the [**REDACTED**] and the [**REDACTED**]:



Notes:

(1) Mr. Dong is our Chairman and executive Director. Please refer to the section headed "Directors and Senior Management — Board of Directors — Executive Directors" in this document for details relating to his background and experience.

(2) Ms. Qian is our vice Chairman and executive Director. Please refer to the section headed "Directors and Senior Management — Board of Directors — Executive Directors" in this document for details relating to her background and experience.

(3) Mr. Yeming Liu (劉曄明) is our executive Director and president. Please refer to the section headed "Directors and Senior Management — Board of Directors — Executive Directors" in this document for details relating to his background and experience.

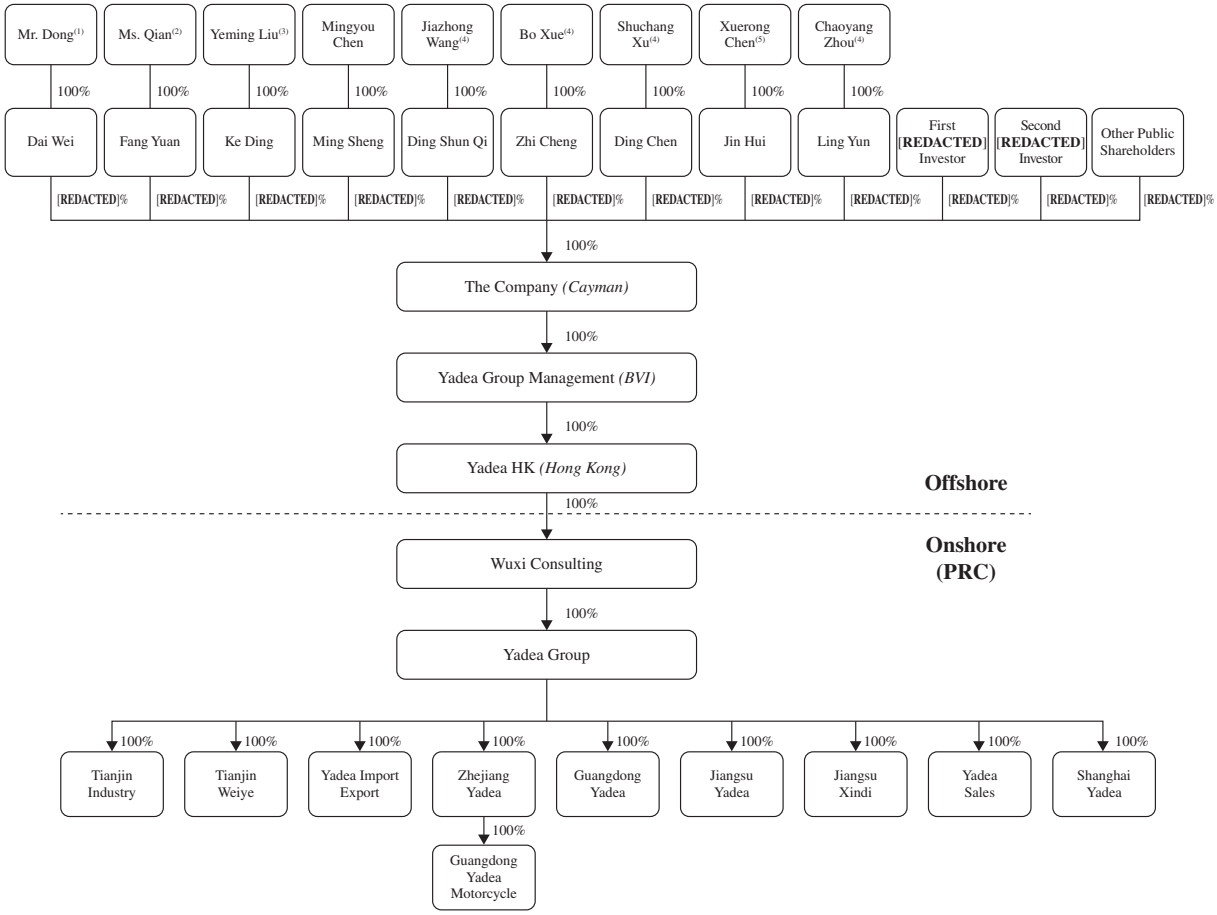
(4) Mr. Jiazhong Wang (王家中), Mr. Bo Xue (薛波), Mr. Shuchang Xu (許舒暢) and Mr. Chaoyang Zhou (周朝陽) are members of our senior management. Please refer to the section headed "Directors and Senior Management — Senior Management" in this document for details relating to their backgrounds and experience.

(5) Mr. Xuerong Chen (陳雪榮), an Independent Third Party, joined the Group in December 2013 and is an officer of our ancillary facilities management center.

(6) The shareholding percentage has been calculated based on the assumption that all Series A Preferred Shares had been fully converted into Ordinary Shares at a 1:1 ratio.

SHAREHOLDING STRUCTURE UPON COMPLETION OF THE [REDACTED]

Set forth below is a diagram illustrating our shareholding structure immediately following the completion of the [**REDACTED**] and the [**REDACTED**] (assuming the [**REDACTED**] and options which may be granted pursuant to the Share Option Scheme are not exercised):



Notes:

(1) Mr. Dong is our Chairman and executive Director. Please refer to the section headed "Directors and Senior Management — Board of Directors — Executive Directors" in this document for details relating to his background and experience.

(2) Ms. Qian is our vice Chairman and executive Director. Please refer to the section headed "Directors and Senior Management — Board of Directors — Executive Directors" in this document for details relating to her background and experience.

(3) Mr. Yeming Liu (劉曄明) is our executive Director and president. Please refer to the section headed "Directors and Senior Management — Board of Directors — Executive Directors" in this document for details relating to his background and experience.

(4) Mr. Jiazhong Wang (王家中), Mr. Bo Xue (薛波), Mr. Shuchang Xu (許舒暢) and Mr. Chaoyang Zhou (周朝陽) are members of our senior management. Please refer to the section headed "Directors and Senior Management — Senior Management" in this document for details relating to their backgrounds and experience.

(5) Mr. Xuerong Chen (陳雪榮), an Independent Third Party, joined the Group in December 2013 and is an officer of our ancillary facilities management center.

(6) The shareholding percentage has been calculated based on the assumption that all Series A Preferred Shares had been fully converted into Ordinary Shares at a 1:1 ratio.

PRC REGULATORY REQUIREMENTS

Our PRC Legal Advisors have confirmed that all share transfers and increases in registered capital in respect of the PRC companies in our Group as described above have obtained all necessary approvals and permits and the procedures involved are in accordance with PRC laws and regulations.

According to the "Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors" (《關於外國投資者併購境內企業的規定》) (the "**Circular No. 10**") jointly issued by the MOFCOM, SASAC, SAT, CSRC, SAIC and SAFE on August 8, 2006, and effective as of September 8, 2006 and amended in June 22, 2009, where a domestic company, enterprise or natural person intends to acquire its or his/her related domestic company in the name of an offshore company which it or he/she lawfully established or controls, the acquisition shall be subject to the examination and approval of the MOFCOM. As advised by our PRC Legal Advisors, according to the Circular No. 10 and with reference to the guidance documents issued by the MOFCOM, the requirement of the aforementioned approval only applies to circumstances where the acquisition target is a non-sino foreign enterprise established in the PRC. As Wuxi Consulting has been a sino-foreign joint enterprise since the date of its establishment, Circular No. 10 shall not be applicable to the transfer of shares of Wuxi Consulting. Instead, Regulations for the Alteration of Investors' Equity Interests in Foreign Funded Enterprises (《外商投資企業投資者股權變更的若干規定》) promulgated by the MOFCOM and the SAIC on May 28, 1997 shall be applicable and the relevant commerce bureau of its place of incorporation has the competent authority to approve such transfer of shares. As advised by our PRC Legal Advisors, we have obtained all relevant approvals and made all relevant filings under such regulations.

Further, as advised by our PRC Legal Advisors, Mr. Dong, Ms. Qian, Mr. Yeming Liu (劉曄明), Mr. Mingyou Chen (陳名友), Mr. Shuchang Xu (許舒暢), Mr. Jiazhong Wang (王家中), Mr. Xuerong Chen (陳雪榮), Mr. Chaoyang Zhou (周朝陽) and Mr. Bo Xue (薛波) have registered with SAFE, Jiangsu Province Branch for foreign exchange registration of overseas investments and obtained the Domestic Residents Personal Offshore Investment Foreign Exchange Registration Certificates (境內居民個人境外投資外匯登記表) issued by SAFE, Jiangsu Province Branch on July 14, 2014.

You should carefully consider all of the information in this document, including the risks and uncertainties described below and the accountants' reports included in Appendix I to this document, before making an [**REDACTED**] *in our Shares. You should pay particular attention to the fact that substantially all of our operations are in China, the legal and regulatory environment of which differs in certain respects from that which prevails in other countries. Our business, financial condition, results of operations or prospects may be materially and adversely affected by any of these risks and the trading price of our Shares may decline as a result. You may lose all or part of your* [**REDACTED**].

OVERVIEW

We are the leading electric two-wheeled vehicle brand in China both in terms of revenue and profitability. We are the largest player in the Chinese electric two-wheeled vehicle market, with our market share accounting for 10.5% in terms of revenue in 2015, according to Frost & Sullivan. We have adopted a high-end positioning strategy in establishing our premium brand. According to Frost & Sullivan, we are the most profitable company among the leading players in the electric two-wheeled vehicle market in terms of net profit and our net profit accounted for 24.0% of the overall market in 2015. Our market shares were 11.2% in the electric scooter market and 9.2% in the electric bicycle market in terms of revenue in 2015, ranking first and second respectively, according to Frost & Sullivan. We have been named the first of the Top 10 Electric Two-wheeled Vehicle Enterprises of China's Light Industry by the Chinese National Light Industry Council each year since 2009. We focus on designing, researching, developing, manufacturing and selling electric two-wheeled vehicles, which include electric scooters and electric bicycles. We believe that the strong market recognition of our brand and our reputation enable us to command a price premium for our products.

We sell our products through our nationwide sales and distribution network in China, which consisted of over 1,700 distributors as well as their sub-distributors as of December 31, 2015. We also have an extensive international customer base and had sales to over 50 countries during the Track Record Period through our extensive international distribution network. Our international sales accounted for 1.9% of the total electric two-wheeled vehicle export volume from China in 2015 according to Frost & Sullivan. We believe that our market leading position and strong brand recognition have enabled us to develop long-term relationships with our distributors and suppliers and to obtain favorable terms from them.

Our headquarters is located in Wuxi in Jiangsu Province and includes our principal office buildings, our product research and development center and our Wuxi production facilities. In addition to our Wuxi production facilities, we have three other production facilities, which are located in Tianjin, Cixi and Dongguan. As of December 31, 2015, we had annual electric two-wheeled vehicle production capacity of approximately 5.0 million units.

We focus on research and development to enhance our innovation capabilities and our market competitiveness. We devote significant effort to developing core technologies, such as electric motors and power systems. We are also in the process of developing and enhancing advanced mobile internet applications for our electric two-wheeled vehicles, including a remote motor start/stop system, location tracking applications, an onboard mechanical problem detecting and reporting system, and theft-recovery applications, some of which have been incorporated into certain of our products. Additionally, we have a strategic cooperation agreement with Lightning Motors, a U.S. company specializing in researching and

developing advanced electric two wheeled vehicles, to jointly develop high-end products and we also own approximately 11.1% of this company. As of the Latest Practicable Date, we held a total of 664 PRC patents, of which 15 were invention patents, 270 were use patents and 379 were design patents, and had 48 patent applications pending approval.

We experienced significant growth over the Track Record Period. Our profit increased by 28.4%, from RMB174.1 million in 2013 to RMB223.5 million in 2014 and further increased by 68.0% to RMB375.5 million in 2015. Our net profit in 2014 was significantly influenced by RMB75.6 million in share based payments that we made to our senior managements in recognition of their contributions to the Group. Our revenue grew from RMB5,059.2 million in 2013 to RMB5,824.1 million in 2014 and further to RMB6,429.2 million in 2015.

OUR COMPETITIVE STRENGTHS

We believe that we have the competitive strengths described below.

1. We are the leader in the electric two-wheeled vehicle market in China both in terms of revenue and profitability.

We are the leading electric two-wheeled vehicle brand in China, focusing on designing, researching, developing, manufacturing and selling high-end electric two-wheeled vehicles. We are the largest player in the Chinese electric two-wheeled vehicle market, with market share of 10.5% in terms of revenue in 2015, according to Frost & Sullivan. We have adopted a high-end positioning strategy aimed at establishing our brand in the minds of consumers as the premium brand of high-end electric two-wheeled vehicles. This strategy has established high-end brand image and widespread consumer recognition for our brand. According to Frost & Sullivan, we are the most profitable company among the leading players in the electric two-wheeled vehicle market in China in terms of net profit, and our net profit accounted for 24.0% of the net profit in the overall market in 2015. Our share of the Chinese electric two-wheeled vehicle market in 2015 was 10.5% in terms of revenue, which was higher than the combined revenue of our third and fourth largest competitors in 2015 according to Frost & Sullivan.

According to Frost & Sullivan, sales of both electric scooters and electric bicycles will continue to grow in the future but electric scooter sales growth will outpace electric bicycle sales growth, driven by increasing consumer purchasing power and demand for the better performance of electric scooters over electric bicycles. We have particular strength in the electric scooters segment, ranking first in the Chinese market in terms of sales volume and revenue for electric scooters in 2015 according to Frost & Sullivan. Furthermore, Frost & Sullivan predicts that consumers in China will show an increasing preference for premium high-end brands with stylish and smart products designed to address specific consumer needs, areas where we believe that we have unmatched leadership.

The competition in the electric two-wheeled vehicle market is relatively fragmented and we believe that such fragmentation will spur consolidation in the industry. We believe that our leading market position and brand put us in a strong position to take advantage of acquisition opportunities and to capture additional market share during the industry consolidation.

2. Our leading brand provides us with strong pricing power.

We are devoted to forging a high-end brand. We have been named the first of the Top 10 Electric Two-wheeled Vehicle Enterprises of China's Light Industry by the Chinese National Light Industry Council each year since 2009. Our marketing, design, research and production activities are aimed towards reinforcing consumer perceptions of our brand as a premium brand of electric two-wheeled vehicles and expanding consumer recognition of our products. We believe that consumer recognition of our brand as a high-end brand is well-established and cannot be easily replicated by competitors, providing us with a significant competitive advantage.

The leading position of our brand has provided us with strong pricing power, financial results, brand equity and ranking. Our products are generally priced higher than comparable products in the market. Our leading brand also allows us to benefit from significant bargaining power with our suppliers and distributors. For example, we benefit from favorable credit terms from our suppliers, including their acceptance of bank acceptance bills for a significant percentage of our raw material purchases during the Track Record Period. In addition, we received payment in advance from our distributors for a significant percentage of our sales during the Track Record Period. These provide us with a strong liquidity position.

3. Our strong research, development and design capabilities ensure our market leading position in product development.

We focus on advancing the technology and design of our products and invest significant amounts in research and development of new technologies for core parts, components and the application of such technologies. We frequently introduce unique new products under our Yadea brand. These products provide high gross profit margins and allow us to obtain price premiums, which we believe is difficult for our competitors to replicate.

We believe that our leading position in products and technology is evidenced by us being the only company selected to represent the entire electric two-wheeled vehicle industry in drafting the national standards relating to the Internet of Things electric two-wheeled vehicle application platform technology. We were also the only company in the electric two-wheeled vehicle industry to be awarded the Financial Subsidy for Energy-Efficient Motors from the National Development and Reform Commission and the Ministry of Finance of the People's Republic of China, which we received for our development of an energy efficient motor.

We believe that our strong research, development and design capabilities are demonstrated by:

- Our inventing the GT-R power system which enables our electric two-wheeled vehicles to achieve longer travel distances with more compact batteries, as well as reach higher speeds with greater efficiency.

- Our inventing a high-speed, rare earth, permanent magnet motor, model YD-800, which has industry-leading efficiency and the least efficiency loss under high torque use. In addition to its superior power performance, the motor also delivers energy-savings of up to 10%.

- Our collaboration with Southwest University to develop, and our right to use, the AAT motor and self-adaptive automatic speedhub. The torque from the advanced motor enables our electric two-wheeled vehicles advanced performance in climbing inclines when paired with the advanced automatic shifting hub.

- Our devoting significant resources to product design in addition to the development of in-house technologies. In particular, our Panda, X-Police, Wingman, Sky-rider and X-Aurora models are notable for their unique features and integrating popular and stylish elements into their designs which give users a unique riding experience. In 2015, we introduced 82 new models.

- Our having a total of 664 PRC patents, of which 15 are invention patents, 270 are use patents and 379 are design patents, and 48 patent applications pending approval as of the Latest Practicable Date.

- Our development and enhancement of advanced mobile internet applications for our electric two-wheeled vehicles, including a remote motor start/stop system, location tracking applications, an onboard problem detecting and reporting system and theft-recovery applications. We are also in the process of developing and producing new intelligent electric scooters powered by lithium batteries.

- Our entering into a strategic cooperation agreement with Lightning Motors, under which we plan to jointly develop and research products. We also have acquired approximately 11.1% of Lightning Motors. Lightning Motors is a U.S. company specializing in researching and developing advanced electric two-wheeled vehicles.

We have established research and development centers in Wuxi, Tianjin and Dongguan and had a total of 245 research and development staff as of the Latest Practicable Date. In order to ensure the performance of our products, we invest significantly in the research and development of our core components and manufacture a significant portion of our core components in-house. For the years ended December 31, 2013, 2014 and 2015, we spent RMB83.3 million, RMB133.8 million and RMB133.7 million, respectively, on research and development. For the year ended December 31, 2015, we produced in-house approximately 45% of the electric motors that we used in our electric vehicles. We believe that the significant portion of our components produced in-house gives us unique control over the quality of our products and production efficiency and we intend to further expand the percentage of our components produced in-house.

4. We have an extensive distribution and service network with widespread coverage and deep market penetration.

We have established an extensive distribution network with a wide geographical reach. Our domestic network covered almost every administrative region of China and consisted of over 1,700 distributors as of December 31, 2015. Internationally, we had sales to over 50 countries during the Track Record Period through our extensive international distribution network.

We have maintained stable relationships with our distributors and have an average of four years of business relationships with them. We are distinct from many other manufacturers in the market as we provide many "value-added" services and actively guide and monitor the activities, and the operations of our distributors including their points of sales:

- we provide advice on site selection according to our distributor coverage plans;
- we provide uniform design, renovation materials and display guidance for distributor points of sales to ensure branding consistency throughout our network;
- we provide training to our distributors on market trends and our new product models and features as well as pricing guidance;
- we conduct regular site visits to our distributors' points of sales in order to obtain feedback with regard to common issues, to assist our distributors in resolving these issues and ensure compliance with our distribution agreements; and
- in order to perfect the end sales customer experience, we are implementing a campaign to overhaul the product displays, brand presentation and the points of sales of a significant percentage of our distributors. For further details of our distributor points of sales overhaul campaign, see "— Sales and Distribution Network — Distributor Points of Sales Overhaul Campaign".

As a supplement to our traditional sales network, we have developed an online platform "Yadeamall" and opened online flagship stores at various popular Chinese online shopping platforms to support our distributors and expand their sales coverage. Our customers may order our products online and pick up the products at the points of sales of our distributors.

One key factor underpinning our brand recognition is our market leading after-sales service. Our distributors generally provide after-sales services at their points of sales, allowing customers easy access to such services. 24-hour a day service, seven days per week, is available in some large cities.

5. We have a professional and experienced management team with a proven track record of delivering growth and profitability.

Our senior management team has extensive experience in the electric two-wheeled vehicle industry, with an average of 10 years of experience in the industry. Our President and our founder Mr. Dong and Ms. Qian both have 19 years of experience in the electric two-wheeled vehicle

industry. Our president, Mr. Liu, has over 16 years of management experience and significant experience with Hong Kong listed companies. Our management team also benefits from the support of the institutional investor, Goldman Sachs, which invested in the company through the First [**REDACTED**] Investor, its subsidiary, and has appointed a non-executive Director to our Board. The Second [**REDACTED**] Investor, Shanghai Junzhi Corporate Management Company Limited ("上海君智企業管理有限公司"), a well-known consulting company, also provides valuable strategic positioning advice to our management team. We believe that our management team's extensive experience is unmatched and provides us with unique capabilities for analyzing market trends, strategic planning and business operation. Furthermore, our management team is committed to high standards with regard to corporate governance, quality control, environmental control and employee welfare. In addition, our key management members are also shareholders of the Company, helping to ensure that their incentives align with those of our other shareholders.

OUR STRATEGIES

As the largest electric two-wheeled vehicle brand in China in terms of sales, we aim to continue leading the development of China's electric two-wheeled vehicle industry and to be the world's leader in the electric two-wheeled vehicle industry in various aspects, including total sales, technological advancement and brand culture, by leveraging our competitive strengths and implementing the following strategies:

1. Further establish our brand as a high-end brand and solidify our market leading position in China

Our "Yadea" brand is the leading brand in the industry according to Frost & Sullivan and we believe that consumers associate it with high-quality products with fashionable designs and superior customer service. We regard the ongoing building of our high-end brand image as one of our most important development strategies.

We plan to continue to establish an international, technologically advanced high-end brand image by increasing investment in (i) traditional media, such as promotional campaigns, prime time television advertising and public relations as well as engaging spokespersons and (ii) new media, such as internet advertising and mobile internet applications to increase brand recognition and brand loyalty in order to expand sales. In particlar, we are advertising our products in high speed rail networks and through well known Chinese search engines. We plan to use over [19]% of the proceeds from the [**REDACTED**] for brand promotion, advertising and marketing. We also plan to continue to promote our high-end brand image by researching and developing leading products and components that incorporate the most advanced technology in the industry. Additionally, we plan to continue to implement our distributor points of sales overhaul campaign to improve the consumer experience at our distributors' points of sales and their perceptions of our brand.

We also plan to continue to solidify and expand our share of the Chinese high-end domestic market by continually increasing our scale and improving profitability. We also plan to increase our market share and overall profit by leveraging the strength of our brand and consolidating our position in the Chinese market by acquiring domestic and foreign enterprises with growth potential.

2. Further strengthen our research, development and design capabilities, consolidate our leading product and technology position and continue to launch innovative products.

Research, development and design capabilities are critical to assuring our leading technological position, the high quality, design appeal and excellence of our products. We plan to further increase our technological research efforts in high-end products in the future in order to maintain our leading product and technological position and strengthen our market position and reputation. Our plans include the following:

- continue to cooperate with domestic and foreign design firms and educational and scientific research institutions, including Giovannoni Design SRL, AMV Design, Boxer, Jiangnan University, Southwest University and the National Electric Two-wheeled Vehicle Inspection Center, in order to draw on their design, branding and technical know-how and strength and enhance our research, development and design capabilities;

- continue to cooperate with world renowned high-tech manufacturers to jointly develop key product components with a view to improving the overall performance of our products;

- enhance product capabilities to satisfy the needs of high-end customers such as developing lithium battery powered products; continue to introduce smart products and applications with connectivity to the Internet of Things;

- increase our use of intelligent manufacturing systems such as utilizing automatic robotic arms in various production processes;

- continue to increase our investment in research, development and design, recruit more research, development and design personnel, improve the training of our research, development, design, procurement and inspection personnel and improve our production facilities according to the most advanced standards; and

- enhance our leading technological position through mergers and acquisitions.

3. Continue to enhance our sales and service network as well as improve our distributors' points of sales and the customer experience.

With regard to our existing network, we plan to continue to implement our strategy of perfecting the end sales experience through cooperation with experienced fashion design firms to overhaul the points of sales of our distributors. This includes renovating the points of sales and improving the product displays and layouts in the points of sales according to innovative designs provided by top design companies, to enhance the shopping experience and portray a high-end brand image to consumers. We believe that this will help us lead consumer trends and will bring increases in our overall sales and in sales of mid- to high-end products in particular. We plan to increase our investment in the overhaul of the distributor points of sales. We plan to use [16]% of the proceeds from the [**REDACTED**] for this purpose.

We plan to improve our distribution, sales and service network through a variety of efforts, including:

- increasing the number of integrated stores offering both sales and post sales services and expanding the coverage of our existing sales and service network;

- continuing to increase the penetration of our distribution network by engaging more distributors of high quality and opening stores to provide customers more convenient access to our products and services;

- assisting distributors to establish 100 4S stores in the major cities and surrounding areas where we currently have established networks; expanding our distributors' points of sales in both urban and rural areas including assisting distributors;

- setting up a "Riding Club" equipped with large electric two-wheeled vehicle tracks occupying more than 2,000 sq.m. to provide consumers the opportunity to try out different models of electric two-wheeled vehicles; and

- seeking opportunities to expand our distribution network by acquiring well-established businesses in the electric two-wheeled vehicle industry with existing distribution networks.

Additionally, we plan to strengthen the synergy between our online platform and points of sales in our distribution network to maximize consumer-shopping convenience. Going forward, we plan to develop products to be exclusively marketed and sold through our online platform, in particular, high-end lithium battery powered electric scooters marketed under the "Lightning" brand of Lightning Motors. Making exclusive products and distinct branding for this sales channel will allow us to make direct sales to end customers without competing directly with our distributors. We plan to use [5]% of the proceeds from the [**REDACTED**] for the development of online platform including online sales promotions and marketing.

4. Expand our business and promote our brand internationally

We plan to more actively expand our international sales by deepening penetration in our existing international markets and entering new international markets which have high growth potential, including markets in Southeast Asia, Europe and North America. We intend to replicate our success in China in international markets and to implement our international expansion plan gradually through a variety of efforts, including:

- pursuing select strategic alliances to expand our brand recognition and sales in emerging international markets. In this regard, we have already entered into a strategic cooperation agreement with Lightning Motors to research and develop products together and share international customer bases and acquired approximately 11.1% of this company;

- continuing to improve our product development and customization capabilities, cooperating with select domestic and foreign research and development institutions to introduce new electric two-wheeled vehicle models meeting the requirements and demand of consumers in international markets and thereby expand our international sales;

- increasingly focusing resources, management and sales efforts on international markets, providing more products tailored for our international customers and exploring business opportunities for the international aftermarket; and

- leveraging our existing overseas resources to actively promote our Yadea brand to strengthen brand-building by attending popular exhibitions and promoting our brand through the internet and other new media.

Leveraging our broad range of quality product offerings, product development capabilities and cost competitiveness, we believe that we are well positioned to expand sales of our products into international markets. Meanwhile, we plan to continue to advance our technology by taking advantage of knowledge and experience gained in international markets to produce high-end products. We also plan to establish overseas production facilities in the future.

5. Continue to recruit, train and incentivize talented professionals

We plan to continue to focus on recruiting, training and incentivizing talented personnel. We have established various supervisory and audit mechanisms to monitor, evaluate and manage the performance of our employees. We established our Share Option Scheme and plan to issue share options under it to incentivize our employees. We intend to provide successful employees with additional advancement opportunities. We also plan to provide more educational and training programs for our management personnel and operational staff. Additionally, we opened an office in Shanghai in 2015 to use as a platform for expanding our branding, research and development, information technology and other relevant work. We believe these measures will help us attract, train and retain talented employees for our business which, in turn, will support the overall high-end branding strategy, products research and information technology, and therefore, solidify our market leading position.

With respect to our acquisition plans discussed in the strategies above, we had not identified specific acquisition targets as of the Latest Practicable Date. When considering a possible acquisition target in the future, we plan to consider, among other things, the brand, distribution network, scale, positioning and valuation of the potential target as well as the commercial benefits of the potential transaction to the Group. When considering a potential production facility for purchase, we plan to consider, among other things, the location, size and equipment of the potential production facility. We plan to use [13]% of the proceeds from the [**REDACTED**] for these mergers and acquisitions.

OUR PRODUCTS

Our main products include electric two-wheeled vehicles, which include electric scooters and electric bicycles. We also sell batteries and chargers for our electric two-wheeled vehicles as well as certain other electric two-wheeled vehicle parts. We previously produced certain electric specialty vehicles, including golf and cleaning vehicles, and related parts, but discontinued production in the third quarter of 2014 to focus exclusively on our core products.

The table below sets forth the sales volumes of our electric two-wheeled vehicles during the Track Record Period.

	For the year ended December 31,		
Description	**2013**	**2014**	**2015**
Electric scooters[(1)]	1,594,618	1,869,290	2,044,610
Electric bicycles	1,137,225	1,141,646	1,276,448
Total	**2,731,843**	**3,010,936**	**3,321,058**

The table below sets forth the average selling prices of our electric two-wheeled vehicles during the Track Record Period (excluding batteries and chargers).

	For the year ended December 31,		
Description	**2013**	**2014**	**2015**
	(RMB)	**(RMB)**	**(RMB)**
Electric scooters[(2)]	1,635	1,736	1,704
Electric bicycles	1,102	1,231	1,140

The average prices of our electric scooters and bicycles increased from 2013 to 2014. However, the average prices of our electric scooters and bicycles decreased in 2015 as compared to 2014, as we offered discounts to our distributors for certain of our products as part of promotions to capture additional market share and in response to market competition, as competitors were able to lower their prices due to the decrease in the market prices of raw materials. In addition, we made downward adjustments to the suggested retail prices of our products in 2015 in view of the declining trend in the market prices of electric two-wheeled vehicles. We began to phase out the discounts since the fourth quarter of 2015.

Major details of our electric scooters and electric bicycles are shown below:

Product	**Electric Scooters**		**Electric Bicycles**
	Electric Motorcycles	**Electric Mopeds**	
Motor	Maximum continuous rated power >4KW	≤240W	≤240W
Speed	Maximun speed > 50km/h	≤20 km/h	≤20km/h
Load capacity	150kg	75kg	75kg
Cruising range	60–80km	50–80km	50km

Notes:

(1), (2) The revenue and sales volume of our international sales have been included in the revenue and sales volume of electric scooters, as those sales represented a minor portion of our total sales during the Track Record Period and we consider most of the products sold to international customers as high-end models. For the years ended December 31, 2013, 2014 and 2015, revenue generated from our international sales accounted for 2.1%, 2.9% and 1.7% of our total revenue, respectively.

For avoidance of doubt, with respect to the regulatory classification of our products, electric mopeds and electric bicycles are classified as "non-motorized vehicles" for purposes of the National Standards, while electric motorcycles are generally classified as "motorized-vehicles". For details of the regulatory classifications please see section headed "Regulatory Overview — Requirement Relating to the Licensing of and Road Use by Electric Two-wheeled vehicles". For 2013, 2014 and 2015, our revenue generated from sales of electric bicycles and electric mopeds contributed 99.4%, 98.6% and 99.0% of our total revenue from sales of electric two-wheeled vehicles, respectively, while the revenue from the sales of electric motorcycles contributed 0.6%, 1.4% and 1.0% of the total revenue of our electric two-wheeled vehicles for the same periods, respectively.

Electric Scooters

Our electric scooters are powered by electric motors and generally have more powerful motors, more advanced batteries and more advanced designs than our electric bicycles. In particular, more molded plastic is incorporated into the frames of our electric scooters. Our electric scooters generally have greater power-use efficiency and provide better riding experiences than our electric bicycles and we offer a wider range of options in electric scooters as compared to electric bicycles to match a wide-range of consumer preferences. As of the Latest Practicable Date, we had 93 electric scooter models. The suggested retail prices for the different models of our electric scooters ranged from RMB2,165 to RMB3,920 as of December 31, 2015 (excluding batteries and chargers).

We categorize our electric scooters into electric mopeds and electric motorcycles. Electric two-wheeled vehicles are classified by us and under PRC law as electric motorcycles if either they are capable of speeds over 50 km/h or they have motor rated power over 4 kw. Compared with our electric bicycles, our electric mopeds have more powerful motors and greater range and load capacity. Our electric motorcycles have a similar exterior designs to that of electric mopeds, but have more powerful motors and greater range and load capacity than mopeds. In addition, they have more robust braking systems and better overall performance than mopeds. A special qualification is required for the manufacture of electric motorcycles in the PRC and, according to Frost & Sullivan, we were the first electric two-wheeled vehicle manufacturer in China to obtain this qualification.

For the years ended December 31, 2013, 2014 and 2015, revenue generated from our electric scooters amounted to RMB2,607.0 million, RMB3,244.4 million and RMB3,483.2 million, respectively, representing 51.5%, 55.7% and 54.2% of our total revenue for those periods, respectively.

Electric Bicycles

Our electric bicycles are powered by electric motors. The appearance of electric bicycles is similar to that of traditional bicycles, with few covering plastic parts, and most of the vehicle frame exposed. Our electric bicycles can reach maximum speeds of 20 kilometers per hour when powered by the electric motor. Most of our electric bicycle models use lead-acid batteries. Electric bicycles are more convenient to ride than traditional bicycles as riders can rely on the electric motor for propulsion. They are less expensive and use less power than electric scooters. As of the Latest Practicable Date, we had 74 electric bicycle models. The suggested retail prices for the different models of our electric bicycles ranged from RMB1,465 to RMB2,980 as of December 31, 2015 (excluding batteries and chargers).

For the years ended December 31, 2013, 2014 and 2015, our revenue generated from sales of electric bicycles amounted to RMB1,253.5 million, RMB1,405.9 million and RMB1,455.4 million, respectively, representing 24.8%, 24.1% and 22.6% of our total revenue for those periods, respectively.

Batteries and Chargers

We sell batteries and chargers with our electric two-wheeled vehicles. We also sell batteries and chargers to our distributors for resale in the provision of after sales services. We do not manufacture the batteries or chargers, but purchase these products from suppliers.

For the years ended December 31, 2013, 2014 and 2015, revenue generated from our sales of batteries and chargers amounted to RMB1,027.6 million, RMB1,109.6 million and RMB1,427.9 million, respectively, representing 20.3%, 19.1% and 22.2% of our total revenue for those periods, respectively.

Electric Two-wheeled Vehicle Parts

We produce electric two-wheeled vehicle parts, which include electric motors, vehicle frames and other components. We primarily use these parts in the production of our electric two-wheeled vehicles but we also sell a certain portion of the components, such as plastic parts and lights, to our distributors who resell them in their provision of after sales services.

For the years ended December 31, 2013, 2014 and 2015, our revenue generated from our external sales of electric two-wheeled vehicle parts amounted to RMB95.8 million, RMB45.8 million and RMB62.6 million, respectively, representing 1.9%, 0.8% and 1.0% of our total revenue for those periods, respectively.

Electric Specialty Vehicles

We previously produced certain electric specialty vehicles, including golf carts and cleaning vehicles. These three-wheeled and four-wheeled vehicles are powered by electric motors and able to achieve maximum speeds of 35 kilometers per hour. They are designed for specific functions and certain of the vehicles are able to carry loads of up to 1,200 kilograms. We discontinued production of these vehicles in the third quarter of 2014 to focus exclusively on our primary products.

For the years ended December 31, 2013, 2014 and 2015, revenue generated from sales of our electric specialty vehicles amounted to RMB75.3 million, RMB18.4 million and nil, respectively, representing 1.5%, 0.3% and nil of our total revenue for those periods, respectively.

RESEARCH AND DEVELOPMENT

We focus on research and development to enhance our capability for innovation and our market competitiveness. In particular, we focus our research and development activities on the design of new products and invest significant amounts in the research and development of new technology for core parts and components. We are in the process of developing and enhancing advanced internet connected mobile applications for our electric two-wheeled vehicles, including a remote motor start/stop system, location tracking applications, an onboard problem detecting and reporting system, an integrated control bracelet and theft-recovery applications, some of which have been incorporated into certain of our products. As of the Latest Practicable Date, we held a total of 664 PRC patents, of which 15 were invention patents, 270 were use patents and 379 were design patents, and had 48 patent applications pending approval. Please see "— Intellectual Property" in this section for further details regarding our patents. During the Track Record Period and up to the Latest Practicable Date, we introduced a total of 3 new product series, including more than 167 new product models.

We have a strong research and development team. As of the Latest Practicable Date, we had 231 research and development personnel, approximately 71% of which had college or advanced degrees. Mr. Jinlong Wang, who has over 19 years of professional experience in the electric two-wheeled vehicle industry, leads our research and development team and is responsible for the operation of the research and development center. Our President, Mr. Liu, oversees the general direction and strategic planning of our research and development efforts. Our research and development team currently consists of:

(i) a product research and development center in Wuxi where 112 personnel were conducting electric scooter research as of the Latest Practicable Date;

(ii) a product research and development center in Tianjin where 84 personnel were conducting electric bicycle research as of the Latest Practicable Date;

(iii) an electric equipment research and development center in Wuxi where 14 personnel were conducting research for electronic products, including motor controllers, meters and chargers as of the Latest Practicable Date; and

(iv) a technology development department in Dongguan where 21 personnel were focusing on electric scooter research as of the Latest Practicable Date.

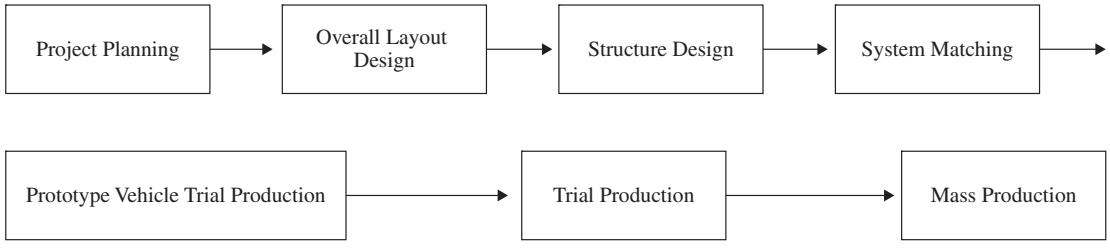
Our research and development center was named "Jiangsu Engineering Research Center for Electric Vehicles" (江蘇省電動車工程技術研究中心) in 2007 by the Jiangsu Province Science and Technology Department (江蘇省科學技術廳) and the Jiangsu Province Department of Finance (江蘇省財政廳).

Our research and development department works closely with our sales and marketing department to keep abreast of market trends, customer feedback and consumer preferences. Our sales and marketing department makes recommendations as to the areas of research focus and proposes product development plans to our research and development department based on its market research. It also provides input on product parameters during the development process. Our sales and marketing department also provides feedback, including sales and performance data, to our research and development department after the products are launched, allowing the research and development department to address any identified problems and make adjustments in a timely manner.

Our research and development team also works closely with our production department to achieve seamless cooperation and timely production. Issues relating to the launch of new products or the development of core components arising in the production process are reported to the research and development department which makes adjustments to the design of the new products or the development of the core components. For the years ended December 31, 2013, 2014 and 2015, we spent RMB83.3 million, RMB133.8 million and RMB133.7 million, respectively, on research and development. Our total research and development expenses during the Track Record Period amounted to RMB350.8 million. All of our research and development expenses, including research costs and product development expenditure, have been expensed into administrative expenses in our financial statements. As our product development expenditure incurred during the Track Record Period did not meet the criteria set out in our accounting policies for capitalization as development costs, they have been expensed in the period when incurred in our financial statements. For more details of our accounting policy relating to research and development costs, please see note 2.5 in section II of the accountants' report in Appendix I to this document.

Development Process for New Product Models

We have a well-established research and development team and management support system for our independent research and development. We focus on collaboration between various internal departments as well as cooperation with external partners, including educational institutions and research and design companies, to develop and launch new products. Our new product development process normally includes the following steps:



Project Planning

Our sales and marketing department provides market feedback and research data and crafts proposals for the development of new products. Our research and development department reviews the proposals and prepares illustrative drawings. The research and development department submits proposals for final approval to our management.

Overall Layout Design

Once final approval is received from management, the research and development department commences with the structural design process and makes virtual three-dimensional models.

Structure Design

Our research and development department undertakes engineering design for new products and, once finalized, makes a prototype that is used for evaluation prior to production.

System Matching

Our research and development department matches the power system and appropriate components to achieve the best possible user experience.

Prototype Vehicle Trial Production

The research and development department carries out trial production of prototype vehicles and conducts performance, safety and reliability testing on the prototype.

Trial Production

Once a prototype passes the testing phase with acceptable results, it is placed into production. Typically, production is initially carried out in small batches. The production department is responsible for confirming the production procedures and processes, and the research and development department is responsible for final evaluation upon confirming all of the details relating to product design. We also submit patent applications for newly designed models, where applicable.

Mass Production

After obtaining the product certification and the inspection reports, and upon approval from the Ministry of Industry and Information Technology for the new product to be added to the Ministry's product management catalogue, where applicable, we commence mass production of the product.

During the Track Record Period, we launched more than 20 new models of electric two-wheeled vehicles each year which were developed through our independent research and development and collaboration with third parties.

Our Independent Development of Technologies

Our in-house research and development department is devoted to researching and developing technologies for use in our electric two-wheeled vehicles. Our in-house team has developed innovative features such as:

GT-R Power System

We developed the GT-R power system, which incorporates various technologies, including a torque tracking control system, which manages torque output according to road and driving conditions, a motor with high torque and efficiency, an Electric Brake System and continuous battery recharging technology which increases available battery power by 17% and thus allows our electric two-wheeled vehicles to travel longer distances. Motors with GT-R power systems are able to achieve an overall rated efficiency of up to 85%, which is the highest in the entire industry in China according to Frost & Sullivan. In addition, its peak torque is 15% higher than motors with normal power systems. These enable our electric two-wheeled vehicles to achieve longer travel distances with more compact batteries and better power use efficiency.

Electric Motors

We produce electric motors at our Cixi and Tianjin facilities. For the year ended December 31, 2015, we produced approximately 45% of our electric motors in-house. As the motors are key components of our products, we have focused on researching and developing electric motors and motor-related technologies for use in, and technologies that improve acceleration, efficiency and range of, our products. Our electric motor technology development department has developed patents for various electric motors and motor related products, including magnet type rotary motors, hub type rotary motors and motor dust covers.

One of our in-house developed electric motors is the rare earth permanent magnet motor. The advantages of this electric motor include:

- *High efficiency.* Compared to competing motors on the market which have rated operating efficiencies ranging from 83% to 85%, the rated operating efficiency of our rare earth permanent magnet motor is more than 85%.

- *Significant torque output.* Peak torque can reach more than four times the rated torque and, when in operation, it has more stable acceleration with less noise.

- *Less efficiency loss under high torque use.* The motor is able to achieve 80% efficiency when operated at 160% of its rated torque capacity.

Electric two-wheeled vehicles powered by the motor are able to accelerate more quickly and with more power and to travel longer distances. In addition to its superior power performance, the motor also delivers energy-savings of up to 10%. We were the only company in the electric two-wheeled vehicle industry to be awarded the Financial Subsidy for Promotion of Energy-Efficient Motors (高效節能電機推廣補助資金), which we received for our development of the motor from the National Development and Reform Commission (中華人民共和國國家發展和改革委員會) and the Ministry of Finance of the People's Republic of China (中華人民共和國財政部).

The amount of financial subsidy we received was RMB14,660,000. For details of government grant, please see section headed "Financial Information — Description of Selected Income Statement Line Items".

Centralized Control and Communication Technology

Our centralized control and communication technology was developed based upon the Local Interconnect Network design requirements and it is used for connecting a variety of applications and electrical system components. We were the first in the electric two-wheeled vehicle industry to implement the centralized control and communication technology. This technology simplifies the internal design of electric two-wheeled vehicles and the wiring, and thereby improves the integration and safety of our electric two-wheeled vehicles. The centralized control and communication technology transmits information from various sensors to the vehicle's central control system. We believe that the centralized control and communication system is foundational to improving technology for the next generation of electric two-wheeled vehicles.

Electronic Anti-lock Braking System ("E-ABS")

E-ABS is an electronic braking system which we developed independently. It is different from ordinary mechanical braking systems in several respects. When a braking signal is received, the hub motor applies the brake promptly. Increased braking pressure is automatically applied when the vehicle is traveling at higher rates of speed. When powered off, the braking system recharges the battery through the battery tube controller. E-ABS does not consume battery power, but actually recharges the battery, extending the distance that may be traveled on a charge.

DC-to-DC Converter with "Zero Voltage Output" Safety Circuit

We have independently developed a converter which incorporates a "zero voltage output" safety circuit, making it safer than typical two-wheeled vehicle converters. Typical converters do not have functionality to detect low current short circuits, which can lead to over-heating and even fire. Our converter has the functionality to identify all types of short circuits by measuring the voltage and, once a short circuit is detected, to shut down the converter, providing increased safety.

Cooperation in Development of Technologies

In addition to our in-house research and development efforts, we partner with outside parties to develop technologies for our electric two-wheeled vehicles. Descriptions of certain of our efforts are set forth below.

Strategic cooperation with China Mobile Group Jiangsu Company Limited, Wuxi Branch ("Wuxi Mobile") and Wuxi Tebbit Technology Co., Ltd ("Wuxi Tebbit")

We engaged certain large state-owned enterprises such as Wuxi Mobile to develop the Internet of Things, a control system for our electric two-wheeled vehicles which integrates various technologies, including GPS satellite positioning and GPRS wireless communication. Through mobile network platforms, our customers are able to remotely access information regarding their electric two-wheeled vehicles, including to download the travel history and to check the location of the electric two-wheeled vehicles. This reduces the risk of theft, provides useful information to the owner and also improves the riding experience.

In August 2013, we entered into a one year technology development agreement with Wuxi Mobile and Wuxi Tebbit. Pursuant to the agreement, Wuxi Mobile is responsible for establishing the platform, overseeing the project and designing the data cards. Wuxi Tebbit, as the terminal supplier, is responsible for providing the platform software, customer service and market support. We were required to purchase a certain number of anti-theft control system sets from Wuxi Mobile in 2013 and to make monthly payments for the use of the technology based on the actual number of orders. We are entitled to use any intellectual property rights which are developed during the course of the cooperation. The agreement has been renewed and is currently valid.

Strategic Cooperation with Beijing Datang Telecom Convergence Communications Technology Co., Ltd ("Datang") (北京大唐融合通信技術有限公司)

In March 2014, we entered into a strategic cooperation agreement with Datang to develop intelligent electric two-wheeled vehicles. Pursuant to the agreement, we are responsible for setting up the research and development center and Datang agreed to develop a second-generation of mobile internet applications, terminal devices and vehicle control systems for our electric two-wheeled vehicles. Datang has agreed to provide us discounts on the applications, devices and systems developed. All research findings and intellectual property rights created during the cooperation will be jointly owned by us and Datang. Our research and development relating to the management platform for the mobile internet applications and terminal devices has been completed and has been incorporated into certain of our products.

Our second-generation of mobile internet applications are based upon technologies, including GPS satellite positioning, GPRS wireless communication and radio frequency identification, and are integrated with functions including smart meters, mobile applications, Bluetooth and background data analysis, through which riders have access to functions such as view recording, navigation, phone and music playing, which enhance the riding experience. The details of the above functions are set forth below:

- *Smart meters.* The smart meter includes functions similar to those of traditional meters but has a high definition touch screen, an integrated multimedia player, a map navigation application, a weather forecast application and caller ID display.

- *Mobile internet applications.* The mobile applications have functions unique to the "Yadea" brand. These functions include map navigation, vehicle data display, maintenance problem identification and remote vehicle control.

- *Bluetooth locking and alarm system.* Through the use of Bluetooth technology, users are able to unlock their electric two-wheeled vehicles with one touch by means of a remote controller. In addition, the electric two-wheeled vehicles automatically lock after the user has left the vehicle and an alarm is sounded if the vehicle is tampered with when locked.

- *Background data analysis system.* By means of data recording and monitoring systems in certain of our electric two-wheeled vehicles, we are able to provide users with more accurate and timely after sale services. The data collected by these systems is transmitted to us for analysis which allows us to adjust vehicle designs to improve performance.

Collaborative Efforts in Design

In addition to our in-house design efforts, we have actively and extensively cooperated with certain colleges, institutions and companies to establish long term strategic partnerships and to develop new product models. During the Track Record Period, these collaborations included:

Collaboration with Jiangnan University

In May 2014, we entered into a technology development agreement with Jiangnan University (江南大學) for the design of electric scooters mainly targeting female customers who are in their late 20's. Pursuant to the agreement, we provide design specifications for the design work to Jiangnan University. We agreed to pay RMB200,000 for the design work. We are entitled to the intellectual property rights from the collaboration except for the right of authorship. Jiangnan University is a national university characterized by its expertise in manufacturing related education. It has numerous experts specialized in industrial design and artistic design who have extensive design instruction experience. We believe that our collaboration with Jiangnan University has enhanced the capacity of our design team and improved our designs.

Collaboration with Southwest University

In March 2015, we entered into a technology transfer agreement with Southwest University for the self-adapting automatic speed shifting hub used with our AAT motors and we are entitled to use such technology with our AAT motors. The high torque from the advanced motor enables our electric two-wheeled vehicles advanced performance in climbing inclines when paired with the advanced automatic shifting hubs. Pursuant to the agreement, Southwest University is responsible for offering technology training and instruction to ensure that the intelligent gear shifting technology is properly adapted into our electric two-wheeled vehicles. In exchange for the use of the patented technology, we are obligated to pay a fee in a total amount of RMB12.0 million by installments and we also agreed to pay to Southwest University an additional RMB10 for each unit sold that incorporates the hub. We have the right to use any intellectual property rights developed by our group based on the self-adopting automatic speed shifting hub, and we have a priority right to obtain exclusivity for the use of the new technological findings developed by Southwest University related to the hub in the international markets. Pursuant to the agreement, we are currently conducting research and development with Southwest University to develop an ATT motor prototype that incorporates the hub.

Engagement of Certain Design Companies

We have engaged certain famous international companies, for example, Giovannoni Design SRL, AMV Design and Boxer Design and Manufacturing Ltd. ("Boxer"), to assist us in developing our next generation of high-end electric two-wheeled vehicles to ensure our leading position in the industry and to enhance the quality of our products and our brand image.

We have engaged the Giovannoni Design SRL ("**Giovannoni**") in September 2014 to assist us with the design of our products in respect of material selection, product appearance and function, through which, we are striving to deliver to customers a comfortable and multi-functional driving experience. We agreed to pay a total amount of EUR100,000 by installments for the design work. We have ownership and use rights for any intellectual property relating to the design work selected and approved by us under the engagement. Giovannoni is a well-known industrial design company established in Milan in 1989. It has in-depth experience from cooperating with various well-known international brands.

In November 2014, we engaged AMV Design, a famous industrial design company established in 1988 in Italy to assist us in industrial design, engineering design and model making to develop new model designs for us. We agreed to pay EUR53,000 for the design and modeling work. We are entitled to the ownership of all intellectual property relating to the design and modeling work.

We are cooperating with Boxer to optimize our products and enhance the functionality of our products while focusing on the product design so that we can launch a new generation of electric two-wheeled vehicles. We engaged Boxer in October 2014 to design a new two-wheeled electric bicycle and we agreed to pay a total amount of RMB1.3 million for the design work. We are entitled to the ownership of all intellectual property relating to the design work selected and approved by us under the agreement. Boxer is a professional design company for motorcycles. It has partnered with certain world leading motorcycle manufacturers on product design. It specializes in vehicle design and the design of core components, such as electric motors, controllers, batteries, shock absorbers, cushions and vehicle frames.

We have also engaged top tier design companies, such as Shanghai Chuangcheng Industrial Design Co., Ltd. ("**Chuangcheng**"), to conduct design work for our products. Chuangcheng is a top domestic design company which specializes in vehicle design. It has a high level of innovation ability, technical skill and particular expertise in branding, product strategy, user research, creative design, structural engineering and promotion. We entered into an agreement in March 2015 with Chuangcheng with respect to our strategic cooperation to design products for the U.S. market. Pursuant to the agreement, we agreed to pay RMB5 million for the design work and an additional RMB10 or RMB8 for each unit sold that is designed by Chuangcheng. We are entitled to the intellectual property rights from the engagement in exchange for the design fees we agreed to pay Chuangcheng.

We believe that we have greatly enhanced our design capacity through our cooperation with these design companies. For example, our electric scooter models "Panda", "Wingman", "X-Police", "Sky-rider", "Diamond" and "X-Aurora" were developed during our cooperation with the design companies and have had successful sales performances. These advanced products have allowed us to obtain price premiums for our products and the higher profit margins have further improved our bargaining position with distributors.

X-Police

Wingman

X-Aurora

Diamond

Panda

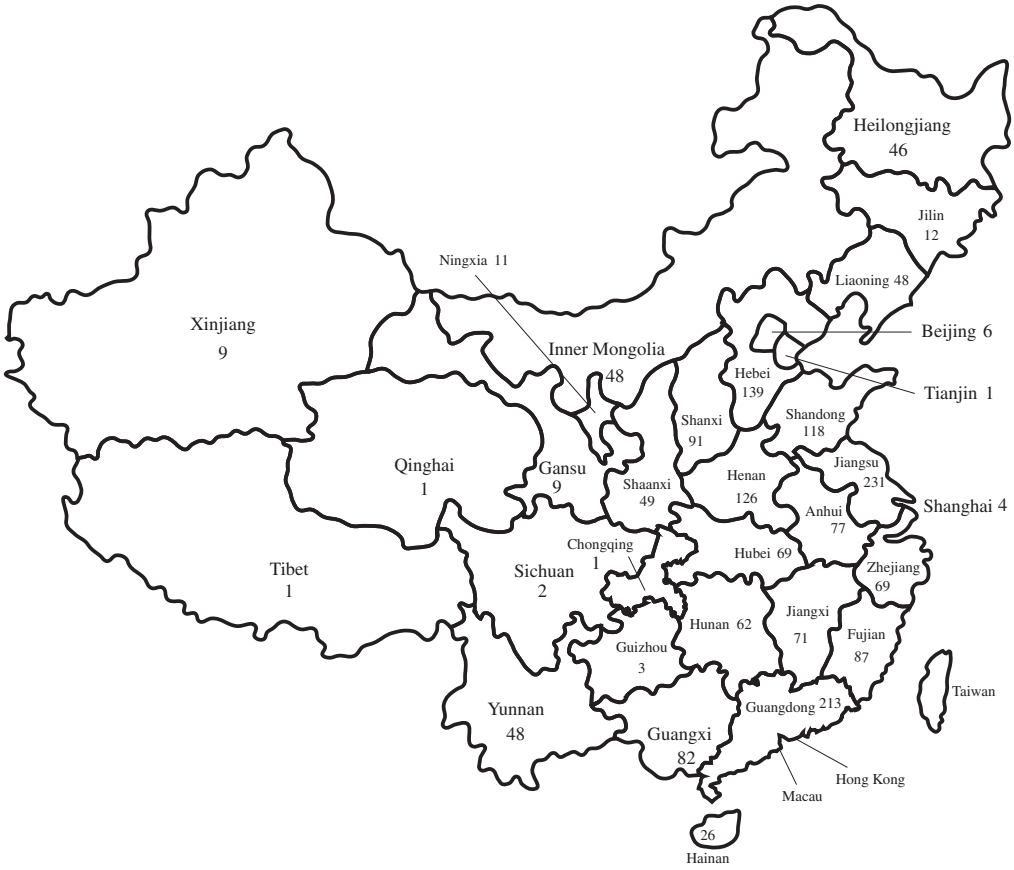
STRATEGIC COOPERATION WITH LIGHTNING MOTORS

We entered into a strategic cooperation agreement with Lightning Motors in June 2015, a U.S. company specializing in researching and developing advanced electric two-wheeled vehicles, to expand our international sales. Pursuant to the agreement, Lightning Motors agreed that we would be its exclusive worldwide electric two-wheeled vehicle partner and granted us exclusivity to use its relevant intellectual property rights (including but not limited to technology) for electric two-wheeled vehicles. The agreement also discusses potential collaboration with Lightning Motors for new electric two-wheeled vehicle products incorporating technologies from their research and development with the ownership of any resulting intellectual property rights to be agreed in the future between the parties. In addition, we acquired preferred shares equal to approximately 11.1% of the equity interests on an as-converted basis in Lightning Motors, in December 2015. The consideration for the acquisition was approximately USD1.3 million.

SALES AND DISTRIBUTION NETWORK

Overview of Domestic Sales

We primarily sell our products through our distribution network in China, which as of December 31, 2015, consisted of 1,760 domestic distributors and covered each province and nearly every administrative region of China. As advised by Frost & Sullivan, the distributorship model is commonly adopted in the Industry. The map below illustrates the number of distributors we had by province in China as of the December 31, 2015.



Our distributors in China are selected according to our internal standards. These distributors either sell our products directly at points of sales or to sub-distributors who then sell the products at points of sales. We believe that our use of distributors allows us to benefit from their sales networks and strengthens our market penetration.

For the years ended December 31, 2013, 2014 and 2015, sales to our five largest distributors, amounted to RMB328.8 million, RMB432.5 million and RMB492.8 million, respectively, representing approximately 6.5%, 7.4% and 7.7% of our total sales in the respective periods. For the years ended December 31, 2013, 2014 and 2015, sales to our single largest distributor amounted to RMB84.0 million, RMB126.2 million and RMB135.5 million, respectively, representing approximately 1.7%, 2.2% and 2.1% of our total sales in the respective periods.

To ensure the quality of our distributors, we monitor their activities and their distribution areas to ensure compliance with our distribution agreements and standards and we conduct periodic evaluations of each distributor's performance. We grade and rank each distributor with respect to a diverse range of distribution activities, such as purchase amounts, network and points of sales expansion, layout and standardization of points of sales, financial strength, inventory aging and marketing activities.

We are primarily responsible for marketing efforts in relation to our brand. Our distributors are responsible for providing after sale services to end customers. To maintain our brand image, we provide trainings to our distributors regarding our brand promotion, our products and sales practices and our distributors are required to follow our sales policies and forbidden from any activity that may damage our reputation in any way.

We also provide rebates to our distributor customers to incentivize them to purchase our products. We set the rebate amounts and the associated sales targets on a month-by-month, season-to-season or annual basis depending on market conditions, particular electric two-wheeled vehicle models and other factors. We take into account each distributor's recent sales performance in determining the rebates. We typically deduct rebate amounts from the purchase orders of the distributors in the period after the distributor meets the sales targets. Our rebate given to our distributor is reflected in the distributor's subsequent purchases in the form of a discount, amounting to generally no more than 5% of the distributor's gross sales in the prior month when the sales targets were met, provided that all the discounts are settled before the year end. As of December 31, 2013, 2014 and 2015, we had sales rebate payable balances of RMB20.3 million, RMB19.7 million and RMB22.7 million, respectively.

We have maintained stable relationships with these distributors and have had between one and twelve years of business relationships with them. None of these distributors were our suppliers during the respective periods. None of our Directors, their respective associates or our Shareholders owning five per cent or more of the total issued share capital of the Company had any interest in any of our five largest distributors during the Track Record Period. To the best knowledge of our Directors, all of our distributors were Independent Third Parties, and none of our distributors was wholly-owned or majority controlled by our current or ex-employees during the Track Record Period.

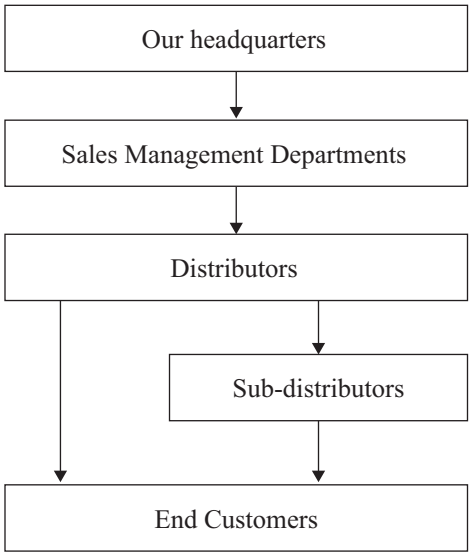
Our Distribution and Sales Process

Our distribution and sales system primarily consists of the following stages:

- Sales to distributors. We produce and sell our products on a wholesale basis to authorized distributors. We recognize sales revenue when the electric two-wheeled vehicles are picked up by the distributors.

- Distributor and sub-distributor resales at points of sales. Our distributors resell our electric two-wheeled vehicles to consumers at points of sales within their respective distribution areas or to sub-distributors who resell within their respective distribution areas.

The diagram below illustrates our management system for our sales and distribution network.



We strive to actively manage our distribution network. At the Group level, we have an area director for each area who is responsible for the management of distribution in that area. At the provincial level, we have provincial sales management departments which are managed by senior provincial managers who are responsible for establishing sales management teams, administrating and supervising our distribution network. At the regional level, each distribution region is covered by a senior sales manager who is responsible for managing and supervising distributor points of sales and promotional activities in that region. Our area directors, senior provincial managers and senior sales managers also make periodic visits to distributor points of sales for inspections and assessments. We believe that our sales practices are generally in line with the standard market practice in the industry. Since our distributors are only allowed to sell our products in their respective sales areas, we believe that there is no material competition among our distributors.

Network of Domestic Distributors

The table below sets forth the changes in the number of our domestic distributors during the Track Record Period.

	As of December 31,		
Domestic distributors	**2013**	**2014**	**2015**
Number of distributors	1,549	1,790	1,760
Net change, reflecting	200	241	(30)
— Termination	55	106	350
— Addition	255	347	320

The termination of distributors were primarily due to: (1) certain of the distributors failing to make the minimum monthly required purchases for three to four consecutive months and our terminating our contracts with them as a result; (2) certain small distributors going out of business due to poor management; (3) contracts with certain distributors not being renewed by us or the distributors; and (4) our terminating agreements with distributors who violated our distribution agreements or policies (such as by modifying our products). For more details, please refer to "Business — Sales and Distribution Network — Organization and Management of Our Distribution and Sales System — Termination and Transfer Process" in this document.

Organization and Management of Our Distribution and Sales System

Criteria for Selection of Distributors

We generally seek to engage distributors based on their business qualifications and marketing capabilities, such as sales network coverage, network quality, industry experience, operating strategies, reputation, number of personnel, financial condition and logistics and transport capabilities. We normally enter into one-year standard distribution agreements with our distributors, and we reserve the right to terminate distribution agreement if our distributors deviate from any key terms.

Distribution Agreements with our Distributors

We typically enter into one-year standard distribution agreements with our distributors and may renew distribution agreements with them upon the expiration of these agreements. We do not enter into agreements directly with sub-distributors. Our distributors and the sub-distributors are only allowed to distribute within the designated distribution areas of the distributors.

Our distribution agreement with each of our distributors generally includes the following key terms:

Duration:	The term is typically one year. Renewal is subject to negotiation and the distributor meeting sales and performance targets.
Payment:	Full payment is normally required before pick-up of products (although we offer credit terms to certain selected distributors with good credit histories).
Designated distribution area:	Distributors are normally given geographical exclusivity over designated areas. Our distributors are not allowed to sell our products outside of their designated areas.
Minimum purchase requirement and sales target:	We set a minimum purchase requirement and a sales target for each of our distributors. If a distributor fails to reach its sales target for two or three consecutive months, we may adjust its sales targets or alter its designated distribution area and may not supply further products to it until it has improved its performance. If it continues to miss sales targets, we may terminate the distribution agreement with the distributor and seek a new distributor for the area.

Management of sub-distributors:	We are entitled to require our distributors to terminate their sub-distribution agreements with their respective sub-distributors upon the occurrence of any material breaches by their respective sub-distributors.
End pricing:	We provide our distributors with suggested pricing guidelines for our products and we normally allow minor deviations of approximately RMB150 from our suggested prices, which are generally within 10% of our suggested prices.
Products:	According to our agreements entered in to with our distributors, they are restricted from distributing the products of our competitors.
Return of products:	No returns are allowed, including returns of unsold goods, except due to material quality defects.
Delivery:	We are responsible for arranging the delivery of our products. The transportation costs are usually borne by the distributors. However, we also pay freight for distributors as part of promotions from time to time.
After sale services:	Our distributors are responsible for after sale services.
Early termination right:	We are entitled to terminate distribution agreements under various scenarios, including where the distributor makes alteration to our products without our prior approval, fails to make the minimum monthly purchases for three to four consecutive months, distributes another brand without our prior approval and distributes beyond the designated areas.

During the Track Record Period, we maintained a seller-buyer rather than principal-agent relationship with each of our distributors. Sales are recognized as revenue, and the titles to our products and any legal risk are passed to them when they pick up the products at our warehouses.

According to the Distribution Agreements, we require our distributors to comply with all applicable laws and regulations for their operations. Save as disclosed in "— Unauthorized Alterations of Our Products by Distributors" in this section, we did not detect any material non-compliance by our distributors with the terms of our distribution agreements during the Track Record Period

Credit Policies

Our distributors are required to place orders at least six days in advance of pick-up. We normally require our distributors to settle payment one to two days in advance of the scheduled pick-up and we normally only release products to our distributors after receipt of payment, as we believe requiring pre-payment encourages our distributors to distribute our products in a timely fashion and avoid accumulation of excess inventory.

In certain cases, we grant credit periods varying from 15 days to six months to distributors with outstanding creditworthiness on a case-by-case basis. We believe that the extension of credit periods to our distributors would provide liquidity and support them in developing business with us. The table below sets forth details regarding our distributors who were offered credit periods during the Track Record Period.

	As of December 31,		
	2013	**2014**	**2015**
Number of distributors offered credit periods.	155	453	1,203
Amount of credit used by the distributors (RMB'000).	122,338	176,391	422,150
% of total revenue.	2.4%	3.0%	6.6%

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any significant overdue payment in relation to the credit periods we granted to our distributors.

Competition

To avoid competition among our distributors, we generally grant geographical exclusivity to our distributors over the designated areas in which they operate. The designated areas are defined under the distribution agreements with our distributors with reference to the name of the province, city, county, town or village. Meanwhile, based on the concentration of distributors and sales, in rare cases in large urban areas with high population densities and concentrated demand for our products, the sales areas for the distributors are defined by certain street grids. As the points of sales of different distributors with designated sales area by street grids are separated by reasonable distances and market demand in such area is huge, we believe designating sales area by street grids does not cause any material vicious competition among the distributors. As of December 31, 2015, we had 83 distributors with sales areas defined by street grids.

The designated areas are determined by our sales personnel and regional sales manager after conducting onsite inspections and after considering and verifying the financial capacity, staffing, sales experience, track record, and funding of the distributor in the designated area. We also take into account factors such as the population, consumption levels and market demand in and area when determining the boundaries. Our distributors are not allowed to sell our products outside their designated areas. It is stipulated under our manual, such provisions shall also apply to the respective sub-distributors. Any violations will result in penalties to our distributors, including warnings, rebate deductions, suspension of sales and termination of distribution agreement. Through controlling the locations in which our distributors and their sub-distributors may establish a point of sales, we are able to avoid cannibalization and prevent competition among our distributors and their sub-distributors at the retail level.

Termination and Transfer Process

In general, we have the right to terminate the distribution agreement with our distributors for various reasons. The table below sets forth a breakdown of the reasons for elimination of domestic distributors over the Track Record Period.

	For the year ended December 31,		
Reasons of Termination	**2013**	**2014**	**2015**
Failure to make minimum monthly required purchases for three to four consecutive months	52	88	223
Going out of business due to poor management	1	9	62
Non-renewal by our Company or our distributors	2	7	61
Termination and violation of our distribution agreements or policies (such as modifying our products)	0	2	4
Total	**55**	**106**	**350**

As the number of our distributors has grown significantly in recent years, to enhance our ability to manage our distributors, we heightened our standards for retaining and renewing existing distributors beginning in the second quarter of 2014 and terminated an increasing number of under-performing distributors. As a reflection of that effort, the overall number of distributors terminated, and in particular, the number of distributors terminated for failure to make minimum purchases for three to four consecutive months, increased significantly in 2014 and 2015.

With respect to the points of sales of the terminated distributors, our sales personnel generally help to search for replacement distributors that meet the criteria set forth in our internal distributor management policies and coordinate the transfer of inventory from terminated distributors to existing distributors or newly appointed distributors, as the case may be. After the former and the replacement distributor confirm arrangements in relation to renovations of points of sales, prices of unsold products, payment method and time, the hand-over process is completed. We do not accept return of inventory that has been sold to our distributors upon termination of distributorship. During the Track Record Period, all of the inventory held by terminated distributors was taken over by the relevant replacement distributors.

Inventory Management

Our sales personnel monitor the inventory levels of our distributors mainly through onsite inspections to ensure that there is no excess accumulation of inventory. We deem on-hand inventory level of a distributor is excessive when it exceeds 1.8 times the average monthly sales of the distributor which is calculated based on the average monthly sales during the past 12 months on a rolling basis. Our sales managers conduct onsite inspections to monitor inventories at the points of sales of all our distributors at least once every two weeks and submit written evaluation reports to our sales management team and our regional director. Meanwhile, our regional directors and provincial sales managers conduct monthly onsite inspections at points of sales of the distributors with sales in aggregate accounting for more than 30% of total sales in their respective areas or provinces and at the newly opened points of sales in the relevant month. Furthermore, our regional directors and provincial sales managers are required to conduct quarterly onsite inspections at no less than 90% of the points of sales in their respective areas, and, in particular, conduct no less than three times of onsite inspections at all the newly opened points of sales in the relevant quarter. Through the above mentioned inventory management measure, we are able to detect excess accumulation of inventory of our distributors. If our inspection findings indicate any potential excess accumulation of inventory of a distributor, we will suspend our sales to such distributor and actively monitor its inventory level until such distributor restores a normal inventory level. During the Track Record Period , we were not aware of any distributors who had excessive inventory but still placed order with us and therefore the suspension of sales to such distributors has not occurred. These procedures, combined with our requirement for most distributors to pay us on a payment-before-delivery and our "no return or exchange unless defective" policies, help ensure that our sales to distributors reflect genuine market demand and mitigate the risk of inventory accumulation in the distribution channels.

In addition, we encourage distributors to have their inventory connected with our CRM system for us to track their inventory online. As of December 31, 2015, we had 1,739 distributors registered with our CRM system which was mainly used by these distributors for placing orders. But there were only a limited number of distributors had been set up to have their inventory managed through our CRM system, we completed the upgrade of our online inventory tracking system to better manage our distributors inventory levels in February 2016. We plan to have substantially all of our distributors to have their inventory connected with our system by the end of 2016. For details of our CRM system, see "— Information Technology" in this section.

Management of Sub-distributors

As specified in our distribution agreement as well as Distributors Management Manual, our distributors are generally allowed to engage sub-distributors in their respective designated geographical region with our prior approval. Our distributors are responsible for any breaches by their sub-distributors. In addition, we may require our distributors to terminate their respective sub-distribution agreements and we may also terminate our distribution agreements upon the occurrence of any material breaches by their sub-distributors.

Since we have no direct contractual relationships with sub-distributors, apart from authorizing our distributors to manage their respective sub-distributors and ensure that such sub-distributors operate in compliance with our sales policies, we arrange our sale managers to supervise sub-distributors' daily management, evaluate their business performance and impose penalties for their non-compliance. We also conduct regular onsite inspections, provide regular trainings to and hold regional conference with them frequently. For details of onsite inspection, please see "— Sales and Distribution Network — Management of Distributor Point of Sales" in this section.

Distributor Use of Personal and Family Member Bank Accounts to Settle Certain Payments

During the Track Record Period, certain of our distributors (the "**Relevant Distributors**") conducted their businesses as individually-owned businesses ("個體工商戶") together with certain of their family members. Certain of them settled all or part of their payables to us through their personal bank accounts or bank accounts owned by members of their families. Frost & Sullivan has advised that this is a common industry practice in China. As advised by our PRC Legal Advisors, individually-owned business can be operated by the individual or by his or her families. All the activities relating to the individually-owned business conducted by the individual or by his or her family member are deemed as the operations conducted by the individually-owned business. Therefore, as advised by our PRC Legal Advisors, amounts settled through the personal bank accounts of the Relevant Distributors or the bank accounts of members of the families of the Relevant Distributors are deemed under PRC law to have been paid by such individually-owned business. Therefore, neither the Relevant Distributors nor their family members have a right of recourse against us with respect to the amounts settled through such arrangements. As advised by our PRC Legal Advisors, such settlement arrangements are deemed as the joint operation activities of the family members under the individually-owned business which are allowed by the relevant PRC laws and do not violate any relevant PRC laws or regulations. Therefore, our PRC Legal Advisors are of the view that we will not be punished by government authorities or face any claims or litigation from any person with respect to such settlement arrangements. Furthermore, we have obtained written confirmations from more than 96% of the Relevant Distributors and their relevant family members from 2012 to 2014 before we implemented new payment procedures in January 2015 (as described in the next paragraph), in which they have each agreed to indemnify us against any damages and losses that we may incur from such settlement arrangements, and further confirmed that (1) they settled their purchases from us through their personal bank accounts or bank accounts owned by members of their family; (2) the payment amounts as listed in their written confirmations correctly reflected their purchases of our products; (3) there was no dispute arising from such payment arrangement between the Relevant Distributor and us; and (4) all their sources of payments were legal and they were not involved in any money laundering activities. As such, we believe there is no potential operational risk nor potential liability with respect to this settlement arrangement. For the years ended December 31, 2013, 2014 and 2015, there were 975, 1,279 and 1,463 Relevant Distributors making settlement through their personal bank accounts or the bank accounts owned by members of their family, respectively; and the aggregate amount settled through Relevant Distributors' personal bank accounts or bank accounts owned by members of their family was RMB1,851.9 million, RMB2,947.2 million and RMB3,336.1 million, respectively, representing approximately 33.6%, 50.6% and 51.9% of our revenue for those periods, respectively.

To better manage payments from distributors, since January 2015, we have required: (1) the distributors and their family members to not be involved in any money laundering or other illegal activities; (2) the distributors and their family members to indemnify us against all damages and losses that we may incur from such activities of the Relevant Distributors; and (3) the distributors wishing to settle their payables to us through personal bank accounts or the bank accounts of family members to provide a letter listing out details of the relevant bank accounts that they intend to use and agreeing that any amount settled through such settlement accounts will be deemed to be a payment from the distributor for purchases from us. Such distributors are required to give us 15 days prior written notice if they intend to change any settlement accounts and the change of settlement accounts is only allowed with our written approval.

Management of Distributor Points of Sales

We manage distributor points of sales primarily in the following manner:

- *Consultation before opening.* We require distributors to consult with us prior to opening any points of sales. We review a variety of factors, such as the proposed site, potential market demand, presence of competitor stores and degree of local market penetration and provide input on the planned location.

- *Standardized design.* We provide technical support to our distributors with regard to establishment of their points of sales, including selection and design of the points of sales and centralized sourcing of renovation materials. Distributors must follow our standardized requirements with respect to design of each distributor points of sales and we are in the process of implementing a strategy of perfecting the end sales experience by overhauling the points of sales and product displays of our distributors according to innovative designs provided by top design companies to enhance the shopping experience and portray a high-end brand image to consumers.

- *Exclusivity.* According to our agreements with our distributors, the distributor points of sales are not allowed to sell or display any competing third party's products. The distributor selling or displaying any competing third party's products will receive a warning from us and may further be disqualified as our distributor.

- *Onsite inspections.* We conduct onsite inspections of each of the points of sales of our distributors and their respective sub-distributors to help ensure that our uniform operating standards are properly implemented, that there is no excess accumulation of inventory and our distributors and their respective sub-distributors are following our sales policies. Our sales team, consisting of more than 240 personnel including regional directors, provincial managers and other sales personnel, is responsible for the periodic onsite inspections. Our sales personnel conduct onsite inspections at the points of sales of our distributors at least once every two weeks and submit written evaluation reports to our sales management team and our regional director on the results of such inspections. Our regional director and our provincial sales manager conduct onsite inspections at the points of sales of our distributors once per quarter and once per month, respectively.

- *Unified management information system.* We have implemented the CRM system for a portion of our distributors allowing us to collect and analyze sales data from those distributors.

Distributor Points of Sales Overhaul Campaign

We have developed a distributor points of sales overhaul campaign which we have set up in line with global retail industry trends towards the provision of customized services, a focus on the customer experience and on store displays and brand presentation. The overhaul campaign involves approximately 9,000 existing distributor points of sales. As of December 31, 2015, we had completed upgrading approximately 4,700 points of sale and expect to complete upgrades by the end of 2017. Our expected remaining expenditure for the distributor points of sales overhaul campaign is RMB110 million and RMB110 million for 2016 and 2017, respectively. We plan to fund our overhaul campaign principally from approximately [16]% of the proceeds from the [**REDACTED**] and cash generated from our operating activities. We believe that our current distributor points of sales overhaul campaign makes us a

pioneer in the electric two-wheeled vehicle industry in terms of our focus on improving the customer experience and the establishment of our brand as a high-end brand.

Our distributor points of sales overhaul campaign was established in cooperation with Beijing Five Union, a fashion brand consultancy firm which was established in 1998 and focuses on operational management research, with particular emphasis on consistent brand promotion and long-term brand planning. Beijing Five Union assists with determining the desired brand image, management objectives for the brand and marketing methods.

We plan to achieve the following strategic goals with distributor points of sales overhaul campaign in the coming three to five years:

1. Assisting distributors to complete renovations of points of sales to enhance our brand image and competitive edge.

2. Optimizing product structure and increasing the core competitiveness of our brand.

3. Enhancing the value of high-end products and improving the brand premium.

4. Improving the overall integrated value and increasing our profitability.

Our distributor points of sales overhaul campaign includes the following specific steps:

- Improving window and product displays to enhance brand image and increase the number of visitors. A photo of an improved display is set forth below.

- Setting up riding paths in points of sales to enhance the consumer experience by allowing consumers to test drive our products and to attract more consumers to points of sales as well as to display a wider range of our products. A photo of a riding path is set forth below.

- Reducing product display density at points of sales by reducing the number of identical models on display, improving product layouts and highlighting our core products through better display arrangements, with a particular focus on color settings. This involves shifting from a storage-oriented product display, where a wide variety of models are featured on showroom floors, to a boutique display format where a limited number of models are displayed with great attention to aesthetics. Photos of improved displays are set forth below.

- To improve the decor and general design of distributor points of sales, including by a clearer delineation of functional areas, such as model displays, accessory displays, test driving areas, after-sales maintenance and seating and waiting areas. Photos of seating and waiting areas are set forth below.

- Promoting the riding culture and enhancing the shopping experience, including to increase sales of accessory products, such as helmets, clothing and protective gear. A photo of this type of product display is set forth below.

We have completed the implementation of our distributor points of sales improvement campaign at certain points of sales. Benefiting from the enhancement of the customer experience and the better brand presentation, we believe that these points of sales will experience increases in both the number of visitors and sales.

Online Platforms

We established an online platform "Yadeamall" in July 2014. We promote our products and collect customer feedback to support the sales efforts of our distributors through Yadeamall. Yadeamall is an online showcase platform for our products and it currently does not involve any online sales or payment acceptance. Customers may place orders through Yadeamall and then pay for and pick up our products at the points of sales of our distributors. Currently, we have eight distributors, each in different cities, who have joined Yadeamall and are accepting orders through it online, most of which are the largest local distributors in their respective areas. The prices of the products presented online by each distributor are the same as the prices of the products sold in the point of sales of such distributor. Considering that we have uniform suggested retail prices for our products (whether they are ordered online or purchased offline) and that customers place online orders only from their respective local distributors and pick up the products at the points of sales of such local distributors, we believe that our online platform does not cause any material competition among distributors within a region. In addition, along with the increasing number of distributors joining Yadeamall, we believe our online platform supplements our traditional distribution network and will boost overall sales of our products in future. As advised by our PRC Legal Advisors, we do not need to obtain any PRC permits or authorizations to offer this showcase platform to

customers and allow them to place orders freely through the platform for pick-up at our distributors, except the ICP record (which we have already obtained).

In the future, we plan to produce electric two-wheeled vehicles to be marketed and sold exclusively through our online platform, particularly high-end lithium battery powered electric scooters and to market Lightning branded products exclusively through our online platforms. We plan to ship such models directly to end customers and to retain all proceeds from the sales. We believe that this will bring higher profit to us while allowing us to avoid directly competing with our distributors (as we will be marketing and selling these models exclusively through our online platform).

We have applied for the relevant permits to commence online sales, which we expect to obtain by the second quarter of 2016. Our PRC Legal Advisors have advised that there are no legal impediments to our obtaining the permits. After obtaining the relevant permits, we plan to launch new products which are to be marketed and sold exclusively through our online platform. The estimated remaining capital expenditure for the development of our online platform is approximately RMB78.0 million, which is to be funded principally from [5%] of the net proceeds from the [**REDACTED**].

Beginning in 2014, we opened flagship stores on certain popular Chinese online shopping websites to sell electric two-wheeled vehicle accessories. As advised by our PRC Legal Advisors, we as the vendor are not required to obtain the relevant online sales permits with respect to our online sales through third party online shopping websites. As advised by our PRC Legal Advisors, we have complied with all relevant PRC laws and regulations with regard to our online platform and use of third party platforms. In 2015, our total amount of online sales through the third party online shopping websites was approximately RMB1.2 million.

International Sales

We exported our products to customers in more than 50 countries during the Track Record Period, with Turkey and Hungary being our largest export markets. We believe that our widespread international sales and high quality relationships with international customers evidence the leading quality of our products. We manufacture and customize our export products based on the requirements of our international customers and we ensure the products manufactured are in compliance with the relevant standards of the international market. Our products exported to the international markets have been tested by TÜV SÜD of Germany and RDW of the Netherlands, and have received CE Marking and EC Type-approval certificates from those agencies, respectively. For details of the technical standards in the international market, see "Industry Overview — Technical Standards in the International Market." In addition, some international customers give us written authorization to manufacture customized products with their respective trademarks which are to be purchased exclusively by them. Because technology used in manufacturing electric two-wheeled vehicles is relatively mature, and because of the fact that our international sales have been fairly limited, we have not encountered any significant issues relating to intellectual property rights with regard to our exports. Nevertheless, to avoid any intellectual property rights disputes arising from our international sales, we have established a specialized team consisting of our technology staff to closely follow the global development of manufacture technologies in electric two-wheeled vehicles and the application status of intellectual property rights for any new technologies. The specialized team consists of four management members, headed by Mr. Shifu Wei, our deputy chief engineer who is responsible for technical aspects, and Mr. Weijia Qian, our general counsel who is responsible for legal aspects, with participation from two members of our international sales department. As of the Latest Practicable Date, we were not aware any of disputes, claims or litigation involving our intellectual property rights or third-party intellectual property rights arising from our international sales.

Our major international customers are mainly from Turkey and Hungary, and they are primarily engaged in selling electric vehicles and motorcycles. We have maintained stable relationships with these major international customers and have between two and five years of business relationship with them. Our sales to all the Turkey and Hungary customers accounted for approximately 79.7% of our total international sales revenue during the Track Record Period.

For the years ended December 31, 2013, 2014 and 2015, revenue generated from our international sales amounted to RMB106.9 million, RMB166.2 million and RMB107.2 million, respectively, accounting for 2.1%, 2.9% and 1.7% of our total revenue for those periods, respectively. Our international sales primarily include (i) our product models marked with our own branding, and (ii) products manufactured in accordance with custom manufacturing requirements provided by customers and which are sold under the local brands designated by the customers.

SANCTIONS RISK IN RELATION TO SALES OF OUR PRODUCTS TO CUSTOMERS IN CERTAIN SANCTIONED COUNTRIES

Sales to Customers in Certain Sanctioned Countries

During the Track Record Period, we engaged in limited sales of electric vehicles to customers located in the following countries (the "**Sanctioned Countries**") against which trade or economic sanctions had been imposed by certain overseas governments, including the government of the United States ("**U.S.**"), the member states of the European Union ("**EU**") and the government of Australia.

Sale to Customer in Iran and the Sanctions in relation to Iran

For the years ended December 31, 2012, 2013, 2014 and 2015, our sales to Iran were USD4,620, nil, nil and nil, representing 0.001%, nil, nil and nil of our total revenue for the corresponding periods, respectively. In addition, in October 2013 we held some discussions with the transportation bureau of Teheran, Iran regarding a possible project pertaining to electric bicycles. The project never came to fruition and all discussions were terminated in June 2014. Subsequent to the sales in 2012, we did not, and do not hereafter expect to, export any more products to Iran. Nor have we resumed or intend to resume discussions with the transportation bureau of Teheran.

The U.S., EU and Australian sanctions in relation to Iran are multiple and varied, and prohibit persons subject to those regulations (including U.S., EU and Australian persons and, in some cases, non-U.S., -EU or -Australian persons) from engaging in specified trade, supporting or financing specified transactions with, or supplying specified goods or services (including military or dual use items) to Iran, the Government of Iran or persons in Iran; or engaging in dealings with or in the property of, certain designated persons. Pursuant to the January 16, 2016 implementation of the Joint Comprehensive Plan of Action ("**JCPOA**") between Iran and the "P5+1" nations, many nuclear-related sanctions imposed by the U.S., the EU and the United Nations have been eased. These changes are prospective only and do not apply to sales or other conduct that occurred prior to January 16, 2016. Our Directors confirm that, after making all reasonable inquiries, the customer involved in our sale to Iran is neither a designated person nor is owned by a designated person. Nor were the products sold to our customer in Iran (i) comprised of military or dual use items (ii) manufactured in or comprised of parts or components sourced from the U.S., the EU or Australia; or (iii) carried on vessels flagged or registered in the U.S., the EU or Australia.

Sale to Customer in Sudan and the Sanctions in relation to Sudan

For the years ended December 31, 2012, 2013, 2014 and 2015, our sales to Sudan were nil, nil, EUR59,915 and nil, respectively, representing nil, nil, 0.008% and nil of our total revenue for the corresponding periods, respectively. Subsequent to the sales to Sudan in 2014, we did not, and do not hereafter expect to, export any more products to Sudan.

The U.S., EU and Australian sanctions in relation to Sudan bar persons subject to those regulations (including U.S., EU and Australian persons and, in some cases, non-U.S., -EU or -Australian persons) from engaging in specified trade, supporting or financing specified transactions with, or supplying specified goods or services to Sudan, the Government of Sudan or persons in Sudan. Our Directors confirm that, after making all reasonable inquiries, the customer involved in our sale to Sudan is neither a designated person nor is owned by a designated person. Nor were the products sold to our customer in Sudan (i) comprised of military or dual use items (ii) manufactured in or comprised of parts or components sourced from the U.S., the EU or Australia; or (iii) carried on vessels flagged or registered in the U.S., the EU or Australia.

Sales to Customers in Russia and the Sanctions in relation to Russia

For the years ended December 31, 2012, 2013, 2014 and 2015, our sales to Russia were USD37,056, USD83,515, nil and nil, respectively, representing 0.007%, 0.010%, nil and nil of our total revenue for the corresponding periods respectively. Subsequent to these sales to Russia in 2013, we did not, and do not hereafter expect to, export any more products to Russia.

The sanctions imposed by the U.S., EU and Australia against Russia were implemented in 2014 and are, in general, targeted at (i) exports of military and specified "dual use" goods and technology, (ii) dealing in property of designated enterprises and individuals; and (iii) transacting in new debt, equity or money market instruments issued by designated entities in the financial and energy sectors of the Russian economy. Our Directors confirm that, after making all reasonable inquiries, the customers involved in our sales to Russia are neither designated persons nor owned by designated persons. Nor were the products sold to our customers in Russia (i) comprised of military or dual use items (ii) manufactured in or comprised of parts or components sourced from the U.S., the EU or Australia; or (iii) carried on vessels flagged or registered in the U.S., the EU or Australia.

Applicability of Sanctions Imposed by the U.S., the EU and Australia

Aspects of the U.S., EU and Australian sanctions regimes incorporate both measures adopted autonomously by these governments or ruling bodies and those implemented as a result of sanctions resolutions adopted by the United Nations Security Council.

According to our Sanctions Laws Legal Advisors, the sanctions imposed by the U.S. generally apply to "U.S. persons," including U.S. citizens and permanent residents, entities organized under the laws of the United States and persons physically in the United States. In certain circumstances, the reach of U.S. sanctions programs can extend to dealings by non-U.S. persons with sanctioned parties or entities. Sanctions can be enforced against acts by foreign persons, including conduct abroad, if such activity causes U.S. persons or persons within the territory of the U.S., even unknowingly, to violate U.S. sanctions. This may include causing a bank to process a transaction relating to a U.S.-originated good or service, or services related to clearing offshore transactions denominated in U.S. Dollars. In addition, non-U.S. persons can be subjected to penalties for providing material support or assistance to certain targeted persons and/or entities.

The U.S. sanctions programs against Iran also authorize the imposition of "secondary sanctions" against non-U.S. persons who engage in certain activities in Iran or with Iranian persons. Secondary sanctions can include being blocked from certain portions of the U.S. economy (e.g., aspects of the financial systems, or eligibility for U.S. Government contracts) or being denied certain trade privileges. They may also include being placed on a prohibited list, if the U.S. Government deemed the non-U.S. person's activities to be sufficiently harmful to the U.S. Finally, non-U.S. persons who conspire to violate U.S. trade rules, or who help conceal prohibited transactions, may be subject to sanctions penalties. Many aspects of these "secondary sanctions" have been relaxed following implementation of the JCPOA, but these measures remain in place and continue to apply to some transactions, particularly those involving dealing with designated parties, the transfer of U.S.-origin goods, services or technology or the involvement of U.S. persons.

According to our Sanctions Laws Legal Advisors, the sanctions imposed by the EU typically apply (i) within the territory of the EU, including its airspace; (ii) on board any aircraft or any vessel under the jurisdiction of a EU Member State; (iii) to any person inside or outside the territory of the European Union who is a national of a EU Member State; (iv) to any legal person, entity or body, inside or outside the territory of the European Union, which is incorporated or constituted under the law of a Member State; and (v) to any legal person, entity or body in respect of any business done in whole or in part within the EU.

According to our Sanctions Laws Legal Advisors, the sanctions imposed by Australia generally apply to activities: (i) conducted wholly or partly in Australia; (ii) conducted by Australian citizens and Australian-registered bodies corporate outside Australia; and (iii) conducted on Australian-flagged vessels and aircraft (whether or not those activities are conducted by an Australian citizen or Australian-registered body corporate).

As advised by our PRC Legal Advisors, the exports of our products to Sanctioned Countries, where those sales complied with applicable PRC export laws and regulations, do not violate any laws of the PRC.

Sanctions Risks Faced by Our Group in relation to the Sales of Products to Iran, Sudan and Russia

In light of the following factors, namely: (i) the amount of sales of our products to Iran and Sudan during the Track Record Period was negligible, and, as of December 31, 2014 all such sales have ceased, (ii) none of our sales involved exports of military, nuclear or dual use items to Iran, Sudan or Russia, nor sales to particular industry sectors targeted by those sanctions, (iii) our sales to Russia occurred prior to the date in which the sanctions in relation to Russia were put in effect, (iv) our Directors confirm that, after making all reasonable inquiries, none of the customers involved in our Sanctioned Country sales is a designated entity or is owned by a designated entity; and (v) as confirmed by our PRC Legal Advisor, the exports of our products to the Sanctioned Countries complied with applicable PRC export laws and regulations, our Directors confirm, and our Sanctions Laws Legal Advisors, that the sanctions risk imposed by the U.S., EU and Australian sanctions programs on our Company, our [**REDACTED**] and Shareholders and persons who might, directly or indirectly, be involved in permitting the [**REDACTED**], trading and clearing of our Shares including the Stock Exchange and related group companies is very low for the following reasons: (i) we are not U.S., EU or Australian persons, (ii) our sales to Iran, Sudan and Russia did not take place in the territory of or on vessels of the U.S., EU or Australia, (iii) the products sold to Iran, Sudan and Russia were not made in or comprised of parts or components made in the U.S., EU or Australia, (iv) the business of our Group is not the type that should place it at risk of engaging in

the types of activities that have been subject to sanctions penalties by the U.S, the EU or Australia, including selling or brokering the sale of tankers to a sanctioned Iranian shipping line, providing financial services to money launderers or terrorist organizations, providing support for the manufacture or proliferation of weapons of mass destruction, or facilitating violations or evasions of sanctions laws, (v) although the single sale to Iran in 2012 was denominated in U.S. dollars, there is little likelihood that the sale would be deemed to have a sufficient nexus with the U.S. banking system or to constitute a significant financial transaction with a targeted Iranian entity to warrant imposition of penalties against any member of the Group, (vi) no other aspect of our Sanctioned Country sales, to our knowledge, brought this activity within the scope of the U.S., EU or Australian sanctions against Iran, Sudan or Russia, and (vii) we have undertaken that we will not (1) enter into any future dealings or transactions with sanctioned entities and entities in countries where country-wide sanctions have been imposed, or (2) apply, directly or indirectly, the proceeds from the [**REDACTED**] or any other funds raised through the Stock Exchange to finance or facilitate any projects or businesses with sanctioned entities and entities in countries where country-wide sanctions have been imposed.

Measures to Minimize Our Exposure to Sanctions Risk

We have enhanced our internal control measures to identify and minimize our exposure to sanctions risk since January 2015 as described below:

- actively monitoring sanctions laws and regulations relating to our international sales,
- maintaining a monthly updated log based on the publicly available sanctions lists such as the sanction lists maintained by the U.S., European Union and Australia and use it to pre-screen our potential customers,
- promptly seeking appropriate advice from reputable international legal counsel upon identifying material risks relating to sanctions in our operations, and
- providing relevant training to our senior management members and international sales and marketing staff.

The guidelines and training have been prepared together with international legal counsel and we plan to continue to consult with international legal counsel and update our guidelines and training as necessary from time to time.

Our directors believe that these enhanced measures are adequate and will be effective to protect our interests and the interests of our [**REDACTED**] and shareholders. The Sponsor concurs with the view of our Directors.

Undertakings to the Stock Exchange

We undertake that we will not (i) enter into any future dealings or transactions with sanctioned entities and entities in countries where country-wide sanctions have been imposed; and (ii) we will not apply, directly or indirectly, the proceeds from the [**REDACTED**] or any other funds raised through the Stock Exchange to finance or facilitate any projects or businesses with sanctioned entities and entities in countries where country-wide sanctions have been imposed. If we were in breach of such undertaking to the Stock Exchange, we risk the possible [**REDACTED**] of our Shares on the Stock Exchange.

PRODUCT WARRANTIES AND RECALL

We offer various quality warranties to our distributors for periods generally varying from one year to three years. We are responsible for replacing or repairing the faulty products during their respective warranty periods. The warranties on most of electric two-wheeled vehicle parts (except these parts that we manufacture in-house) are covered by our suppliers' back-to-back warranties with the warranty periods longer than the warranty periods we provide to our distributors and customers. Under the warranties provided by our suppliers, we are entitled to have suppliers replace the faulty electric two-wheeled vehicle parts once we receive quality issue reports from our distributors and customers. Therefore, we do not incur any expenses with respect to repair or replace of the faulty electric two-wheeled vehicle parts provided by our suppliers.

We also allow our distributors to return the faulty electric two-wheeled vehicles within one year from the date of purchase, if (i) our production department or technical department has examined the relevant products and found it to be defective, (ii) the quality defect did not arise due to the fault of the distributor or end customer, and (iii) the defect cannot be rectified and the product cannot be exchanged. During the Track Record Period and up to the Latest Practicable Date, we did not experience returns, warranty claims or legal disputes regarding our product quality which, individually or in aggregate, resulted in a material adverse effect on our operations. We have not made any warranty provisions in our financial statements.

In July 2014, we conducted a voluntary product recall of 418 electric two-wheeled vehicles due to welding defects on the vehicle frames, accounting for approximately 0.01% of our total electric two-wheeled vehicle sales volume in the year ended December 31, 2014. The total repair expenses for these recalled electric two-wheeled vehicles were approximately RMB20,000. Except for this product recall as disclosed, we did not conduct any other product recalls during the Track Record Period.

BRANDING AND MARKETING

We believe that our "Yadea (雅迪)" brand is a leading brand in the electric two-wheeled vehicle industry and that our branding success has come from delivering the most technologically advanced and high-quality products and pursuing a consistent high-end branding strategy. Our branding and marketing activities are aimed towards reinforcing consumer perceptions of our brand as a high-end electric two-wheeled vehicle brand of the Chinese market and expanding consumer recognition of our products. To enhance the shopping experience for consumers, we have implemented a distributor points of sales overhaul campaign which involves the renovation of distributor points of sales and updating product displays and brand presentation. See "— Sales and Distribution Network — Distributor Points of Sales Overhaul Campaign".

Our brand management department is in charge of our branding and marketing. Our sales personnel conduct market research and are regularly in contact with our distributors to understand consumer needs and market changes to update our branding and marketing strategics and to carry out the strategic planning for our high-end brand positioning, brand integration and product line determination.

We advertise through media such as the main domestic internet platforms and through main television channels and outdoor advertisements. We have sponsored and run advertisements during certain popular Chinese television programs during prime-time on certain major TV channels, in the high speed rail network in China and through major Chinese search engines. We have also engaged celebrities

as our product representatives to promote our products. For example, we engaged celebrities Lee Min-Ho and Hu Ge, currently two of the most popular celebrities in China, as our product spokespersons. We believe these advertising and promotional activities help promote our brand and increase awareness of our product and our appeal to target consumers.

For the years ended December 31, 2013, 2014 and 2015, our advertising and promotional expenses amounted to RMB233.8 million, RMB240.9 million and RMB297.3 million, respectively, equaling 4.6%, 4.1%, and 4.6% of our total sales, respectively.

PRICING

Our ability to price our products at desired levels has been, and will continue to be, important to our results of operations. Generally, we determine the prices at which we sell our products to distributors based on a variety of factors, such as market conditions, the competitive landscape and the prices of comparable products in the market, product positioning, production costs and expected investment returns. The retail pricing guidance that we provide to our distributors is generally higher for our products than the prices of comparable products in the market. We believe that this reflects the superiority in terms of quality, design and innovation in the market and our strong pricing power. For our new products which have no comparable products in the market, we determine our pricing guidance based on the target customer group and our production costs. Distributors are generally allowed to deviate, on average, approximately RMB150 for each unit from our suggested retail price, or typically less than 10% from the suggested retail price of the respective product.

SEASONALITY

Our sales are subject to seasonal fluctuations. Historically, we have experienced higher sales in the summer months and at the end of the year. Our distributors purchase the most electric two-wheeled vehicles during the summer months as that is the time of the highest consumer demand. They also increase their purchases at the end of the year (i) as we typically have many promotion and marketing activities during that time and (ii) in preparation for the holiday season. As a result of the foregoing, our results of operations fluctuate from period to period, our interim results may not be indicative of our annual results.

PRODUCTION

Production Process

We manufacture a significant portion of the key components used in our electric two-wheeled vehicles in-house such as electric motors and vehicle frames. We believe that this in-house manufacturing provides us with competitive advantages including comprehensive control over the production process and product quality and enables us to protect our designs and technological know-how and control costs. We have a fast production process. It normally takes us six days to produce products once we receive an order from a distributor.

Our Production Model

Our production model is geared towards ensuring seamless engagement between our externally sourced components and our in-house manufacturing and assembly.

Order Processing Procedure

The diagram below depicts our general order processing procedure.

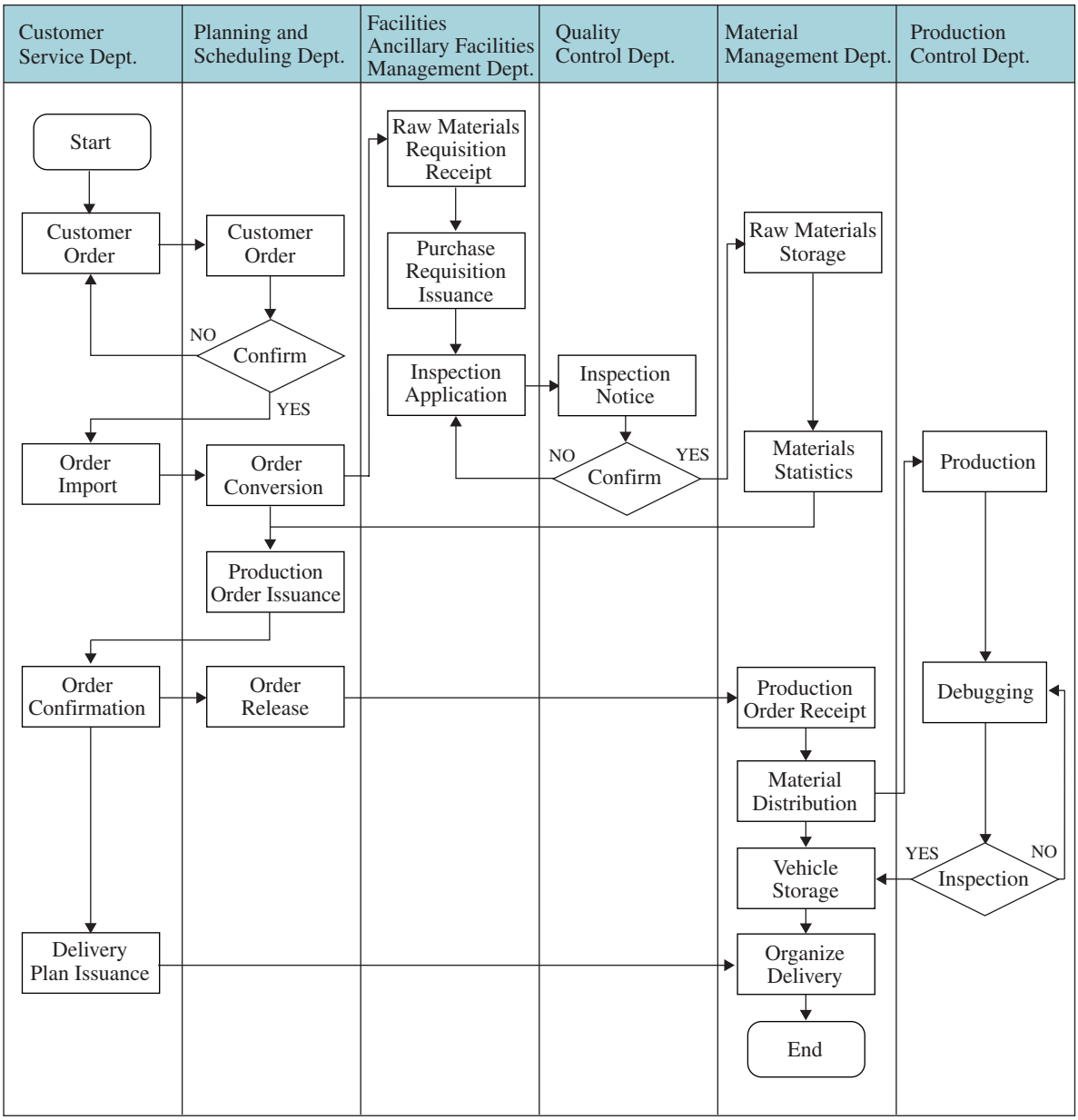
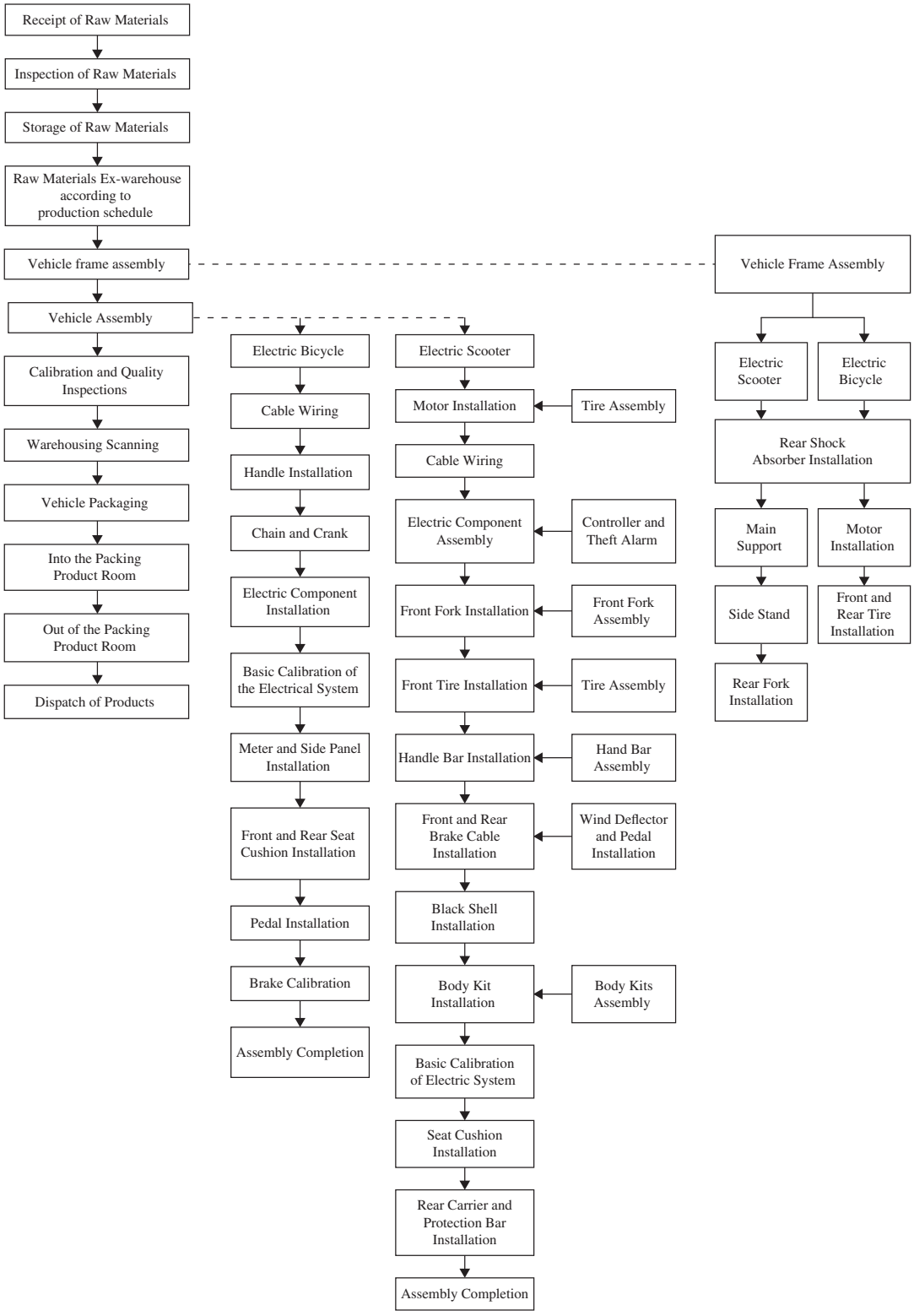


Diagram of Our Production Process

The diagram below illustrates the key steps in the typical production process of our electric two-wheeled vehicles.



Customized Production Arrangement

During 2013, in order to capture additional market share, we accepted certain orders requiring customization of our products. We accepted customized production orders from 12 customers, and sold 478 units of customized vehicles. The revenue derived from our sale of customized vehicles was approximately RMB1.0 million accounting for less than 0.01% of our total revenue for the Track Record Period. We ceased such customized production in June 2013 to improve our brand management and enhance our internal control of product conformity.

Our Production Facilities

We have four production facilities, which are located in Tianjin, Wuxi, Cixi and Dongguan.

Tianjin Production Facility

Our Tianjin production facility commenced production in June 2006. We mainly produce electric bicycles and electric motors at our Tianjin production facility. In April 2015, our Tianjin production facility was relocated to an adjacent site which commenced production immediately after the relocation. After the relocation, we discontinued our production of electric bicycles at our former site in Tianjin. The factory buildings at the original site being renovated for us to produce core components, such as electric motors and vehicle frames, which we expect to complete in 2016. As of the Latest Practicable Date, our Tianjin production facility had 652 production employees, included eight production lines and had a total GFA of 148,436 sq.m. It had an annual production capacity of approximately 2.5 million units.

For the years ended December 31, 2013, 2014 and 2015, we produced 1,139,339, 1,139,715 and 1,270,178 electric bicycles, respectively, and over half of the electric motors that we used at our Tianjin facility in 2015.

Wuxi Production Facility

Our Wuxi production facility commenced production in May 2012. We mainly produce electric scooters at our Wuxi production facility. As of the Latest Practicable Date, this production facility had 378 production employees and included four production lines. It had an annual production capacity of approximately 0.7 million units. As of the Latest Practicable Date, this production facility had a total GFA of 110,000 sq.m. For the years ended December 31, 2013, 2014 and 2015, we produced 417,046, 483,031 and 569,125 electric scooters and 4,619, 1,299 and nil electric specialty vehicles at our Wuxi facility, respectively. We discontinued production of specialty vehicles in the third quarter of 2014 to focus exclusively on our main products.

Cixi Production Facility

Our Cixi production facility commenced production in January 2010. We mainly produce electric scooters, electric motors and vehicle frames at our Cixi production facility. As of the Latest Practicable Date, this production facility had 735 production employees and a total GFA of 110,016 sq.m. and included nine production lines. It had an annual production capacity of approximately 1.4 million units. We disposed of two obsolete production lines in 2013 and 2014 to improve our production efficiency. For the years ended December 31, 2013, 2014 and 2015, we produced 925,529, 1,000,858 and 996,195 electric scooters at our Cixi facility, respectively. Our Cixi production facility was the first licensed production facility in the industry to produce electric motorcycles.

Dongguan Production Facility

Our Dongguan production facility commenced production in March 2009. We mainly produce electric scooters at our Dongguan production facility. As of the Latest Practicable Date, this production facility had 312 production employees and included four production lines. It had an annual production capacity of approximately 0.4 million units. As of the Latest Practicable Date, this production facility had a total GFA of 17,000 sq.m. For the years ended December 31, 2013, 2014 and 2015, we produced 258,657, 356,544 and 450,358 electric scooters, respectively.

The table below sets forth summary details with respect to each of our production facilities during the Track Record Period.

				2013		2014		2015	
Location	GFA[(1)]	Number of employees[(1)]	Products	Production capacity[(2)]	Utilization rates[(3)]	Production capacity[(2)]	Utilization rates[(3)]	Production capacity[(2)]	Utilization rates[(3)]
	(sq.m.)			(million units)		(million units)		(million units)	
Tianjin	148,436	652	Electric bicycles	1.3	87.2%	1.3	87.2%	2.5[(4)]	50.8%
Wuxi	110,000	378	Electric scooters	0.6	66.6%	0.6	76.5%	0.7	81.3%
Cixi	110,016	735	Electric scooters	1.6	58.4%	1.4	70.2%	1.4	71.2%
Dongguan	17,000	312	Electric scooters	0.4	58.3%	0.4	80.4%	0.4	112.6%
Total	**385,452**	**2,077**		**3.9**	**69.2%**	**3.7**	**78.3%**	**5.0**	**65.7%**

Notes:

(1) GFA and number of employees are as of the Latest Practicable Date.

(2) Production capacities have been calculated based on daily production capacity (i.e. production capacity per hour multiplied by nine hours) per production line multiplied by the number of production lines in each production facility multiplied by 25.5 (days) multiplied by 11.5 (months).

(3) Utilization rates have been calculated based on output for the period divided by production capacity in the period.

(4) The production capacity of our Tianjin production facility in 2015 refers to the production capacity after relocation.

The utilization rates of our production facilities increased during the primarily due to the increase in our production volumes to meet the increasing demand for our products as reflected by the increases in our sales volumes from 2013 to 2014. The utilization rate of our production facilities decreased in 2015 as compared to 2013 and 2014 as we moved our Tianjin production facilities to a new site with higher production capacities during 2015.

The utilization rate for our Tianjin production facility remained relatively stable at 87.2% in 2013 and 2014, as we introduced new production lines with higher production capacities to replace the old productions lines in 2012 at our Tianjin production facilities and ramped up production at these new facilities during 2013 and 2014. The utilization rate at our production facilities in Tianjin decreased to 50.8% for 2015 as we relocated our production facilities in Tianjin to a new site with higher production capacity. We commenced production at the new Tianjin production facility in April 2015. The utilization rate of our Wuxi production facility was relatively low in 2012 as we commenced trial production there in May 2012 and were in the process of ramping up production. The utilization rate increased from 66.6% in 2013 to 76.5% in 2014, and further increased to 81.3% for 2015, primarily because our two new production lines launched in 2013 and we ramped up production at these lines to near capacity in 2014

and 2015. The utilization rate of our Cixi production facility during the Track Record Period was relative low, primarily because we designed the facilities to accommodate long term growth in production volumes to meet anticipated sales growth. The utilization rate of our Dongguan production facility increased from 58.3% in 2013 to 80.4% in 2014, and further to 112.6% in 2015 due to the increasing market demand for electric scooters in Southern China. Accordingly, we plan to build new production facilities to increase our production capacity in Dongguan in the future. For further details, please refer to the section headed "Production Expansion Plans" in this section to this document.

Production Expansion Plans

As production at our Wuxi production facilities is near capacity, we plan to expand the production facility to increase our production capacity to meet anticipated future growth in demand for our products. Additionally, we believe that the new equipment and production lines we purchase will help us enhance our production efficiency and the quality of our products. In particular, as of the Latest Practicable Date, we had integrated 20 automatic robotic arms in various production processes such as paint application and vehicle frame assembly. The integration of such automatic robotic arms improves the cost-efficiency of our production lines and enables us to manufacture products with better quality and greater precision.

We plan to launch two new production lines in 2016, giving us a total of six production lines by the end of 2016. We expect the electric scooter production capacity of our Wuxi production facility to be increased to approximately 1.3 million units by the end of 2016. In addition, we plan to set up vehicle frame production facilities in our Wuxi production facility to achieve greater control over the quality of our core components and strengthen our cost control. We will be able to conduct a certain portion of vehicle frame production in-house once completed.

Given the increasing demand of our electric scooters in southern China and a relatively high utilization rate in Dongguan production facilities in 2015, we plan to expand the production facilities and purchase four new production lines by the end of 2017.

Upon the completion of our expansion plans in 2017, we expect our overall annual production capacity for electric scooters and electric bicycles to be increased to 3.9 million units and 2.5 million units, respectively. The expected capital expenditure in relation to our production facilities expansion plans amounted to RMB220 million. We plan to use proceeds from the [**REDACTED**] and cash from operating activities to fund the expansion of our production facilities. For further details, see "Future Plans and Use of Proceeds" in this document.

In addition to expanding our production facilities, we plan to expand our technology research and development center which was relocated to Wuxi from Zhejiang in August 2014. Upon the completion of our expansion plans, we expect to increase our research personnel from approximately 186 to over 200. We also plan to purchase new equipment for our Wuxi research and development center. In addition, we plan to expand our site to meet the increased personnel, equipment and research space needs.

Please refer to the section headed "— Properties" in this section for details regarding the ownership of the land of our production facilities.

The table below sets forth details of our planned expansion plans.

Facilities	Products	Site selection and implementation of expansion plans	Expected capacity	Expected capital expenditure (in millions)	Source of funding	Expected time frame
Wuxi production facility	Electric scooters	Purchase of new production lines.	Increase to approximately 1.3 million units from the current capacity of 0.7 million units. Production of 1.0 million units of vehicle frames.	70.0	Proceeds from the [**REDACTED**] and cash from operating activities	We expect to launch two new production lines by the end of 2016.
Dongguan production facility . . .	Electric scooters	Construction of production facilities and purchase of four new production lines	Increase to approximately 1.2 million units from the current capacity of 0.4 million units	150.0	Proceeds from the [**REDACTED**] and cash from operating activities	Construction of production facilities and purchase of four new production lines is expected to be completed by the end of 2017.
Technology research and development center	N/A	Site expansion. Purchase of new equipment for research.	N/A	100.0	Proceeds from the [**REDACTED**] and cash from operating activities	The increase in the purchase of new equipment are expected to be completed by the end of 2017.

OUR RAW MATERIALS AND SUPPLIERS

Our major raw materials include batteries and chargers, electric motors, plastic parts, vehicle frames, tires, controllers, electric cables, brakes and other components. We source most of our raw materials domestically in the PRC. We also manufacture a portion of the components that we use, such as electric motors and vehicle frames.

We have established a centralized ancillary facilities management center which is responsible for establishing procurement policies and procedures for the Company. Personnel from our ancillary facilities management center are stationed at each of our production facilities, with the centralized ancillary facilities management center located at our headquarters in Wuxi. Our centralized ancillary facilities management center coordinates with the procurement personnel at each of our production facilities when placing orders of raw materials, allowing us to make large orders for materials, which in turn increases our bargaining power and our raw material purchasing economies of scale. Raw materials may be procured by our local personnel depending on our production needs. Our centralized ancillary facilities management center oversees and manages the purchases generally.

We can, to a certain extent, pass increases in raw material costs to our customers by increasing the prices of our products. However, we still bear the risk of price fluctuations in raw materials to the extent that we are unable to increase our prices to fully cover the increases in costs and in a timely manner. We seek to manage fluctuations in the prices of our raw materials by constantly monitoring market information. Once we believe there is likely to be an increase in raw material prices, we purchase certain amounts of these raw materials for our inventory and also pay deposits to suppliers to lock in the current prices. During the Track Record Period, we did not experience any material fluctuation in the prices of our raw materials. For a sensitivity analysis regarding changes in the cost of our raw materials, please see "Financial Information — Sensitivity Analysis". We did not enter into any long-term agreement with our raw material suppliers during the Track Record Period.

We are normally required to make payment to our raw material suppliers within 15 to 90 days of making purchases from them. During the Track Record Period, we increased our use of bank acceptance bills to make payments to our suppliers. Bank acceptance bills typically have payment periods of six months. Accordingly, our use of bank acceptance bills allow us to extend the timing of payment for an additional six months beyond the normal credit periods required by our suppliers. We believe that our ability to increase the use of bank acceptance bills to pay for raw materials during the Track Record Period evidences our creditworthiness with the relevant banks issuing the bills and our strong bargaining power with suppliers. Please refer to the section headed "Financial Information — Certain Balance Sheet Items — Trade and bills payables" in this document for more details regarding our use of bank acceptance bills. We believe that our use of bank acceptance bills to settle payments allows us to leverage our market position, creditworthiness and relationships with banks and suppliers to retain more cash on-hand for long-term investments in our production facilities and to implement our expansion plans.

We have established a comprehensive system for selecting and monitoring suppliers. Our supplier selection and monitoring team consists of personnel from different departments and they review the suppliers based on the quality of their products, their supply capacity and scale, their logistics and transport capabilities, industry experience, credit history, market reputation, prices, technologies and research and development abilities, financial strength and customer service. In addition, we conduct stringent and thorough initial on-site examination of the operations of our suppliers. After they are admitted to be our qualified suppliers, suppliers are subject to a supervisory review process which is

regularly conducted by us. Those suppliers who fail the review process typically are allowed one chance to rectify mistakes. We dismiss the suppliers upon further failure to deliver qualified raw materials.

We generally secure at least two alternative suppliers of comparable quality and price in addition to the supplier with which we enter into a procurement agreement for each type of raw material we require in order to reduce the risk of supply shortages. In general, we receive raw materials from our suppliers within one week of our placement of orders. For certain suppliers, they store the raw materials at our warehouses and we purchase such raw materials when we use them in our production. We did not experience any material shortages or delays in the supply of raw materials during the Track Record Period.

A summary of the key terms of our standard agreements with our parts suppliers is set forth below by component.

Component	Duration	Payment	Quality Control	Packaging and Delivery	Liability
Electric motors, batteries, controllers, vehicles frames, chargers, tires, braking devices and electric cables	One year	Full payment within 15 to 90 days of delivery	Concerns regarding the quality of the components must be raised within seven days.	Supplier is responsible for packaging and delivery.	Supplier is responsible for after-sale servicing and quality of its components.

For the years ended December 31, 2013, 2014 and 2015, purchases from our five largest suppliers, which primarily supplied batteries, electric motors, meters, tires and magnets, amounted to RMB1,459.5 million, RMB1,559.7 million and RMB1,684.4 million, respectively, representing approximately 35.2%, 35.8% and 34.4% of our total purchases in the respective periods. We have maintained stable relationships with these suppliers and have had between three and twelve years of business relationships with them. For the years ended December 31, 2013, 2014 and 2015, purchases from our single largest supplier amounted to RMB545.9 million, RMB618.2 million and RMB700.9 million, respectively, representing approximately 13.2%, 14.2% and 14.3% of our total purchases in the respective periods.

Our five largest suppliers during the Track Record Period were each an Independent Third Party, except for Wuxi Xingwei. We began purchasing electric motors and meters from Wuxi Xingwei in 2008 in the ordinary course of our business. These raw materials are used in the production of our electric two-wheeled vehicles. For further details regarding our relationship with Wuxi Xingwei, please refer to the section headed "Connected Transactions — B. Non-exempt Continuing Connected Transactions — (iii) Purchases of electric motors and meters and related components from Wuxi Xingwei" in this document. In addition to Wuxi Xingwei, we also entered into various purchase agreements with Tianjin Xingwei and Tianjin Xingmao, who are also our connected persons, for the purchase of certain raw materials and services. Wuxi Xingwei, Tianjin Xingwei and Tianjin Xingmao are each controlled by the same connected person. For the years ended December 31, 2013, 2014 and 2015, total purchases from Wuxi Xingwei, Tianjin Xingwei and Tianjin Xingmao amounted to RMB335.7 million, RMB315.5 million and RMB231.4 million, respectively, representing 8.1%, 7.2% and 4.7% of our total purchases for those periods, respectively. We plan to continue to purchase from Wuxi Xingwei, Wuxi Colorful and Tianjin Xingwei after the [**REDACTED**].

Save as disclosed above, to the best knowledge of our Directors, none of our Directors, their respective close associates or our Shareholders owning five percent or more of the total issued share capital of the Group had any interest in any of our five largest suppliers during the Track Record Period.

Inventory Control

Our inventories are comprised of raw materials and finished products. We have implemented an inventory control system that integrates various departments of the Group, including our procurement, production control, quality control, inventory management and financial departments, to ensure that inventory levels are minimized to the extent possible but sufficient for our production and sales.

We procure raw materials and formulate production plans based on actual and anticipated orders directly received from our third-party distributors. In order to manage our inventory levels, we set out monthly maximum and minimum inventory level targets for each type of raw material based upon our historical sales and future production plans. Our regular production cycle is six days for both types of electric two-wheeled vehicles. We endeavor to deliver our finished products to our distributors at the earliest possible time after we finish production. We strive to reduce our inventory levels to the extent possible as this allows us to minimize the required storage space, carrying costs, and enhance our working capital efficiency. Hence, we do not typically maintain substantial finished product inventory levels for our finished products except during peak seasons and holidays. Under our Lean Production System, we have arranged for certain of our suppliers to store raw materials in our warehouses. We place orders for those raw materials only when we use them in the production process and all risks relating to the storage of the raw materials prior to our use are borne by the suppliers. Having the raw materials on-hand reduces the time needed for our production and these arrangements also provide benefits to us in terms of liquidity as we do not place orders until needed for production.

In order to maintain accurate inventory records we conduct monthly inventory counts and address any problems identified. We also conduct full inventory counts annually and assess the effectiveness of our historical inventory levels on a regular basis.

QUALITY CONTROL

We believe that the quality of our products is crucial to our continued growth. We place great emphasis on quality control and have implemented stringent monitoring and quality control systems to manage our operations. Our quality control system covers each stage of our business operations, including product design and development, procurement, production, logistics, sales and distribution processes. For our production process, our products undergo inspections at each key stage of the production process from sourcing of raw materials and components, component parts assembly, vehicle assembly, post-fabrication and final checking prior to delivery. Products in inventory storage are subject to quality audits and we also have standards in place for storage conditions. As of the Latest Practicable Date, we had a team of 190 quality control personnel, and 93 of them had more than three years of related work experience. We provide on the job training to our quality control personnel regarding quality control.

Our quality control department is mainly in charge of implementing our quality control system at our production facilities and monitoring our production facilities in order to ensure that our production systems and processes are in compliance with the applicable regulatory and quality standards set forth in detail below.

Quality Standards

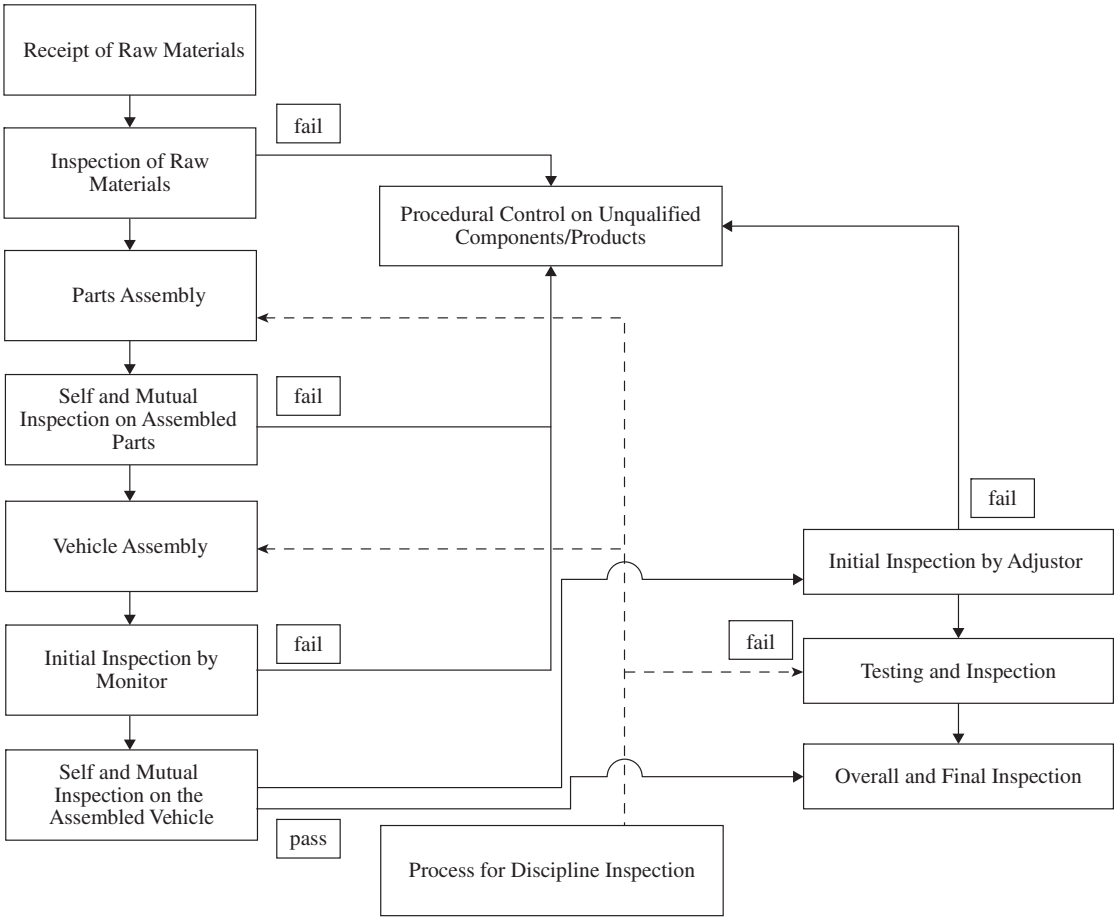
We place considerable emphasis on the consistent quality of our products and have implemented a stringent quality control system that complies with international standards. Each year since 2010, we have been awarded the Quality Management System Certificate under ISO 9001:2008 for our management systems covering the design, production and servicing of electric two-wheeled vehicles. We obtained the Certificate for China Compulsory Certification (中國國家強制性產品認證證書) for our electric motorcycles and electric motors in 2011. Our subsidiary, Zhejiang Yadea obtained the license for production of electric motorcycles in August 2012. In addition, our subsidiary Jiangsu Yadea, Ningbo Branch obtained the Certificate for China Compulsory Certification for electric two-wheeled vehicle motors in 2013. In March 2014, our subsidiary Zhejiang Yadea was accredited by the China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會) certifying that Zhejiang Yadea met the national qualifications for electric two-wheeled vehicle parts testing.

We were awarded the Four-star Authentication under the National Standard for Consumer Product Customer Service Evaluation (《商品服務售後評價體系》) in 2012 by the Evaluation of Compliance Certification Review Committee for National Commodity After-sales Service (全國商品售後服務評價達標認證評審委員會) and the Beijing Sky Certification Center (北京五洲天宇認證中心). We were also awarded the Five-star Authentication under the National Standard for Consumer Product Customer Service Evaluation (《商品服務售後評價體系》) in August 2014 by the Evaluation of Compliance Certification Review Committee for National Commodity After-sales Service (全國商品售後服務評價達標認證評審委員會) and the Beijing Sky Certification Center (北京五洲天宇認證中心), being the first electric two-wheeled vehicle company to qualify under the five-star standard for customer service. Additionally, we were the first electric two-wheeled vehicle manufacturer in China to obtain the qualification to produce electric motorcycles (which have the most advanced technology of electric two-wheeled vehicles).

Our distributors are responsible for providing warranty repair services to end customers with respect to our products. We have several channels for receiving feedback from end-customers, including a phone hotline, a website, Weibo and our official Wechat. We relay such feedback to the relevant distributors who are required to deal with the quality issues according to our requirements. Our after sale service managers pay periodic visits to distributor points of sales to monitor our distributors in handling quality assurance issues raised by end customers.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any traffic accidents which were attributable to inadequate safety features on our products, nor did we receive any material complaints or negative feedback from our distributors, relevant authorities or industry associations relating to our products with regard to any traffic accidents.

The flow chart below depicts the quality control process for our products through the various stages in our production and distribution process:



Our quality control process includes:

Pre-fabrication Checking of Components

We adopt stringent quality control of our components, and we only purchase components from our approved list of suppliers. We select and evaluate our suppliers for each category of components based on a standard set of criteria, including the quality of their supplies, their reputation and their creditworthiness. New suppliers are required to pass a series of reviews before becoming a qualified supplier. Our quality control team audits our suppliers to review their quality control systems and for risk analysis. See "— Our Raw Materials and Suppliers" in this section for details regarding the standards we apply in selecting suppliers.

We receive components from suppliers based on our purchase orders. Our quality control team is required to carry out inspections for each batch of raw materials as well as onsite sampling according to our internal inspection guidelines. We employ a combination of various methods including visual inspections, measurements, and performance testing to ensure satisfactory quality.

In particular, when components are delivered to us, employees check to ensure that the quantity and quality of the components meet our specifications. After verification and other tests, our operators report to the head of parts assembly.

Set out below are summary extracts of our inspection standards in relation to our pre-fabrication checking of components:

Item	Part Inspected	Required Standards	Inspection Method	Importance
1 . . .	Controllers	Check to ensure the purchase order quantities and styles are met. Check to ensure the testing equipment for controllers is in good condition. Check to ensure the surface integrity and check for defects in the controllers.	a. Visual inspection b. Measurement c. Performance testing d. Recording of findings	High
2 . . .	Electric motors	Check to ensure the purchase order quantities and styles are met. Check for defects including those relating to paint application and in the electric motors.	a. Visual inspection b. Measurement c. Performance testing d. Recording of findings	High
3 . . .	Chargers	Check to ensure the purchase order quantities and styles are met. Check to ensure the surface integrity and the current and maximum voltage comply with the relevant standards.	a. Visual inspection b. Measurement c. Performance testing d. Recording of findings	High

Item	Part Inspected	Required Standards	Inspection Method	Importance
4 . . .	Braking device	Check to ensure the purchase order quantities and styles are met. Check to ensure the testing equipment for braking devices is in good condition and components of braking devices are complied with standards. Check to ensure the surface integrity and check for defects in the braking devices.	a. Visual inspection b. Measurement c. Performance testing d. Recording of findings	High
5 . . .	Vehicle frames	Check to ensure the purchase order quantities and styles are met. Check to ensure the vehicle frame specifications are met. Check to ensure the surface integrity and the quality of vehicle frames.	a. Visual inspection b. Measurement c. Performance testing d. Recording of findings	High
6 . . .	Batteries	Check to ensure the purchase order quantities and styles are met. Check the general functionality, battery voltage and performance of the anti-theft controllers of the electric two-wheeled vehicles. Check to ensure the surface integrity and the quality of batteries. Check to ensure battery voltage complies with the standards.	a. Visual inspection b. Measurement c. Performance testing d. Recording of findings	High

In-process Quality Control

At each stage of our production process, we implement quality control measures by applying quality tracking cards, vehicle codes and certificates of compliance to ensure compliance with our product standards and specifications. We conduct quality checks at the key control points of our production

process in order to ensure there are no product quality issues. If there are any quality issues experienced by the end customers, we can track the production date, batch number and the relevant operators according to our record.

At the parts assembly stage, our employees conduct self and joint inspections of components after parts assembly. The qualified assembled parts are allowed to move onto the next stage of vehicle assembly. Component parts which fail the inspection are marked accordingly and separated.

Post-fabrication Inspection

We have implemented a series of inspections for finished products to ensure that our products meet customer expectations.

1st Piece Inspection

The head of our production division conducts the initial inspection on the first vehicle from each batch of finished products according to our established guidelines. If there is any non-conformity identified, the particular component or component parts will undergo further inspection, the results of which will be recorded in our internal reporting system.

Initial Debugging by Inspectors

After vehicles have been assembled, our inspectors in our debugging division conduct initial debugging on the first vehicle from each batch of finished products according to the Debugging Operational Guidelines (調試作業指導書). If there is any non-conformity found, the inspectors report to the head of the production division, and the results are recorded in the initial debugging form and quality tracking cards.

Overall Debugging by Inspectors

Our inspectors conduct an overall inspection on each finished vehicle according to the Debugging Operational Guidelines (調試作業指導書). Identified non-conformities are recorded in our quality tracking system.

Final Inspection on Finished Products of Vehicles

Our quality control department conducts a final overall inspection of each of our vehicles prior to delivery according to our internal final inspection guidelines. Any non-conformity identified is recorded in our quality tracking system. Products that do not meet our quality standards are re-worked and subjected again to the same inspection and testing process. In addition, for those typical and material quality problems emerging in the above process, we make improvements according to established internal procedures. We perform riding tests for the electric two-wheeled vehicles we produce, including start-up tests and riding tests on flat, uphill and downhill roads. We also conduct spot checks on each of the models of our electric two-wheeled vehicles twice per week in order to ensure the overall quality of our finished products.

INFORMATION TECHNOLOGY

Our enterprise-wide information system consists of multiple sub-systems, which are used by our headquarters, production facilities and distributors' points of sales to execute, coordinate and monitor

many of our business functions. Using these information systems, we collect operational and financial data to increase our analytical abilities. As a result, we are able to maintain effective management controls while increasing the efficiency of our operations. Our key information systems include the following:

- *Enterprise resource planning system*. We implemented an enterprise resource planning ("**ERP**") system in 2011, which provides an integrated database that complies information from various aspects of our operations, including bill of material management, customer orders, procurement orders, production planning, inventory management and financial management. Our ERP system helps us better manage our supply chain, control costs by improving coordination with suppliers and customers, and refining our inventory control techniques. In addition, our ERP system integrates our financial management, customer relationship management system and inventory system, which allows us to monitor these functions on a real-time basis and optimize our operations to increase efficiency.

- *Financial management system*. We have a comprehensive financial management system with various management and planning functions. Our financial management system has forecasting functions to plan and control expenses and cash flows, asset management functions that require periodic physical inventory counts and reconciliations for maintaining accurate inventory data and invoicing functions to ensure timely payments by suppliers and ensure prudent cash management.

- *Customer relationship management system.* Our customer relationship management ("**CRM**") system was launched in December 2013. Our CRM system is designed as a comprehensive platform to enhance our management over our distribution network, foster and maintain customer relationships, collect customer information, guide sales and marketing, conduct targeted marketing, manage and control marketing relating costs, integrate ERP system to offer payment clearing channels between us and distributors and manage after-sale services. We have also established a phone hotline to answer customer inquiries and solicit customer feedback. We use customer information for internal purposes only and maintain safeguards to protect our customers' personal information.

- *Office automation system.* Our office automation ("**OA**") system, which was implemented in 2014, provides a platform for information sharing and dissemination within our Group, enhances administrative records management and optimizes various approval procedures for our business operations.

CASHFLOW AND INVESTMENT MANAGEMENT

Investment Philosophy

We generate a significant amount of cash flow in our business. Our cash flow from operations in 2013, 2014 and 2015, totaled RMB444.1 million, RMB861.6 million and RMB910.5 million, respectively. We purchase and redeem wealth management products frequently because we purchase these products with payments received from our distributors on a daily basis, and redeem them to meet our cash requirements such as operating and capital expenses. We consider the wealth management products that we purchase to be a "cash pool" from which we can readily access for cash requirements and generate higher yield than cash deposits, while maintaining an overall high liquidity and a low level risk.

Investment in Wealth Management Products

After evaluating various cash management alternatives such as demand deposits and term deposits, our management has in recent years determined that placing our cash in China's wealth management products represents the best alternative to maximize our goal in managing our cash effectively. There is a wide variety of wealth management products in China. The goal of forming our portfolio of wealth management products is to achieve (i) a low level of risk; (ii) high liquidity; and (iii) a balanced yield.

Low Level of Risk

The following table sets forth our wealth management products portfolio as of the dates indicated based on whether they are principal-protected.

	As of December 31,					
	2013		2014		2015	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Principal-protected	32,000	32,000	144,000	144,000	816,000	820,904
Non-principal-protected	313,600	313,600	411,000	411,000	40,000	40,796
Total	345,600	345,600	555,000	555,000	856,000	861,700

The difference between cost and fair value as of a balance sheet date represents the amount of unrealized gains for our wealth management products. As of December 31, 2013 and 2014, the fair value of our wealth management products were approximately equal to their cost, because the unrealized gains for these products as of the balance sheet date was immaterial for the statement of profit or loss. The relatively small difference between cost and fair value as of these dates was primarily due to (i) our short holding period for the wealth management products; (ii) our relatively high frequency of purchase and redemptions with gains realized; and (iii) the relatively stable value of the products in our portfolio.

Historically, our policy for managing our wealth management products portfolio has been to (i) not have any holdings in high or relatively high risk products; and (ii) hold at least 80% of our portfolio in principal-protected or relatively low risk products. In November 2015, we made the decision to redeem our entire holdings of non-principal-protected wealth management products and invest only in principal-protected products instead. We completed the redemption-reinvestment process on all redeemable on demand products in December, 2015. With respect to fixed-term products, we have completed the redemption-reinvestment process on all fixed-term products at the end of January 2016. The redemption-reinvestment process is the process of (i) redemption of non-principal-protected products when their respect terms expire; followed by (ii) reinvestment into principal-protected products after the Company's selection process is completed. Pursuant to PBOC and CBRC regulations, and under PRC GAAP, principal-protected products sold and guaranteed by commercial banks are required to recognize such products on their balance sheet, which are subject to reserve and provision requirements. We plan to only purchase principal-protected products in the future.

The following table sets forth our wealth management products portfolio as of December 31, 2015 based on risk ratings of the relevant banks as set out in the purchase contracts.

	As of December 31, 2015	
Risk Category	**Cost**	**Percentage**
	(RMB'000)	**(%)**
Principal Protected	816,000	95.3%
Non-Principal Protected[(1)]		
– Relatively low	—	—
– Medium	40,000	4.7%
Total	**856,000**	**100%**

Note:

(1) Banks may use their own risk rating systems for wealth management products, and therefore, their risk ratings may not be directly comparable with each other. However, these risk ratings are generally divided into five categories: low, relatively low, medium, relatively high and high or equivalents thereof.

As of the Latest Practicable Date, all of our wealth management products were principal protected.

We purchase our wealth management products only from the reputable banks in China. The following table sets forth all the commercial banks from which we purchased wealth management products as of December 31, 2015.

	As of December 31, 2015
Bank Name	**Cost**
	(RMB'000)
Agricultural Bank of China	180,000
China Minsheng Bank	275,000
Bank of Ningbo	60,000
China Everbright Bank	106,000
Industrial Bank	67,000
China Construction Bank	50,000
Bank of Nanjing	55,000
China CITIC Bank	13,000
Industrial and Commercial Bank of China	50,000
Total	**856,000**

We invest in wealth management products, the underlying financial assets of which primarily consist of PRC treasury bonds, commercial paper, interbank borrowings and bills issued by the PBOC. Equities represents a small portion of the underlying financial assets of our product portfolio, and as a result, our investments are not materially affected by stock market volatility. We received the expected return of principal and interest on these products and did not experience any losses during the Track Record Period and up to the Latest Practicable Date.

Liquidity

Our policy is to maintain at least 50% of our wealth management products in those that are redeemable on demand or highly liquid (i.e., redeemable within 6 months). The following table sets forth our wealth management products portfolio as of the dates indicated based on the term of the product.

	As of December 31,					
	2013		2014		2015	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Redeemable						
On demand	258,600	258,600	391,000	391,000	150,000	150,160
Within 3 months	67,000	67,000	164,000	164,000	305,000	308,293
3-6 months	20,000	20,000	–	–	401,000	403,247
Total	345,600	345,600	555,000	555,000	856,000	861,700

As illustrated in the table above, all of our wealth management products are short-term, with maturity period of six months or less.

Balanced Yield

We believe that relatively low-risk and liquid wealth management products enable us to achieve a higher yield than demand and term deposits at commercial banks in China. The following table sets forth the realized and unrealized gains, average cost of investment and average rate of return of our wealth management products for the periods indicated.

	For the year ended December 31,			For the period from December 31, 2015 to the Latest Practicable Date
	2013	2014	2015	
Realized gain (RMB'000)	10,704	23,177	36,951	1,209
Unrealized gain (RMB'000)	–	–	5,700	4,570
Average cost of investment (RMB'000)[(1)]	320,605	718,383	989,207	1,218
Average rate of return[(2)]	3.34%	3.23%	4.31%	3.05%

Note:

(1) Average cost of investment represents the average daily balance of the cost of wealth management products for the indicated period.

(2) Average rate of return has been calculated based on our annualized realized and unrealized gains for the respective periods divided by the average cost of investment of wealth management products for the same periods, multiplied by 100%.

Purchase of Foreign Exchange Swap Products

In 2015, we used surplus RMB cash to purchase three foreign exchange swap products from certain reputable commercial banks, which had rates of return determined with reference to foreign exchange spot and forward rate curves. The total investment amount was US$12.8 million. Upon each of these swaps maturing, we were able to realize the investment gain through exchanging USD back to RMB at fixed foreign exchange forward rates which were higher than the spot rates. Consistent with our practice in evaluating all cash management products, we focused on the following criteria when evaluating these products: (i) risk — because the spot rate and the forward rate are fixed, these products would not be subject to fluctuations in foreign exchange rates; (ii) liquidity — they were relatively liquid, each with a maturity of six months; and (iii) yield — they had yields that were higher than bank deposit rates. Balancing these factors, we believed that these products met our cash management objectives at the time.

The table below sets forth details of the three swaps:

Product	Principal	Amount of transaction	Term	Spot exchange rate	Forward exchange rate	Gain from Exchange Rate Difference
	(RMB'000)	(USD'000)				(RMB'000)
A	20,000.0	3,215.7	January 8, 2015 to July 8, 2015	6.2194	6.2921	233.8
B	30,000.6	4,838.8	March 19, 2015 to September 21, 2015	6.2	6.304	503.2
C	30,000.0	4,781.3	March 11,2015 to September 11, 2015	6.2745	6.3713	462.8
Total. .	80,000.6	12,835.8				1,199.8

All three swaps have matured and we realized investment gains from the three swaps amounting to RMB1.2 million. In addition, we received interest income of RMB0.7 million through our deposit of the principal amounts of the three swaps at the commercial banks. We have not purchased any foreign exchange swap products since the last swap transaction above matured and do not plan to purchase such products or invest in similar derivative products in the future.

Management Procedures

The management procedures of our investments in financial products primarily consist of the following:

- *Updated information from frequent turnover.* We purchase and redeem wealth management products on a daily basis. As a result, the aggregate volume of our purchases and redemptions within any period has been relatively high. In 2013, 2014 and 2015, our purchases of wealth management products totalled RMB6,283.6 million, RMB8,452.0 million and RMB9,756.1 million, respectively, and our redemptions of these products totalled RMB6,085.5 million, RMB8,265.8 million and RMB9,492.1 million for those same periods, respectively. Decisions relating to the amount and timing of our purchases and redemptions are made based on our cash management objectives, as opposed to short-term trading gains. The price information of the products purchased and sold, coupled with the short holding period and high frequency of transactions, enables us to obtain updated information on pricing trends, which in turn helps us in our investment decision process on other similar wealth management products.

- *Close monitoring, periodic review and report.* Real-time price information on wealth management products in China are not available to us (nor so far as we are aware, to other customers of these products). However, we believe that our capital management department is able to effectively monitor and manage our wealth management product portfolio because: (i) we obtain updated information from our frequent turnover to monitor the performance of our wealth management products; (ii) in our experience, there has not been historically any material deviation in the actual return of the product we purchased from the product's expected return at the time of purchase, which may be attributable to (x) the short holding period; and (y) the relatively low risk (a limited fluctuations) of the products; and (iii) updated information from our banks' customer relationship managers for product and market information as the customer relationship managers at the banks where we hold wealth management products visit us at least once every week. During these visits, these customer relationship managers will evaluate fluctuations and trends in the portfolio for us and make recommendations on the composition of our portfolio given our investment objectives. Our capital management department is responsible for preparing preliminary investment proposals, purchasing the financial products once approved, collecting the investment return, conducting analysis and reviewing the performance of our investments in financial products. According to our internal policies, the department head is required to submit monthly reports to our chief financial officer and chief executive officer with regard to the performance of the financial products.

- *Multi-layered decision-making process.* With respect to investment on any wealth management product that has not already been approved, the staff of our capital management department is required to submit an investment proposal, which usually includes two to three recommended financial products, to the head of our capital management department. Such proposals specify the name of the financial institution, product nature, expected rate of return, investment term and the proposed amount for each financial product. The head of capital management department selects financial products after an analysis of the proposals and subsequently submits investment applications to our chief financial officer for preliminary approval. Final approval must come from our president before the proposed financial products purchased. With respect to any transaction (i.e. purchase or redemption) on a wealth management product that has already been approved, a proposed transaction must submitted by the head of capital management department to our chief financial officer for prior approval.

Our capital management department currently consists of eight members with an average of five years of working experience in financial management, all of which have college or advanced degrees and hold accountant qualification. Ms. Fang Qian, the head of our capital management department, oversees and is responsible for the day-to-day management of our cashflow and investment in financial products. She has held her current position for over 10 years and has been responsible for cash management since joining us. Prior to joining us, Ms. Fang Qian had eight years of experience in financial reporting and cash management. Ms. Fang Qian received her assistant accountant qualification in 1997. She holds an associate degree with an emphasis in accounting.

Because our philosophy in investing in wealth management products is to purchase those that are highly liquid, of low risk, and with a balanced yield (particularly since we will only purchase principal-protected products in the future), and in light of the experience and capabilities of Ms. Fang Qian and the capital management department in managing such products, we believe that the current level of involvement of our chief financial officer (i.e. prior approval on all wealth management product transactions) and our president (i.e. prior approval on all wealth management products that have not already been approved as well as periodic reviews and reports) is sufficient in managing the risks relating to our wealth management product portfolio.

EMPLOYEES

As of December 31, 2015, we had a total of 3,836 employees. A breakdown of our employees by role as of December 31, 2015 is set forth in the table below.

Function	Number of employees
Production	2,234
Sales	505
Administrative and support	514
Research and Development	245
Finance	149
Management	121
Procurement	68
Total	3,836

As of December 31, 2015, approximately 1,050, 1,253, 1,044 and 489 of our employees were based in Tianjin, Wuxi, Cixi and Dongguan, respectively.

We believe that our employees are important assets to the Group. Our goal is to provide employees with resources and an environment that encourages them to develop careers with us. We provide management personnel and employees with on-the-job training, distance education, rotation training and trainings in other formats to improve their skills and knowledge.

According to our human resources policy, new employees are required to undergo orientation to familiarize themselves with our policies and overall daily operations before they commence working for us. After they attend orientation, each employee is provided with job training for their respective post before they are qualified to work. Our employees also participate in annual training programs jointly set up by our human resources center, the head of their department and other management personnel. Employee performance is reviewed once a year, the results of which are used in promotion appraisals. In addition, for some posts which require particular skills or for enhancement of a certain skill or ability, our employees are further provided with professional and specialized training.

We hire employees through campus recruiting, job market recruiting, headhunters' recommendations and internal referrals taking into account of the candidates' initiative, attention to detail and work ethic. We have labor unions that protect our employees' rights, assist us in attaining the economic objectives of the Company, encourage employees to participate in management decisions and assist us in mediating disputes with union members.

We believe we have good relationships with our employees and we did not experience any material labor disputes or difficulty in recruiting staff for our operations during the Track Record Period and up to the Latest Practicable Date. A portion of our employees are members of a labor union. We have had no material disputes with the labor union and we believe that we had a good relationship with the labor union during the Track Record Period and up to the Latest Practicable Date. As required by PRC laws and regulations, including the Labor Contract Law of the PRC《中華人民共和國勞動合同法》and its accompanying regulations, the Labor Law of the PRC《中華人民共和國勞動法》, and Opinions on Several Questions Concerning the Implementation of the Labor Law of the PRC《關於貫徹執行〈中華人民共和國勞動法〉若干問題的意見》, we are required to enter into written employment contracts with each of our employees and may not rescind the contracts without cause.

Our management analyzes and reviews our human resources policy from time to time. We provide detailed guidelines on our corporate culture, code of conduct, incentive bonus plans, promotional tracks, benefits and expectations in our employee handbook. We also provide various employee benefits to our workers, including but not limited to catering services, living quarters, and fitness and leisure centers.

REGULATORY TREND

According to our PRC Legal Advisors, currently there are five cities, namely Guangzhou, Dongguan, Zhuhai, Shenzhen and Xiamen, imposing prohibitions or restrictions on the use of electric bicycles(1) in certain areas of the city. However, we believe that the prohibition and restriction policies will not materially affect our expansion plans as there is only a limited number of cities adopting such policies. Additionally, the regulatory trend for such electric bicycles is regulation through a product catalogue regime, as opposed to a prohibition approach. In general, under a product catalogue regime, if a branded product meets the government-set technical standards, such product, upon completion of an application process, will be included in the product catalogue and qualify for sale and use. Please see the section headed "Industry Overview — Overview of the Electric Two-wheeled Vehicle Market — Regulatory Evolution of the Electric Bicycle Industry" in this document for more details of the regulatory revolution of the electric bicycle industry. Furthermore, the PRC government has continued to support the

Note:

(1) Electric bicycles as defined by the National Standards refers to both electric bicycles and electric mopeds. For 2013, 2014 and 2015, respectively, our revenue generated from sales of both electric bicycles and electric mopeds contributed 99.4%, 98.6% and 99.0% of our total revenue from sales of electric two-wheeled vehicles.

development of environment friendly products. In light of the foregoing, we believe that it is unlikely that a significant number of additional cities will prohibit or significantly restrict the use of electric bicycles in the future.

With respect to the regulatory classification of the our products, our electric mopeds and electric bicycles are regulated as "non-motorized vehicles" and governed by the National Standards, while the electric motorcycles are generally regulated as "motorized-vehicles". The use of non-motorized vehicles such as electrical bicycles has been liberalized in many cities. For the details, please see the section headed "Industry Overview — Overview of the Electric Two-wheeled Vehicle Market — Regulatory Evolution of the Electric Bicycle Industry". In light of this regulatory trend, we have continued to focus on electrical bicycles and electric mopeds. As a result, in 2013, 2014 and 2015, our revenue generated from sales of electric bicycles and electric mopeds contributed 99.4%, 98.6% and 99.0% of the total revenue of our electric two-wheeled vehicles, respectively. However, with respect to electric motorcycles, which have been stringently regulated in China due to environmental and safety reasons, its sales only contributed 0.6%, 1.4% and 1.0% of the total revenue from the sales of our electric two-wheeled vehicles for the same periods, respectively. On the other hand, to meet the continuing demand for electric motorcycles in cities where the use of these vehicles is not prohibited, we have continued its sales in these cities. If any of these cities implements regulations to prohibit use of electric motorcycles, we intend to cease selling activities in that city as soon as practicable. If the trend of prohibition on electric motorcycles continues, we will consider revamping its manufacturing facilities to produce electric bicycles or mopeds, and does not anticipate material costs or disruptions to its overall operations in this process. As a result of the foregoing, we believe that the current trend of stringent regulations on electric motorcycles will have not a material and adverse effect on its overall business and growth prospects.

COMPETITION

The electric two-wheeled vehicle industry in China has been rapidly expanding in recent years and has been experiencing consolidation since 2010 according to Frost & Sullivan. China currently has the largest market share in the electric two-wheeled vehicle industry. In 2015, the annual sales volume of electric two-wheeled vehicles in China accounted for 42.5% of the annual sales volume of electric two-wheeled vehicles globally.

According to Frost & Sullivan, there is currently a large number of manufacturers in the electric two-wheeled vehicle industry, with five leading brands accounting for approximately 31.8% and 33.3% of the market share in total in 2015 in terms of both sales volume and revenue, respectively. The manufacturing center for electric bicycles in China is Tianjin, whilst electric scooters are mainly produced and assembled in Jiangsu and Zhejiang. Approximately 70% of market players produce both electric scooters and electric bicycles.

The electric two-wheeled vehicle industry in China is highly competitive. We compete with other market players based on a number of factors, including brand recognition, product design and quality, distribution network, price and customer. According to Frost & Sullivan, the critical factors in competition within the market have recently changed from product quality and price to diversified functionality, product appearance and design and riding comfort. Moreover, with the gradually maturing consumer preference and consumption habits, electric bicycles and scooters are not only transportation vehicles, but also consumer goods. Consumers are willing to pay for more functional and stylish products, with a better user experience.

However, we expect increased market entry barriers to arise in the near future due to the current and ongoing consolidation in the industry. Top market players who have stable networks of distributors enjoy the economies of scale, and are able to access customers in various regions and thus, produce electric two-wheeled vehicles that are highly price competitive. As a result, we believe this may discourage potential market players from entering into the electric two-wheeled vehicle industry and small market players will find competition with top market players more challenging.

We were one of the earliest entrants into the electric two-wheeled vehicle industry in China and our sales volume and revenue for electric two-wheeled vehicles ranked first in 2015. We believe that we enjoy significant benefits from our strong brand recognition, strong research and development capabilities, strong pricing power, vast distribution network and high quality electric two-wheeled vehicles which are backed by superior customer service. However, we cannot assure you that we will be able to compete successfully against our current or future competitors. See "Risk Factors — Risks relating to the Electric Two-wheeled Vehicle Industry — We operate in a highly competitive industry and may face increased competition".

AWARDS

Awards on Our Brand and Reputation

YEAR	AWARD	AUTHORITY
2013	The Vice President Unit of China Bicycle Association (自行車協會副理事長單位)	China Bicycle Association (中國自行車協會)
	Ranked No. 1 in the Electric Two-wheeled Vehicle Enterprises of the China Light Industry for 2012 (2012年度中國輕工業電動自行車行業十強企業第一名)	China National Light Industry Council (中國輕工業聯合會); China Bicycle Association (中國自行車協會)
	Top 100 Enterprise in China Light Industry, 2012 (2012年度中國輕工業百強企業)	China National Light Industry Council (中國輕工業聯合會);
	A New High Technology Enterprise (高新技術企業)	Department of Finance of Tianjin (天津市財政廳); National Tax Bureau of Tianjin (天津市國稅局); Local Tax Bureau of Tianjin (天津市地稅局)
	Ranked No. 1 in the Best Appearance Award (最佳外觀獎第一名)	Guangdong Testing Institute of Product Quality Supervision (廣東產品質量監督檢驗研究院)

YEAR	AWARD	AUTHORITY
	Recommended Product for the year 2012 to 2013 by Wuxi Consumer Council (無錫市消費者委員會2012–2013年度推薦商品)	Wuxi Consumer Council (無錫市消費者委員會)
2014	Ranked No. 1 in the Electric Two-wheeled Vehicle Enterprises of the China Light Industry for 2013 (2013年度中國輕工業電動自行車行業十強企業第一名)	China National Light Industry Council (中國輕工業聯合會); China Bicycle Association (中國自行車協會)
	Top 100 Enterprise in China Light Industry, 2013 (2013年度中國輕工業百強企業)	China National Light Industry Council (中國輕工業聯合會)
	An Advanced Enterprise of Research and Innovation in China Light Industry, 2013 (2013年度中國輕工業研發創新先進企業)	China National Light Industry Council (中國輕工業聯合會)
	2013 China Brand of the Year (2013 CCTV中國年度品牌)	CVSC–TNS RESEARCH (央視市場研究股份有限公司)
	CNAS (中國合格評定國家認可委員會實驗室)	China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會)
	A Key Research and Development Institution of Jiangsu Province (江蘇省重點企業研發機構)	The Office of Joint Conference for Enhancing the Construction Work for Research and Development Institution of Enterprise of Jiangsu Province (江蘇省推進企業研發機構建設工作聯席會議辦公室)
	Industry Design Center of Jiangsu Province (江蘇省工業設計中心)	Jiangsu Economic and Information Technology Commission (江蘇省經濟和信息化委員會)
	Private Science and Technology Enterprise of Jiangsu Province (江蘇省民營科技企業)	Private Science and Technology Enterprise Association of Jiangsu Province (江蘇省民營科技企業協會)

YEAR	AWARD	AUTHORITY
	A New High Technology Enterprise (高新技術企業)	Department of Finance of Tianjin (天津財政廳); National Tax Bureau of Tianjin (天津國稅局); Local Tax Bureau of Tianjin (天津市地稅局)
2015	Ranked the No. 1 Electric Two-wheeled Vehicle Enterprise of the China Light Industry for 2014 (2014年度中國輕工業電動自行車行業十強企業第一名)	China National Light Industry Council (中國輕工業聯合會); China Bicycle Association (中國自行車協會)
	Named a top 100 Enterprise in China Light Industry, 2014 (2014年度中國輕工業百強企業)	China National Light Industry Council (中國輕工業聯合會)
	Named a New High Technology Enterprise (高新技術企業)	Department of Finance of Tianjin (天津財政廳); National Tax Bureau of Tianjin (天津國稅局); Local Tax Bureau of Tianjin (天津市地稅局)
	Named as an Excellent Brand Enterprise of Jiangsu Province Light Industry for 2014 (2014年度江蘇省輕工行業優秀品牌企業)	Jiangsu Province Light Industry Association (江蘇省輕工業行業協會)

Awards Regarding Our Products

YEAR	AWARD	AUTHORITY
2013	Famous Brand Product of Jiangsu Province (江蘇省名牌產品)	Brand Strategy Promotion Committee of Jiangsu Province (江蘇省名牌戰略推進委員會)
2014	Ranked the Second for the Design Competition Product Group of Taihu Prize (太湖獎設計大賽產品組二等獎)	People's Government of Wuxi (無錫市人民政府); China Industrial Design Association (中國工業設計協會)
2015	Ranked First in the Taihu Design Competition Product Group of (太湖獎設計大賽產品組一等獎)	People's Government of Wuxi (無錫市人民政府); China Industrial Design Association (中國工業設計協會)

INTELLECTUAL PROPERTY

We believe that intellectual property rights, including our trademarks, patents, copyrights and domain names, are important to the future of our business. We rely primarily on a combination of patents and trademarks to protect our intellectual property. Please refer to the section headed "Statutory and General Information — B. Further Information about Our Business — 2. Intellectual property rights of our Group" in Appendix IV to this document for details regarding our material registered intellectual property rights, including trademarks, patents and domain names.

With respect to, among other things, proprietary know-how which is not patentable and processes for which patents are difficult to enforce, we rely on trade secret protection and confidentiality agreements to safeguard our interests. All of our research and development personnel are obligated to maintain confidentiality of our proprietary information. Additionally, under PRC laws and regulations, all of the patentable inventions, utility models and designs developed by our employees in connection with their employment with us are automatically assigned to us. We also require our business partners to enter into confidentiality agreements prior to receiving sensitive information regarding aspects of our operations, technology or business plans.

As of the Latest Practicable Date, we held a total of 664 patents granted in the PRC, of which 15 were patents of invention, 270 were patents for utility models and 379 were patents of design, and had 48 patent applications pending approval.

During the Track Record Period and as of the Latest Practicable Date, other than the claim disclosed in the sub-section headed "— Legal Proceedings and Compliance", to the best of our knowledge, we were not subject to any material intellectual property claims which could have a material adverse effect on our business or operations.

INSURANCE

Our insurance coverage primarily consists of property and employee related insurance. Our property insurance primarily covers, (i) fixed assets, such as our equipment and facilities, and (ii) inventories, such as raw materials and finished products in our self-owned and leased plants. These insurance policies cover losses due to fires, earthquakes, floods and a wide range of other natural disasters. Our employee related insurance mainly includes contributions to or provisions of employee pension insurance, workplace injury insurance, maternity insurance, unemployment insurance, health insurance, and housing funds as required by PRC laws and regulations.

In addition, we also maintain product liability insurance against claims for property damage and personal injury in the PRC. We do not purchase any product liability insurance for products sold to international markets, which we believe is in line with general industry practice. During the Track Record Period and up to the Latest Practicable Date, we had not made, and were not subject to, any material product liability claims. We believe that the insurance coverage for our assets, properties and products is consistent with the market practice in the PRC for our industry and is adequate for our operations.

SAFETY AND ENVIRONMENTAL MATTERS

Health and Work Safety

As required by PRC laws and regulations, including the Labor Contract Law of the PRC《中華人民共和國勞動合同法》and its accompanying regulations, the Labor Law of the PRC《中華人民共和國勞動法》and Opinions on Several Questions concerning the Implementation of the Labor Law of the PRC《關於貫徹執行〈中華人民共和國勞動法〉若干問題的意見》, we are required to have health and safety policies to ensure a safe working environment for our employees, and we are also required to provide health and safety training to our employees. We have implemented a comprehensive occupational health and safety system. Our occupational health and safety system primarily focuses on the following aspects:

- *Implementation of precautionary measures.* We take precautionary measures against fire hazards, theft, accidents and machinery damage. Our occupational health and safety system identifies our exposure to potential workplace safety and healthcare hazards and outlines the precautionary measures and arrangements designed to eliminate and control those hazards to ensure that a high standard of health and safety is maintained in the workplace.

- *Emergency response, notification and accident handling.* We have a robust and well-established accident response system. We have issued our "Measures for Handling Accidents and the Relevant Investigation" which address industry safety, workplace and emergency hygiene and traffic accidents. The measures specify the responsibilities of each department in the event of an accident, including accident notification procedures, investigation, attribution of liability and penalties. For example, according to the measures the person discovering the accident shall immediately call the relevant department head to the scene of the accident. The department head shall manage the accident and medical response at the scene, and shall also record the details of the accident on an accident investigation form. According to the measures, the department head shall also notify the General Management Department ("**GMD**"). The GMD shall assist with and oversee the medical response, investigate the cause of the accident, and create a summary report. Also, the President's Office shall coordinate and supervise the work of the different departments handling the accident.

- *Equipment maintenance.* We endeavor to repair and maintain all our facilities and equipment on a regular basis. We also continuously upgrade our equipment by installing additional safety features to prevent or mitigate future work injuries.

- *Safety training.* We provide regular safety trainings to all employees. Newly recruited employees must go through a series of safety training sessions. Employees operating key equipment must participate in periodic safety training. Before we employ any new equipment or production technology, the operating employees must be specifically trained with respect to the safety issues involved.

- *Risk management.* According to our occupational health and safety system, in order to ensure we are able to provide a safe working environment to our employees, we conduct safety inspections on a periodic basis to eliminate potential safety hazards in our production process. During such inspections, we also rank the health and safety risks at each stage of our operations and identify the potential risks involved. Once identified, we strengthen the safety measures against the health and safety risks identified.

From the commencement of the Track Record Period and up to Latest Practicable Date, we had approximately 49 reported workplace accidents, all of which were minor accidents, ending with sick leave, without any fatal or serious personal injuries or significant loss of property.

We believe that our occupational health and safety system will continue to help us ensure employee health and safety as we continue to expand our operations. However, there can be no assurance that material accidents will not occur in the future.

During the Track Record Period and up to the Latest Practicable Date, according to our PRC Legal Advisors, we complied with all relevant laws, regulations and administrative rules regarding health and work safety and production safety in all material respects and were not subject to any material penalties by PRC regulatory authorities.

Environmental Matters

We generate and discharge pollutants such as waste water and noise in manufacturing activities and are subject to PRC environmental laws and regulations. In particular, we are subject to PRC environmental laws and regulations promulgated by both the central and local governments, including the Environmental Protection Law《中華人民共和國環境保護法》, the Law on the Prevention and Treatment of Water Pollution《中華人民共和國水污染防治法》, the Law on the Prevention and Control of Noise Pollution《中華人民共和國環境噪聲污染防治法》and the Environmental Impact Assessment Law《中華人民共和國環境影響評價法》. We consider the protection of the environment to be important and have implemented waste treatment procedures in our manufacturing facilities, and have also implemented measures to control the noise levels caused by our machines in the operation of our businesses to ensure our compliance with all applicable requirements. Our waste treatment procedures have consistently been in compliance with applicable environment standards in our manufacturing facilities.

In addition, we are subject to regulations and periodic monitoring by local environmental protection authorities. We are also required to undergo an environmental protection examination and obtain approval from relevant governmental authorities who have the right to impose fines or a deadline to cure any non-compliance, or order us to cease production if we fail to comply with these requirements. In order to ensure that our suppliers which supply lead-acid batteries have complied with the relevant PRC environmental laws and regulations in producing the batteries, we require them to provide us with the Certification of Environment Management System ("環境管理體系認證證書"), the National Production Permit ("全國工業產品生產許可證"), Certification of Quality Management System ("質量管理體系認證證書") and a test report issued by the National Power and Energy Storage Battery Product Quality Supervision and Inspection Center ("國家動力及儲能電池產品質量監督檢驗中心") before we enter into purchase agreements with them.

Improper disposal of lead-acid batteries may cause a problem to the environment. The scrap value of lead-acid batteries is relatively high in the PRC, and normally our distributors engage their own recyclers to dispose of collected lead-acid batteries. Other than encouraging the exchange of used vehicles for new electric two-wheeled vehicles, we are not directly involved in the disposal of lead-acid batteries.

During the Track Record Period and up to the Latest Practicable Date, according to our PRC Legal Advisors, we complied with all the relevant laws, regulations and administrative rules on environmental protection in all material respects, without any material penalties imposed by the regulatory authorities in the PRC save as otherwise disclosed herein.

For the years ended December 31, 2013, 2014 and 2015, our cost of compliance with the applicable rules and regulations in relation to environmental protection was approximately RMB2.6 million, RMB4.4 million and RMB4.9 million, respectively. We expect the annual cost of compliance with such rules and regulations will amount to approximately RMB508,000 and RMB84,000, respectively, for 2016 and 2017, respectively.

PROPERTIES

We occupy certain properties in China in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include the premises of our production plants, offices, warehouses and employee dormitories.

As none of the properties we held or leased as of June 30, 2015, had a carrying amount of 15% or more of our consolidated total assets, we are exempted from compliance with the document disclosure requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (which requires a valuation report with respect to interests in land or buildings) by section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). Pursuant to Chapter 5 of the Listing Rules, this document is not required to include valuations of our properties.

A summary of the properties material to our operations and businesses is set forth below. This summary does not include information about all of the properties owned, held or occupied by us.

Owned Properties

As of the Latest Practicable Date, we had land use right certificates for seven parcels of land with an aggregate floor area of approximately 607,725.2 sq.m. and building ownership certificates for 19 buildings with an aggregate floor area of approximately 294,285.85 sq.m.

The following table summarizes the land use rights owned by us:

Location	Use of property	Registered area (sq.m.)	Expiration of land use right
Wuxi	Industrial	33,151	October 7, 2063
Wuxi	Industrial	117,256	January 27, 2061
Wuxi	Industrial	66,867	November 28, 2056
Cixi	Industrial	77,900	October 4, 2053
Cixi	Industrial	75,372	October 4, 2053
Cixi	Industrial	104,194	October 4, 2053
Tianjin	Industrial	132,985.2	September 23, 2062

The following table sets out a summary of the primary buildings owned by us:

Location	Use of property	Approximate gross floor area (sq.m.)
Cixi	Industrial	1,967.82
Cixi	Industrial	40,057
Cixi	Industrial	1,203.24
Cixi	Industrial	37,694.77
Cixi	Industrial	2,975.04
Cixi	Industrial	1,314.06
Cixi	Industrial	5,853.38
Cixi	Industrial	95.56
Cixi	Industrial	49,568.41
Wuxi	Warehousing	18,789.18
Wuxi	Industrial	48,453.56
Wuxi	Industrial	51,752.89
Wuxi	Industrial	147.99
Wuxi	Industrial	5,493.9
Wuxi	Industrial	10,021.49
Wuxi	Industrial	6,123.11
Wuxi	Industrial	4,307.48
Wuxi	Industrial	4,307.48
Wuxi	Industrial	4,307.48

As confirmed by our PRC Legal Advisors, we legally own all of our properties.

Leased Properties

We have 13 leased properties with an aggregate GFA of approximately 91,043.99 sq.m. These are mainly used as factory buildings and office premises.

Three out of the 13 properties leased by us are built on collectively-owned land. The lessor for two of such properties has provided building ownership certificates to us. The lessor for the remaining building has filed an application for the building ownership certificate. The relevant authority has confirmed that the application has been accepted and is currently in processing. As advised by our PRC Legal Advisors, there is no legal impediment to the lessor obtaining the building ownership certificate. Due to the nature of the collectively-owned land, theoretically, the government may expropriate the land and take possession of such land and therefore we may be required to vacate the relevant properties and relocate our affected operations. According to our PRC Legal Advisors, the risk of our being evicted is remote. As advised by our PRC Legal Advisors, the lessors have the right to lease the relevant buildings to us and the lease agreements between us and the lessors are legally valid and enforceable.

In addition, the lessors for two out of our 13 leased properties have not obtained the building ownership certificates for such properties (although the lessors have already obtained the land use right certificates). The lessors have filed the applications for the building ownership certificates. The relevant authorities have confirmed that the applications have been accepted and are currently in processing. As

advised by our PRC Legal Advisors, there are no legal impediments to the lessors obtaining the building ownership certificates. Our PRC Legal Advisors are of the view that the lessors have right to lease the buildings to us, and the lease agreements between us and the lessors are legally valid and enforceable.

The leases to four out of the 13 properties leased by us are registered with the relevant PRC government authorities. With respect to nine out of the 13 leased properties, we and the lessors have filed lease registration applications. As advised by our PRC Legal Advisors, we have fully discharged our obligation by filing the registration applications, and therefore we will not be penalized by the PRC government authorities in relation to the registration of leases.

The table sets out a summary of the material properties leased by us. These are used as factory buildings and offices.

Location	Use	Approximate gross floor area	Lease duration	Ownership certificate	Lease registration status
Tianjin	Factory building	11,065.5	July 1, 2010–August 31, 2027	obtained	application filed
Tianjin	Factory building	6,904	July 1, 2010–November 30, 2018	obtained	application filed
Wuxi	Offices	80	March 9, 2012–March 8, 2018	obtained	in registration
Dongguan . .	Factory building	6,500	March 15, 2011–March 14, 2016	application in progress	application filed
Dongguan . .	Factory building	13,832	June 1, 2014–May 31, 2017	application in progress	application filed
Wuxi	Residential building	500	January 1, 2014–December 31, 2016	obtained	in registration
Wuxi	Offices	2,000	January 1, 2015–December 31, 2024	obtained	in registration
Shanghai . . .	Offices	1,774.56	April 1, 2015–June 30, 2018	obtained	application filed
Wuxi	Offices	200	May 17, 2014–May 16, 2019	obtained	in registration
Qingyuan . . .	Offices	300	July 1, 2015–June 30, 2020	obtained	application filed
Qingyuan . . .	Factory building	31,287.93	March 1, 2016–February 28, 2021[(1)]	obtained	application filed
Tianjin	Factory building	9,600	July 1, 2010–June 30, 2020	obtained	application filed
Dongguan. . .	Warehousing and residential building	7,000	August 25, 2015–December 31, 2016	application in progress	application filed

Note:

(1) The lease is renewable upon its expiration.

PERMITS AND LICENSES

Our Directors, after consultation with our PRC Legal Advisors, confirm that, as of the Latest Practicable Date, save as disclosed in the section headed "— Legal Proceedings and Compliance", we had obtained all material licenses, approvals and permits from relevant PRC authorities for our operations in China. The following table sets forth details of our material permits and licenses.

License/permit/certificate	Holder	Effective Date (YYYY/MM/DD)	Expiration Date (YYYY/MM/DD)
The Production License for National Industrial Products (《全國工業產品生產許可證》)	Yadea Group	2014/09/30	2017/07/05
	Guangdong Yadea	2014/09/30	2017/07/05
	Zhejiang Yadea	2012/07/20	2017/07/19
	Jiangsu Yadea	2014/06/11	2019/06/10
The Manufacturing License for Special Equipment (《特種設備製造許可證》)	Yadea Group	2012/12/03	2016/12/02
The Registration Form of Administrative Filing for Foreign Traders (《對外貿易經營者備案登記表》)	Yadea Import Export	2010/04/28	N/A

Certain of our material permits and licenses have a limited period of validity. We monitor the validity status of our permits and licenses, and make timely applications for the renewal of relevant permits and license prior to the expiration dates. We did not experience any material difficulty in obtaining or renewing the required permits and licenses or our business operations during the Track Record Period or up to the Latest Practicable Date. We do not expect any material impediment in renewing our material permits and licenses as they expire in future.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business. There were no material legal claims against us during the Track Record Period and as of the Latest Practicable Date. As of the Latest Practicable Date, our Group was involved in the following pending litigation for dispute for amount exceeding RMB300,000:

Plaintiff(s)	Defendant(s)	Nature of litigation	Legal consequence
Mr. Wang	Zhejiang Yadea	The plaintiff alleged that we authorized him to manufacture gasoline engine boosting vehicles under our brand pursuant to an agreement dated July 18, 2011 between Mr. Yu and us (the "Authorization Agreement"), and he also alleged that we breached our obligation under the Authorization Agreement due to our unilateral termination of the agreement. In May 2015, the plaintiff filed a claim for total damages of RMB682,580 but withdrew the claim shortly thereafter. In December 2015, the plaintiff re-filed the claim for total damages of RMB562,866 and the related legal costs. The court's decision of this case was pending as of the Latest Practicable Date.	If the court rules against us, we may be held liable for the damages claimed by the plaintiff and the legal costs arising therefrom. (1) We do not have any business relationship or enter into any form of agreement with Mr. Wang. (2) On July 18, 2011, we entered into the Authorization Agreement with Mr. Yu for authorizing him to manufacture gasoline engine boosting vehicles, which was expired on December 31, 2013. Mr. Yu was required to obtain relevant permits to manufacture such products according to the then applicable PRC laws and regulations. In December 2011, The General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) cancelled the permit for production of gasoline engine boosting bicycles and discontinued to issue such permit, as a result, Mr. Yu was no longer able to apply for such permit and perform his duty under the Authorization Agreement, thus no products were manufactured or sold by Mr. Yu pursuant to the Authorization Agreement. (3) Under the Authorization Agreement, we granted the authorization to Mr. Yu only and Mr. Yu has no right to further authorize any third party to perform his duty and obligation under the Authorization Agreement. (4) As advised by our PRC Legal Advisors, Mr. Yu has no right to authorize any third party under the Authorization Agreement and Mr. Wang has no business or contractual relationship with us in any form, the case is likely to be dismissed by the court and the probability for the court ruling against us is low.

As of the Latest Practicable Date, none of our Directors were involved in the legal or arbitral proceedings, and our Directors believe that none of these legal proceedings, individually or in aggregate, were expected to have any material adverse effect on our business, financial conditions and results of operations.

Compliance

During the Track Record Period, our Group experienced non-compliance incidents that we consider material or systemic. A description of each such incident, together with a description of the rectification actions that we have taken in respect of such incidents is set out below. For information regarding the internal control measures we have adopted or plan to adopt to reduce non-compliance in the future, please refer to section headed "Business — Internal Control and Risk Management System" of this document for further details.

Non-compliance incidents	Reason for non-compliance	Legal consequences and potential maximum penalty	Rectification actions and impact on our Group
Production of Non-conforming Gasoline Engine Boosted Scooter (汽油機助力車)			
Gasoline engine boosted scooters of models "Big Princess" ("大公主"), "Little Princess" ("小公主") and "Lingying" ("凌鷹") produced by Jiangsu Yadea, Dongguan Branch did not comply with the national standard of gasoline engine boosted bicycle. In addition, these models were recognized as motorcycles which fall within the scope of CCC, but Jiangsu Yadea, Guangdong Branch did not obtain the CCC to produce the aforesaid models.	These non-conforming gasoline engine boosted scooters were customized based on the requests of our customers. Our sales staff and production staff did not have a comprehensive understanding of requirements set in the national standard for production of gasoline engine boosted scooters, therefore were not aware that some production requests from the customers did not comply with the national standards. In addition, our sales staff and production staff were not aware that these models fall within the scope of motorcycles under CCC, therefore did not apply to CCC before the production of models. Because the amount of production and sales was very limited, our sales staff and production staff made the decision at a local level, and did not report to management at our headquarters.	On January 25, 2013, the Bureau of Quality and Technical Supervision of Dongguan City, Guangdong Province (廣東省東莞市質量技術監督局) issued an Administrative Penalty Decision to (i) ordering us to change the model to conform with the national standards as previously inspected and approved by the relevant regulatory authorities, (ii) ordering us to forfeit the illegal proceeds in the amount of RMB46,740 and (iii) imposing a fine in the amount of RMB60,000 on our Jiangsu Yadea for the violation of Regulations on Certification and Accreditation (《認證認可條例》).	Jiangsu Yadea, Guangdong Branch rectified the non-compliance by ceasing the production of the non-conforming models, turning in the illegal proceeds, and fully paying the fine. As advised by our PRC Legal Advisors, the Administrative Penalty Decision has been enforced in full and Jiangsu Yadea, Dongguan Branch is not subject to any further penalty with respect to this non-compliance incident.
Production of Non-conforming Electric Bicycles			
Electric bicycles of model "Haoyue YD500-47" produced by Jiangsu Yadea, Guangdong Branch did not comply with the national standards as specified in the Conditions for General Technology on Electric Bicycles (《電動自行車通用技術條件》).	The non-conforming model of electric bicycles was customized based on requirements specified by a customer. Our sales staff and production staff did not have a comprehensive understanding of national standards included in the Conditions for General Technology on Electric Bicycles, and were therefore not aware that some production requirements from the customer did not comply with the national standards. Because the amount of production and sales was very limited, our sales staff and production staff made the decision at a local level, and did not report to management at our headquarters.	On November 5, 2013, the Bureau of Quality and Technical Supervision of Dongguan City, Guangdong Province (廣東省東莞市質量技術監督局) issued an Administrative Penalty Decision ordering Jiangsu Yadea, Guangdong Branch (i) to change the model to conform with the national standards as previously inspected and approved by the relevant regulatory authorities, (ii) to destroy the six unsold non-conforming electric bicycles and (iii) to pay a fine in the amount of RMB8,910 for the violation of Implementation Regulation on Standardization Laws (《標準化法實施條例》).	Jiangsu Yadea, Guangdong Branch had rectified the non-compliance by ceasing the production of the non-conforming model, destroying the non-conforming electric bicycles, and fully paying the fine. As advised by our PRC Legal Advisors, the Administrative Penalty Decision has been enforced in full and Jiangsu Yadea, Guangdong Branch is not subject to any further penalty with respect to this non-compliance incident.

Non-compliance incidents	Reason for non-compliance	Legal consequences and potential maximum penalty	Rectification actions and impact on our Group
Failure to Obtain Environment Impact Assessment Approval			
In the end of 2009, we acquired Zhejiang Yadea and as a result obtained its production facility with a maximum capacity of producing 300,000 motor vehicles and related components, which had obtained Environment Impact Assessment Approval ("EIAA"). After the acquisition, we commenced the operation of the production facility to produce electric scooters until July 2010, when we started to expand the production facility to a one with higher maximum capacity, and did not applied for the EIAA before such expansion. In October 2013, the Bureau of Environmental Protection of Ningbo (寧波市環保局) issued an Administrative Penalty Decision for our failure to obtain relevant EIAA before expanding our production facility. According to the Administrative Penalty Decision, we were required to pay a fine of RMB200,000, apply for a new EIAA for the maximum capacity of producing 1,000,000 electric scooters, and cease operation during the rectification period. Upon receiving the above mentioned Administrative Penalty Decision, we immediately paid up the fine and started the application process for the relevant EIAA, which was approved in June 2014.	Because the production of our products did not involve significant pollution and the environmental impact was relatively minimal, after preliminary consultation with the relevant authorities, we proceeded with the production facility expansion without first obtaining an EIAA. After receiving the Administrative Penalty Decision, we immediately started the application process for the relevant EIAA, which was approved in June 2014. During the rectification period from October 2013 to June 2014, we had been in frequent communications with the Bureau of Environmental Protection of Ningbo and the Bureau of Environmental Protection of Hangzhou Bay New District, Ningbo (杭州灣區環保分局) on the progress of our application for relevant EIAA, and continued the operation of the production facility. As advised by our PRC Legal Advisors, according to the Environmental Protection Law of PRC, the environmental protection authority at the county-level administrative agency or above is primarily responsible for the supervision of the environmental protection work within its jurisdiction. Accordingly, our PRC Legal Advisors have advised that the Bureau of Environment Protection of Hangzhou Bay New District of Ningbo, a county-level administrative agency, is the primary competent authority for matters related to environmental protection in Hangzhou Bay New District, and primarily responsible for supervising Zhejiang Yadea's facility expansion plan, its rectification actions and further compliance with the environmental protection laws and regulations, as well as granting confirmation in these respects. The Bureau of Environmental Protection of Hangzhou Bay New District, Ningbo has provided a written confirmation dated October 12, 2015 that: (i) the Group has paid up the fine of RMB200,000 and would not be further punished for the same non-compliance incident; and (ii) during the rectification period, the Group was allowed to operate the production facility since onsite inspection by the Bureau of Environmental Protection of Hangzhou Bay New District, Ningbo revealed that environmental impact of such operation was minimal.	The PRC Legal Advisors have confirmed that this non-compliance incident do not have further legal consequences in the future for the following reasons: (i) we have paid up the fine of RMB200,000, (ii) we were allowed to operate the production facility during the rectification period by competent authority, and (iii) we obtained the necessary EIAA in June 2014.	We obtained the relevant EIAA in June 2014, and implemented internal control measures to prevent similar occurrences of non-compliance with respect to EIAA. For further details of the relevant internal control measures, see "Business — Internal Control and Risk Management — Internal Control Measures to Prevent the Recurrence of Non-compliance Incidents."

Non-compliance incidents	Reason for non-compliance	Legal consequences and potential maximum penalty	Rectification actions and impact on our Group
Failure to Make Social Insurance and Housing Provident Fund Payments			
We did not pay relevant social insurance and did not make housing provident fund contributions for some of our employees as required under PRC laws and regulations during the Track Record Period. We estimate that the total outstanding social insurance fund and housing provident fund contributions as of December 31, 2015 was RMB12.9 million.	***Social insurance*** (i) As the place of work was not the same as the place of residence for those non-urban employees, they made voluntary decisions not to make contributions; (ii) Some of our employees are migrant workers and they made voluntary decisions not to make contributions; ***Housing provident fund*** (i) As the place of work was not the same as the place of residence for those non-urban employees, they made voluntary decisions not to make contributions; (ii) Some of our employees are migrant workers and they made voluntary decisions not to make contributions; (iii) We provided housing allowance or dormitories to certain employees; Beside, some human resources managers of our subsidiaries who were in charge of the administration of our PRC employee social insurance and housing provident fund contributions, did not fully understand the relevant requirements, due to the inconsistency in implementation or interpretation of the relevant PRC laws and regulations among government authorities in the PRC.	***Social Insurance*** For unpaid social insurance, as advised by our PRC Legal Advisors, we may be required by the relevant authority to pay the amount of unpaid social insurance within a prescribed time limit, and we will not be punished if we satisfy such requirement. If we fail to do so within a given period as required by the local social insurance authorities, we may be subject to a penalty of up to three times of the amount of the delinquent payment, and a late payment surcharge may be imposed on a daily basis calculated at a rate of 0.05% thereon from the date the unpaid amount became due. ***Housing provident fund*** For failure to make housing provident fund contributions as advised by our PRC Legal Advisors, we may be ordered by the relevant authority to pay the outstanding housing provident fund contributions within a prescribed time. If we fail to do so within the given period, the relevant authorities may apply to a PRC court for an order to enforce the payment. In the event that we receive from the relevant authorities relevant orders, we intend to immediately pay the outstanding social insurance fund and housing fund contributions and/or any late charges and/or penalties imposed by the relevant authorities accordingly. As of the Latest Practicable Date, we have not received any notification from the relevant PRC authorities alleging that we had not made full contributions to the social insurance funds or housing funds nor demanding payment or imposing any penalty.	The relevant written confirmations were issued by the competent authorities stating that they have not imposed administrative penalties on us in respect of our payment of contributions to the social insurance and housing provident fund, and accordingly, our PRC Legal Advisors are of the opinion that the risk of our Group being ordered to make retrospective payment or imposed any penalty is remote. Despite the remoteness of such risk, we have recognized welfare payable for unsubscribed contribution to social insurance and housing provident fund as of December 31, 2015, in the amount of approximately RMB12.9 million on our balance sheet. Also, we would pay the retrospective underpaid amount if requested by the competent authorities. In the event that the Group is required to pay the outstanding social insurances and housing provident fund, the Controlling Shareholder has agreed to indemnify the Group against all fines and penalties incurred by the Group as a result of or in connection with the failure of the Company to make contributions in respect of the social insurances and housing provident fund due to the relevant governmental authorities in the PRC prior to the [**REDACTED**]. Our PRC Subsidiaries have arranged to make contributions for social insurance and housing provident fund in compliance with the relevant PRC laws and regulations and local policies starting from September 2015; We have engaged our PRC Legal Advisors to provide trainings to our human resource managers on the latest development of various compliance matters and requirements.

Except as disclosed above, we are not aware of any other material legal proceedings, claims or disputes currently existing or pending against us. However, we cannot assure you that other material legal proceedings, claims or disputes will not arise in the future. See "Risk Factors — Risks Relating to Our Business — We did not pay social welfare contributions or housing provident fund contribution for certain of our employees and may be subject to fines or penalties" and "Risk Factors — Risks Relating to Our Business — We may fail to comply with legal or regulatory requirements or to obtain or adhere to requirements under relevant licenses or permits". As of the Latest Practicable Date, except as disclosed in this document, as advised by our PRC Legal Advisors, we had, in all material respects, complied with all the relevant and applicable PRC laws and regulations governing the business of electric two-vehicles production and we had obtained all licenses, permits and certificates for the purpose of operating our business.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control and Risk Management System

It is the responsibility of our Board of Directors to ensure that the Company maintains sound and effective internal controls to safeguard our Shareholders' investment and the Group's assets at all times. We have adopted, or expect to adopt before the [**REDACTED**], a series of internal control policies, procedures and programs designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

- *Code of conduct.* Our code of conduct explicitly communicates to each employee our values, acceptable criteria for decision-making and our ground rules for behavior. Our code of conduct also includes whistleblowing policies to encourage all employees to speak up against any sub-standard behavior.

- *Anti-corruption.* Our anti-corruption policies provide the tools and resources necessary to enable, monitor and enforce full compliance with the anti-bribery and anti-corruption laws of China and other countries where we conduct our business operations. Compliance with our anti-corruption policies is a condition of employment.

- *Internal Audit.* Our internal audit function regularly monitors key controls and procedures in order to assure our management and Board of Directors that the internal control system is functioning as intended. The Audit Committee in our Board of Directors is responsible for supervising our internal audit function.

- *Compliance with Listing Rules.* Our various policies aim to ensure compliance with the Listing Rules, including but not limited to aspects related to corporate governance, connection transactions and securities transactions by our Directors.

The ultimate goal of our risk management process is to identify and focus on the issues in our business operations that create impediments to our success. Our risk management process starts with identifying the major risks associated with our corporate strategy, goals and objectives. Based on assessment of our risks in terms of their likelihood and potential impact, we then prioritize and pair each risk with a mitigation plan. We encourage a culture of risk management to ensure that all employees are aware of and responsible for managing risks. Each of our operating departments is responsible for identifying and analyzing risks associated with its function, maintaining a comprehensive risk record, preparing risk mitigation plans, measuring effectiveness of such risk mitigation plans, and reporting status of risk management. Our audit personnel, the Audit Committee in our Board of Directors, and ultimately our Board of Directors supervise the implementation of our risk management policy at the corporate level by bringing together each operating department, such as quality control department, research and development department, ancillary facilities management center, and sales and marketing department, to collaborate on risk issues among different functions. For details about the qualifications and experiences of the members of the Audit Committee in our Board of Directors and our Board of Directors, please see "Directors and Senior Management" in this document. The key process points in our risk management include:

- *Identify.* We identify current and emerging risks in our business operations and categorize those risks into a reasonable profile based on timeframe, likelihood, intensity and impact severity. We establish four risk categories, including strategic risks, financial risks, operating risks and legal risks.

- *Assess.* We assess and prioritize risks so that the most important risks can be identified and dealt with. Based on both qualitative and quantitative analyses, we prioritize risks in terms of likelihood and impact severity.

- *Mitigate.* Based on our assessment of (i) the probability and impact severity of the risks and (ii) cost and benefit of the mitigation plans, we choose the appropriate option for dealing with risks, including risk elimination by suspending the associated business activities, risk reduction by adopting appropriate control measures, risk transfer by outsourcing or purchasing insurance policies, and risk acceptance by choosing to accept risks of low priority.

- *Measure.* We measure our risk management by determining if changes have been implemented and if changes are effective. In the event of any weakness in control, we follow up by adjusting our risk management measures and reporting material issues to our Board of Directors.

Internal Control Measures to Prevent the Recurrence of Non-compliance Incidents

In order to prevent similar occurrences of non-compliances relating to product-conformity, environmental impact assessment approval and social welfare and housing provident fund contribution, we closely examined our relevant internal control measures to identify the deficiencies in our internal control leading to the non-compliance incidents and put considerable efforts to improve our internal control measures.

In addition, our internal control consultant, which is affiliated with one of the "Big Four" accounting firms, during its internal control review performed in June and July 2014 also identified certain defects in our internal control policies and procedures relating to our non-compliance incidents. Major findings of our internal control consultant included the following. With respect to our product-conformity non-compliance incident, the internal control consultant found that our local production and sales staff lacked sufficient ongoing training on compliance issues, as well as sufficient supervision and centralized management from senior management members, which resulted in the production and sales of vehicles that did not meet industry standards. With respect to the social welfare and housing provident fund contribution, the internal control consultant found that we did not strictly adhere to PRC laws that require full payments on social insurance and housing provident fund contributions to employees. Upon these findings, our internal control consultant put forward recommendations for us to rectify and enhance our internal control measures. With respect to the incident relating to our lack of the environmental impact assessment approval, we had completed most of the remedial measures before we engaged the internal control consultant. Our internal control consultant has not found any defects in our internal controls or our internal processes relating to applications for environmental impact assessment approval. Accordingly, our internal control consultant did not conduct a follow-up inquiry into this issue.

After considering all the recommendations from our internal control consultant, the major enhanced internal control measures adopted by us are set forth below:

- *Product conformity and legal compliance:* (i) our Directors and staff from production and sales departments have attended various comprehensive trainings provided by industry experts and our PRC Legal Advisors in respect of applicable national industry standards and the relevant laws and regulations relating to our production. Our Directors and staff will continue to receive periodical trainings by our legal advisors and legal department on an ongoing basis in the future on updates to applicable laws and regulatory requirements; (ii) we have established new requirements putting our technology department in charge of overseeing compliance with the National Standards and making this one of the key duties of the research and development technology department. Mr. Jinlong Wang is in charge of our research and development of technology department, see "— Research and Development" in this section for further details regarding the personnel in this department; and (iii) we have required that all sales and production of any customized or new models of vehicles must be approved by relevant members of senior management. The technology and production center staff are required to ensure that measures are in place to ensure our compliance with the relevant requirements. We implemented these enhanced internal control measures beginning in November 2014. In addition, going forward our technology center will provide quarterly reports to the Audit Committee regarding any changes in the legal or regulatory requirements relating to our products and our compliance with the relevant requirements going forward.

- *Environmental impact assessment approval:* (i) our Directors and staff from the general affairs office have attended comprehensive trainings provided by our PRC Legal Advisors relating to legal requirements for the environment impact assessment of construction projects; (ii) staff from the general affairs office are required to liaise with the relevant governmental authority in advance in respect of the environment impact assessment; and (iii) during the permitted trial operation at a new or expanded facility prior to the final environmental impact assessment, the staff at such production facility must report any issue identified to the senior management promptly. The senior management should have meeting with the heads of all the responsible

departments and implement rectification actions immediately in order to avoid any delay in obtaining or inability to obtain environmental impact assessment approval. We implemented these enhanced internal control measures beginning in November 2014. Furthermore, the approval of the Audit Committee will be required before any future project is put into operation and the Audit Committee will conduct a review to ensure that measures are in place to ensure that all the environmental requirements are met.

- *Social welfare and housing provident fund contributions:* (i) our directors and staff from the human resources department have attended comprehensive trainings provided by the PRC Legal Advisors relating to legal requirements for the social welfare and housing provident fund contributions; (ii) we establish internal control policy for social insurance fund and housing provident fund contribution and designate an internal audit officer to enforce the policy and avoid future non-compliance; and (iii) we require the human resources staff to follow personnel changes and record such changes in monthly report, so that we are able to correctly make insurance and housing provident fund contribution for all of our employees in a timely manner. We implemented these enhanced internal control measures beginning in August 2015. Going forward, the human resources department will submit semiannual reports to the Audit Committee in respect of the status of the social insurance and housing fund contributions.

Since August 2014, with respect to product conformity and social welfare and housing provident fund contributions, the internal control consultant has been conducting follow-up review procedures on the rectification or improvement measures taken by us in response to the findings identified in the preliminary review. The follow-up review procedures have been completed in October 2015. We have not received any further recommendations or findings from the internal control consultant.

Taking into account the assessments and findings of the internal control consultant, as well as the remedial measures taken and proposed by us in connection with historical non-compliance incidents, our Directors are of the view that the enhanced internal control measures are adequate and effective. In addition, our Board believes that (i) none of those incidents involved any fraudulent act by our Directors in office at the relevant time, and did not raise any question as to the integrity of our then Directors, and (ii) we have enhanced our internal control measures and effectively rectified all historical non-compliance incidents. In particular, with respect to the production and sale of customized vehicles in 2013, these incidents occurred primarily because the amount of production and sales was very limited, and therefore our sales staff and production staff made the decision at a local level rather than reporting to management at our headquarters. In response to these non-compliance incidents, we have implemented a number of internal control measures, including those that require centralized reporting and increased training. For details, see "Internal Control and Risk Management — Internal Control Measures to Prevent the Recurrence of Non-compliance Incidents — Product conformity and legal compliance". As a result of our efforts, to our knowledge, non-compliance incidents relating to production and sale of non-conforming vehicles have not occurred in nearly two years since November 2013. Our Directors are of the view of that our Directors meet the standard of competence commensurate with their positions as directors of a [**REDACTED**] under Rules 3.08 and 3.09 of the Listing Rules and that the non-compliance incidents described above will not affect the suitability of our Directors under Rules 3.08, 3.09 and 8.15 of the Listing Rules and the suitability of [**REDACTED**] of the Company under Rule 8.04 of the Listing Rules. The Sole Sponsor is not aware of any reasons to disagree with the aforementioned view of our Directors.

UNAUTHORIZED ALTERATIONS OF OUR PRODUCTS BY DISTRIBUTORS

Background

The PRC administrative agencies in charge of the quality control of goods in the market (流通領域商品), primarily the local bureaus of the SAIC, conducted periodic inspections of the electric two-wheeled vehicles in the market. During the Track Record Period and up to the Latest Practicable Date, we have found that a few of our distributors were subject to administrative penalty decisions (行政處罰) and Inspection Announcements (質量監測結果公示)[1] due to sales of non-conforming vehicles.

Details of the Administrative Penalty Decisions and Inspection Announcements

The table below sets forth a summary of information relating to the administrative penalty decisions and Inspection Announcements issued by PRC authorities during the Track Record Period and up to the Latest Practicable Date relating to our products.

PRC Authorities	Province of Distributors	Year	Issues	Administrative Measure
Haining Administration for Industry and Commerce (海寧市工商行政管理局)	Zhejiang	2014	Maximum speed, overall weight, pedal riding performance, tire width and reflector and horn device	Administrative Penalty Decision
Zhejiang Administration for Industry and Commerce (浙江省工商行政管理局)	Zhejiang	2014	Maximum speed, braking performance, overall weight, tire width, reflector and horn device and pedal riding performance	Inspection Announcement
Wenzhou Market Supervision Administration (溫州市市場監督管理局)	Zhejiang	2015	Overall weight, tire width, reflector and horn device and pedal riding performance, nominal voltage of the accumulator battery and manual specification	Inspection Announcement

[1] The Inspection Announcements were normally made public on the relevant PRC authorities' websites.

PRC Authorities	Province of Distributors	Year	Issues	Administrative Measure
Licheng Branch of Administration for Industry and Commerce of Jinan, Shandong (山東省濟南市工商行政管理局曆城分局) . .	Shandong	2014	Maximum speed, braking performance, reflector and horn device	Administrative Penalty Decision and Inspection Announcement
Qingdao Administration for Industry and Commerce (青島市工商行政管理局)	Shandong	2014	Maximum speed, braking performance, tire width	Inspection Announcement
Hunan Administration for Industry and Commerce (湖南省工商行政管理局)	Hunan	2015	Maximum speed, braking performance, overall weight, pedal riding performance, nominal voltage of the accumulator battery, tire width, manual specification and overall size	Inspection Announcement
Beijing Administration for Industry and Commerce (北京市工商行政管理局)	Beijing	2013, 2014	Maximum speed, overall weight, pedal riding performance, nominal voltage of the accumulator battery, tire width, manual specification, reflector and horn device	Inspection Announcement

PRC Authorities	Province of Distributors	Year	Issues	Administrative Measure
Zhanjiang Administration for Industry and Commerce (湛江市工商行政管理局)	Guangdong	2013	Pedal riding performance	Administrative Penalty Decision
Shenzhen Market Supervision Administration (深圳市市場監督管理局)	Guangdong	2014	Maximum speed, braking performance and undervoltage and over-current protection	Inspection Announcement
Xianning Administration for Industry and Commerce (咸寧市工商行政管理局)	Hubei	2014	Maximum speed	Administrative Penalty Decision
Liaoning Administration for Industry and Commerce (遼寧省工商行政管理局)	Liaoning	2014	Maximum speed and overall weight	Inspection Announcement
Qinghai Administration for Industry and Commerce (青海省工商行政管理局)	Qinghai	2015	Overall weight, pedal riding performance and manual specification	Inspection Announcement
Haikou Administration for Industry and Commerce (海口市工商行政管理局)	Hainan	2014	Tire width	Inspection Announcement

PRC Authorities	Province of Distributors	Year	Issues	Administrative Measure
Anhui Administration for Industry and Commerce (安徽省工商局)	Anhui	2015	Maximum speed, braking performance, overall weight and pedal riding performance, tire width	Inspection Announcement
Heilongjiang Administration for Industry and Commerce (黑龍江省工商行政管理局)	Heilongjiang	2015	Maximum speed, braking performance, overall weight	Inspection Announcement
Shanghai Administration for Industry and Commerce (上海市工商行政管理局)	Shanghai	2014	Maximum speed, overall weight and product function	Inspection Announcement
Zhengzhou Administration for Industry and Commerce (鄭州市工商行政管理局)	Henan	2015	Overall weight	Inspection Announcement
Guangxi Zhuang Autonomous Region Administration for Industry and Commerce (廣西壯族自治區工商行政管理局)	Guangxi	2015	Tire width	Inspection Announcement
Shangqiu Administration for Industry and Commerce (商丘市工商行政管理局)	Henan	2015	Overall weight, pedal riding performance and manual specification	Inspection Announcement

Penalties imposed by relevant PRC administrative authorities on distributors or their sub-distributors included fines (the total amount involved was RMB53,792), suspension of sales or forfeiture of 20 non-conforming vehicles, and the forfeiture of profit on sales of non-conforming vehicles (the total amount involved was RMB476).

With respect to the responsible parties of administrative penalty decisions, all administrative penalty decisions were issued to our distributors and no penalties were imposed on the Group. With respect to Inspection Announcements, our brand name and product models were published in the Inspection Announcements, but such Inspection Announcements did not specify to whom they were issued. As advised by our PRC Legal Advisors, the local administrative authorities were responsible for conducting inspections and imposing any penalties, while in general the provincial level of administrative authorities are responsible for publishing the results of the inspections. Therefore, the Sole Sponsor conducted verbal interviews with the responsible officials with the relevant local administrative authorities which our PRC Legal Advisors considered as competent authorities to provide confirmation in this regard. All the responsible officials that the Sole Sponsor interviewed have confirmed that these Inspection Announcements were issued with respect to the distributors and not with respect to the Group and that no penalties have been imposed on the Group. Our PRC Legal Advisors are of the view that the personnel interviewed by the Sponsor ("**Interviewed Personnel**") are competent to provide verbal confirmations, as (i) the Interviewed Personnel were actual participants or persons-in-charge of the inspections and the enforcements of the administrative measures, which they performed in accordance with the applicable laws and regulations in PRC; and (ii) the Interviewed Personnel explained and interpreted the Inspection Announcements and the associated legal responsibilities in accordance with the applicable laws and regulations. Therefore, the Interviewed Personnel are competent to represent their respective authorities to reply on the factual and legal questions with regard to inspections and enforcement actions that they performed.

Furthermore, as confirmed through written confirmations by our relevant distributors and to the best knowledge of our Directors, all penalties imposed by relevant PRC administrative authorities to our distributors have been duly settled or have otherwise been complied with by the relevant distributors.

Reasons for Alteration by Distributors

As confirmed by all distributors who were the subject of Administrative Penalty Decisions and Inspection Announcements, all the electric two-wheeled vehicles they received from the Group conformed with relevant PRC regulations and had qualified factory inspection reports (合格出廠報告). The issues described in the table above were primarily the result of their alterations to our products on their own without our approval or authorization. Such alterations are strictly forbidden according to our Distributors Management Manual and distribution agreements. To the best knowledge of our directors, the relevant distributors made the alterations for one or more of the following reasons:

(i) to increase the maximum speed of the vehicles such as removing or altering the speed limiting device, installing additional batteries or more powerful motors on the vehicles, and installing additional metal frames to support the additional weight of the extra batteries or new motors.

(ii) to enhance the aesthetic appeal, such as removing the reflector.

In addition, certain of distributors failed to provide the appropriate user's manual for the product they sold to end customers.

Group's Products Satisfy National Quality Standards Ex-Factory

As mentioned in the "Regulatory Overview" section, the General Technical Requirements for Electric Bicycles (National Standards, GB17761-1999) (《電動自行車通用技術條件》), which came into effect in 1999, are the main general standards governing electric two-wheeled vehicles. According to the National Standards, electric two-wheeled vehicles must pass the ex-factory inspection, confirming compliance with the National Standards, before the products are allowed to leave the factory.

Based on the National Standards and following our quality control guidelines, our quality control department conducts ex-factory inspection to each of our products on a one-by-one basis in batches. The ex-factory products must meet the technical requirements for the inspected items or provisions of the contracts between the purchasers and the suppliers. Any products that fail to meet the National Standards are required to be re-worked and subject again to the same inspection and testing process. As a result, all of our products have obtained inspection certificates before they are allowed to leave the factory.

In addition, in order to make sure all of our models satisfy the National Standards when delivered to the distributors, we have engaged independent third-party quality inspection institutions to issue factory inspection reports (出廠合格報告) for each model of our products since 2004. As advised by our PRC Legal Advisor, according to PRC laws and regulations we are not required to obtain factory inspection reports issued by independent third-party quality inspection institutions for our products before delivering to distributors. Such institutions performed inspection on all of the 34 inspected items of our products according to the National Standards and issued qualified factory inspection report to each model of our products, confirming compliance with the National Standards. For details of the National Standard on the technical requirements of the 34 inspected items, please see "Regulatory Overview — III. Production Standards for Electric Bicycles — 1. Standards for Electric Bicycles" in this document.

During the Track Record Period, we engaged four independent third-party quality inspection institutions. Three of the four institutions are designated by General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局), namely, National Quality Supervising and Inspection Center of Bicycles and Electric Bicycles (國家自行車電動自行車質量監督檢驗中心), previously known as National Quality Supervising and Inspection Center of Bicycles (國家自行車質量監督檢驗中心), National Quality Supervising and Inspection Center for Light Electric Motors and Batteries (國家輕型電動車及電池產品質量監督檢驗中心) and Product Quality Supervising and Inspection Institution of Anhui Province (安徽省產品質量監督檢驗研究院), and the other institution, Product Quality Supervision and Inspection Institution of Guangdong Province (廣東產品質量監督檢驗研究院), is designated by Administration of Quality and Technology Supervision of Guangdong Province (廣東省質量技術監督局). The PRC Legal Advisors are of the view that the Institutions engaged by the Group are competent to issue the factory inspection reports. According to the applicable laws and regulations of PRC, such institutions can only perform quality inspections after obtaining the relevant certification and approval granted by Certification and Accreditation Administration of PRC (中國國家認證認可監督管理委員會). All the four institutions that the Group engaged have obtained the relevant certifications, namely the "Accreditation — Measurement Certificate" and "Accreditation — Certificate of Authorization", and are therefore competent to issue quality inspection reports.

Therefore, we believe that all the non-conforming products mentioned above satisfied the National Standards when delivered to distributors who subsequently performed alterations without our authorization.

In 2013, Beijing Administration for Industry and Commerce announced that they would suspend the sales of one model of our electric two-wheeled vehicles as it had been altered by certain of our distributors. With respect to the suspension of sales imposed by the Beijing Administration for Industry and Commerce, the deputy head of the enforcement team of Wuxi Market Supervision Administrative Xishan Branch ("無錫市錫山區市場監督管理局") ("**Deputy Head**") verbally confirmed in an interview on October 8, 2015 that all issues related to the quality inspection of the our products ex-factory are under its jurisdiction, while the Beijing Administration for Industry and Commerce is only in charge of the quality control inspections for products distributed in Beijing. As advised by our PRC Legal Advisors, the Deputy Head has the authority to inspect and supervise the quality of the products manufactured in Xishan district to ensure the safety of these products. Also given the Company is located in Xishan district, the Deputy Head is therefore responsible for inspecting and supervising the quality of the Company's products. In addition, the Deputy Head is the person-in-charge communicating with Beijing Administration for Industry and Commerce, and she provided confirmation in accordance with the applicable laws and regulations of the PRC. Therefore, our PRC Legal Advisors are of the view that the Deputy Head is the competent person to provide confirmation on the quality of the Company's products and if they are included in the Electric Bicycle Catalogue of Beijing. Therefore, the Beijing Administration for Industry and Commerce's enforcement actions were based on the quality of the distributed products, but not the quality of our products ex-factory. After consulting with the Beijing Administration for Industry and Commerce and after further inspection on products, the Wuxi Market Supervision Administrative Xishan Branch confirmed that that our products ex-factory complied with applicable PRC regulations and the Electric Bicycle Catalogue of Beijing ("北京市電動自行產品目錄") continued to include the aforementioned model as a qualified product model as of the Latest Practicable Date. As advised by our PRC Legal Advisors, according to the Product Quality Law of the PRC and Xishan District government of Wuxi's publicly stated responsibilities of its local government agencies, the Wuxi Market Supervision Administrative Xishan Branch is the competent authority in charge of the quality inspection and supervision of the goods manufactured by a company in its jurisdiction. Because our Wuxi production facilities which manufactured the relevant products are located in Xishan District, the inspection and supervision of our products, and the enforcement of administrative measures in respect to product quality, fall within the jurisdiction of Xishan District. Our PRC Legal Advisors are of the view that the Wuxi Market Supervision Administrative Xishan Branch is the competent authority with respect to the quality of our products ex-factory. In light of the foregoing, we have continued the sales of the aforementioned model in Beijing. In order to mitigate the risk of similar issues occurring in the future, we have strengthened our monitoring and inspecting measures relating to our distributors. Please see the sub-section headed "— Enhanced Remedial Measures of Our Group" for more details of the measures implemented to prevent the sales of non-conforming products by our distributors.

The Transaction Amounts of Distributors with Sales of Non-conforming Products

In 2013, 2014 and 2015, sales to the distributors who, or who had sub-distributors subject to the same, were subject to administrative penalty decisions or were named in Inspection Announcements, or who had sub-distributors subject to the same, totaled RMB47.0 million, RMB258.9 million and RMB113.8 million respectively, representing 0.9%, 4.5% and 1.8% of our revenue in the respective periods.

Our Directors are of the view that, the transactions with distributors with sales of non-conforming products did not and will not have any material impact on our operations or financial results because (i) the transaction amounts only represent a small portion of our total revenue for 2013, 2014 and 2015; and (ii) during the Track Record Period and up to the Latest Practicable Date, only 24 distributors were subject to administrative penalty decisions and Inspection Announcements, representing less than 2% of our distribution network of more than 1,700 distributors.

Legal Opinion of PRC Legal Advisors

Our PRC Legal Advisors have confirmed that the qualified factory inspection reports were issued by competent independent third-party quality inspection institutions and that they validly certified that the non-conforming vehicles complied with the requirements specified in the National Standards at the time of delivery to distributors. Our PRC Legal Advisors have further advised that, as ownership and all associated legal risks were transferred to the distributors, qualified products were delivered, and all alterations or failures to comply with the National Standards were actions by the distributors without our consent or acknowledgement, we are not legally responsible for such non-compliance incidents.

In addition, after considering that: (i) the administrative penalty decisions were issued to distributors and no penalties were imposed on the Group; and (ii) the Inspection Announcements do not constitute administrative penalties under PRC law, and as confirmed by the administrative authorities who issued Inspection Announcements, no penalty was issued to the Group; and (iii) the distributors subject to administrative penalty decisions and Inspection Announcements confirmed that all penalties were duly settled and completed, and (iv) the administrative authorities issuing such Inspection Announcements and administrative penalties are in charge of inspecting the quality of products distributed in the market, rather than the quality of products ex-factory (for which in the case of the Group, the competent authority is Wuxi Market Supervision Administration Xishan Branch (無錫市錫山區市場監督管理局), our PRC Legal Advisors are of the view that no penalty has been or will be imposed on the Group as a result of the non-compliance incidents as mentioned above, and such inspections together with the administrative actions conducted by the relevant administrative authorities have been completed.

Enhanced Remedial Measures of Our Group

Historically, we were aware that certain alterations of our electric two-wheeled vehicles by certain of our distributors existed in the market place. From 2013 to 2014, we experienced an increase in administrative penalties and Inspection Announcements, which we believe primarily reflected the following: (i) substantially all of our internal control measures on unauthorized alterations were implemented in 2015, as disclosed below; (ii) the number of our distributors continued to increase, from 1,549 as of December 31, 2013 and further to 1,790 as of December 31, 2014, which contributed to an increase in the absolute number of occurrences of unauthorized alterations; and (iii) the technology used in preventing unauthorized alterations is still fast-evolving, and while the second generation technology introduced in 2013 represented a significant improvement over the first generation, it was not perfect in the sense that the built-in semiconductor chip used in the second generation technology was still somewhat susceptible to decryption or hacking, and major improvements would be made in the third generation technology, as disclosed below. Where we found such incidents occurring among our distributors, we often gave warnings but did not exercise more stringent enforcement.

In light of the administrative penalty decisions and Inspection Announcements were issued to our third-party distributors, we have implemented a number of remedial measures to help ensure that non-conforming vehicles will not be sold to consumers in the future:

- **Strengthening education and monitoring of distributors.** We revised our Distributors Management Manual and our standard distribution agreement since the beginning of 2015 to clarify and highlight the importance of compliance in the overall evaluation of a distributor's performance. The 2015 revised manual and revised standard distribution agreement add additional emphasis that any non-compliance may adversely affect a distributor's ranking, and in some cases, may result in the termination of the distribution agreement with such distributor. We organized regular training sessions to our distributor managers and distributors to reiterate, among others, unauthorized alterations of our products are strictly forbidden. In addition, we also inquire into a potential distributor's historical compliance record regarding unauthorized alteration of electric two-wheeled vehicles before determining whether to engage or renew a distribution agreement with a distributor.

- **Inspection during site visits to distributors.** Since the beginning of 2015, as an item from a standard checklist used by sales managers in their inspections, they are required to undertake a three-part procedure on randomly selected products to check whether there exists alterations at a point-of-sale: (i) sight inspections, checking certain aspects, such as the weight, speed control device, controller, engine, vehicle frame, user manual, qualification certificate, reflector and tire width; (ii) test drives, focusing on maximum speed; and (iii) interviews with store clerks on whether consumers have requested alterations and customers on whether they have purchased altered vehicles. In October 2015, we further improved the inspection measures by requiring the sales managers to undertake the three-part procedure on at least five electric two-wheeled vehicle models (one product for each model) at each point of sales during every onsite inspection to assess whether is any unauthorized alterations in have been made on the selected items and complete a check report for the record.

- **Fast-track reporting to senior management.** Since the beginning of 2015, we have implemented a dedicated reporting line to centralize the management and reporting of the sale of non-conforming vehicles by our distributors. As part of this reporting line, the local distributor managers are responsible for monitoring the compliance of the third-party distributors. They are required to report any non-compliance to the sales management department located at the headquarters, who in turn are required to report directly to our senior management on a quarterly basis.

- **Increasing enforcement.** During the Track Record Period and up to the Latest Practicable Date, we issued rectification warnings to 26 distributors as punishment for their unauthorized alteration of our products and terminated distribution agreements with two of the relevant distributors because of their serious alteration issues. Furthermore, since the implementation of the fast-track reporting line at the beginning of 2015, we increased the enforcement when finding distributors altering products without our authorization. We may apply one of three levels of enforcement action. Upon the first occurrence of alteration, we will give a warning to the distributor. Upon the second occurrence, we have the right to lower the grade of the distributor by one level. A lower grade level will, among other things, negatively affect the credit limit granted to the distributor and cause us to increase supervision of such distributor. For details of credit limit offered to distributors, please see "— Sales and Distribution Network

— Organization and Management of Our Distribution and Sales System — Credit Policies" and "Financial Information — Certain Balance Sheet Items — Trade and bills receivables" in this document. We have adopted a system of three grade levels to evaluate our distributors. A distributor with the lowest grade level will be terminated upon the second occurrence of an alteration. Upon the third occurrence, we have the right to terminate our distribution arrangement with that distributor. Since the implementation of the fast-track reporting line at the beginning of 2015, we have given warnings to nine distributors, lowered the grade level of one distributor, and terminated two distributors due to continuing unauthorized alterations, including one that was not the subject of Inspection Announcements. We believe that the our ability to continue to detect new instances of alterations combined with the exercise of enforcement actions since 2015 based on our internal policies demonstrate the effectiveness and adequacy of these remedial measures in minimizing the future occurrences of these unauthorized alterations.

- **Reaching out to consumers.** We posted a notice on March 26, 2015 on our website advising consumers that unauthorized alteration of our electric two-wheeled vehicles is unsafe and warning them not to purchase such vehicles. The notice also includes an email address for consumers to report any distributors making unauthorized alterations to our electric two-wheeled vehicles.

- **Greater emphasis on product development.** We have continuously focused on developing new technology to restrict the ability of third-party distributors to alter the features of the electric two-wheeled vehicles in the development of new products. For example, we have improved significantly the speed limiting devices on our products. The first generation of our speed limiting device, introduced in 2000, relied on an external device to control the speed limit. As the external device could be manipulated or removed, in 2013, we introduced a second generation of speed control device, which has a built-in semiconductor chip to control the speed limit, and is significantly less susceptible to manipulation. We are now focusing on the research and development of a third generation of speed limiting device which we expect to be introduced to the market by the end of 2016. The new generation of speed limiting device is expected to adopt a remote speed control system, which is expected to effectively prevent alteration by distributors or any other third parties unless permitted by us. Specifically, our third generation technology of speed limiting device is expected to have the following features: (i) all our products equipped with third generation technology will be registered in our data base; (ii) we will be able to continuously monitor the operations of every third generation technology vehicle. If a vehicle is operated "abnormally", e.g. exceeds the speed limit, our server will send an alert signal to our staff, and the vehicle's software will automatically reset to the original speed limit; and (iii) the third generation technology will apply additional encryption to make its software less susceptible to decryption or hacking.

Effectiveness and Adequacy of Internal Control Measures

We have retained the services of Protiviti Shanghai Co., Ltd. (the "**Protiviti**"), a global independent risk and business consulting firm, to review the effectiveness of the remedial measures that we have put in place in response to the administrative penalty decisions and the Inspection Announcements relating to our distributors. In addition, Protiviti has recommended to us to (i) include (a) examples of distributors receiving terminations and (b) training on the 1999 National Standards, as part of our training program for internal sales staff and distributors; and (ii) require our sales staff to randomly select five models of electric bicycles to check for any alterations during their onsite inspections. We implemented these measures in October 2015. Based on the review performed by Protiviti in October 2015, the remedial measures have been properly implemented. Protiviti is of the view that the abovementioned remedial measures, if implemented on a continuous basis, are effective and adequate in minimizing the occurrence of unauthorized alterations of our products by distributors in the future. The Sole Sponsor shares this view with Protiviti. We believe that the effectiveness and adequacy of these remedial measures are evidenced by: (i) the number of Inspection Announcements published on sales of our non-conforming vehicles has declined since the beginning of 2015, from five in the first half of 2015 to three in the second half of 2015; (ii) our distributors have not been subject to any Administrative Penalty Decisions since the beginning of 2015; and (iii) as discussed above, since the beginning of 2015, we have given warnings to 11 distributors, lowered the grade level of one distributor, and terminated two distributors (which includes one that was not subject to Inspection Announcement and Administrative Penalty Decision), indicating that the distributors' unauthorized alterations have increasingly been detected and penalized within the system of our remedial measures.

We have entered into a number of agreements with our connected persons the details of which are set out below. The transactions disclosed in this section will constitute our continuing connected transactions under Chapter 14A of the Listing Rules upon [**REDACTED**].

A. CONNECTED PERSONS

The following parties are our connected persons with whom we will continue to have connected transactions upon [**REDACTED**].

1. Mr. Dong

Mr. Dong is a Controlling Shareholder and a Director and hence our connected person.

2. Ms. Qian

Ms. Qian is a Controlling Shareholder, a Director and the spouse of Mr. Dong and hence our connected person.

3. Wuxi Colorful Metal Coating Co., Ltd. (無錫七彩金屬塗裝有限公司) ("Wuxi Colorful")

Wuxi Colorful is owned as to 30% by Ms. Jingfang Qian (錢靜芳), who is the sister of Ms. Qian, and 70% by Mr. Weizeng Wan (萬偉增), who is the uncle-in-law of Ms. Jingfang Qian (錢靜芳). Wuxi Colorful is therefore an associate of Ms. Qian and our connected person.

4. Wuxi Daen Vehicle Industry Co., Ltd. (無錫市大恩車業有限公司) ("Wuxi Daen")

Wuxi Daen is owned as to 80% by Mr. Zhiqiang Dong (董郅強), who is the brother of Mr. Dong, and 20% by Ms. Haiyan Wu (吳海燕), who is the wife of Mr. Zhiqiang Dong (董郅強). Wuxi Daen is therefore an associate of Mr. Dong and our connected person.

5. Wuxi Xingwei Vehicle Fittings Co., Ltd. (無錫市星偉車輛配件有限公司) ("Wuxi Xingwei")

Wuxi Xingwei is owned as to 40% by Ms. Jingjuan Qian (錢靜娟), who is the cousin of Ms. Qian, and 60% by Mr. Wei Zhou (周偉), who is the husband of Ms. Jingjuan Qian (錢靜娟). Wuxi Xingwei is therefore our connected person.

6. Dongguan Hanrun Vehicle Fittings Co., Ltd. (東莞市漢潤車輛配件有限公司) ("Dongguan Hanrun")

Dongguan Hanrun is wholly owned by Mr. Yong Yang (楊勇), the cousin of Mr. Dong. Dongguan Hanrun is therefore our connected person.

7. Ningbo Suogao Shock Absorber Co., Ltd. (寧波索高減震器有限公司) ("Ningbo Suogao")

Ningbo Suogao is owned as to 80% by Mr. Jingzhi Dong (董經智), the brother of Mr. Dong, and 20% by Ms. Haiyan Luo (羅海燕), who is the wife of Mr. Jingzhi Dong (董經智). Ningbo Suogao is therefore an associate of Mr. Dong and our connected person.

8. Tianjin Xingwei Electric Parts Co., Ltd. (天津市星偉電動車配件有限公司) ("Tianjin Xingwei")

Tianjin Xingwei is owned as to 10% by Ms. Jingjuan Qian (錢靜娟), who is the cousin of Ms. Qian, and 90% by Mr. Wei Zhou (周偉), who is the husband of Ms. Jingjuan Qian (錢靜娟). Tianjin Xingwei is therefore our connected person.

Wuxi Colorful, Wuxi Daen, Wuxi Xingwei, Dongguan Hanrun, Ningbo Suogao and Tianjin Xingwei are collectively referred to as the "**Connected Suppliers**".

B. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions for the Group, which are, under the Listing Rules, subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. Purchases of raw materials and services from the Connected Suppliers

We purchase certain raw materials and services from the Connected Suppliers in the ordinary course of our business.

(i). Provision of plastic component painting services by Wuxi Colorful

We began to engage Wuxi Colorful for the provision of plastic component painting services in 2009 as part of our ordinary and usual course of business. The painted plastic components are mainly used in the production of our electric scooters.

Historical Transaction Amounts

The following table sets forth the total purchase we incurred with respect to plastic component painting services provided by Wuxi Colorful during the Track Record Period:

Year ended December 31,		
2013	**2014**	**2015**
(RMB'000)	**(RMB'000)**	**(RMB'000)**
14,822	15,418	12,507

The above amounts we incurred with respect to plastic component painting services provided by Wuxi Colorful represented approximately 0.4%, 0.4% and 0.3% of our total purchases in the same periods, respectively.

Framework Service Agreement

On [●], we entered into a framework service agreement with Wuxi Colorful to govern the terms and conditions of the transactions between the Group and Wuxi Colorful in connection with the provision of plastic component painting services (the "**Wuxi Colorful Framework Service Agreement**"). Pursuant to the Wuxi Colorful Framework Service Agreement, Wuxi Colorful has agreed, where it is selected following the relevant selection process, to provide plastic component painting services to the Group according to the purchase agreements to be signed between Wuxi Colorful and the Group from time to time. The Wuxi Colorful Framework Service Agreement will take effect upon [**REDACTED**] and will be valid until December 31, 2018, renewable by mutual agreement subject to independent Shareholders' approval.

Pursuant to the Wuxi Colorful Framework Service Agreement, the purchases of plastic component painting services from Wuxi Colorful will be subject to a selection process overseen by our evaluation committee and the final purchase prices cannot exceed the price cap to be determined by the Company. Please refer to the sub-section headed "— B. Non-Exempt Continuing Connected Transactions — Selection of Suppliers" in this section for details with respect to the selection process and the determination of the price cap.

Annual Caps

It is expected that the maximum amount we purchase from Wuxi Colorful with respect to plastic component painting services for the financial years ending December 31, 2016, 2017 and 2018 will be RMB6,800,000, RMB3,000,000 and nil, respectively.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical amount we purchased from Wuxi Colorful with respect to plastic component painting services during the Track Record Period; and

- the expected number of plastic components that will require painting services from Wuxi Colorful in 2016, 2017 and 2018 in view of our goal to decrease the transaction amount with our Connected Suppliers and based on our production plans as well as our capability to source plastic component painting services from alternate third-party suppliers.

(ii). Purchases of shock absorbers and front forks from Wuxi Daen

We began to purchase shock absorbers and front forks from Wuxi Daen in 2012 as part of our ordinary and usual course of business. These raw materials are mainly used in the production of our electric scooters.

Historical Transaction Amounts

The following table sets forth the total amounts of purchases of shock absorbers and front forks from Wuxi Daen during the Track Record Period:

Year ended December 31,		
2013	**2014**	**2015**
(RMB'000)	**(RMB'000)**	**(RMB'000)**
42,525	58,757	37,729

The above amounts of purchases represented approximately 1.0%, 1.3% and 0.8% of our total purchases in the same periods, respectively.

Framework Purchase Agreement

On [●], we entered into a framework purchase agreement with Wuxi Daen to govern the terms and conditions of the transactions between the Group and Wuxi Daen in connection with the purchase of shock absorbers and front forks (the "**Wuxi Daen Framework Purchase Agreement**"). Pursuant to the Wuxi Daen Framework Purchase Agreement, Wuxi Daen has agreed, where it is selected following the relevant selection process, to provide shock absorbers and front forks to the Group according to the purchase agreements to be signed between Wuxi Daen and the Group from time to time. The Wuxi Daen Framework Purchase Agreement will take effect upon [**REDACTED**] and will be valid until December 31, 2018, renewable by mutual agreement subject to independent Shareholders' approval.

Pursuant to the Wuxi Daen Framework Purchase Agreement, the purchases of shock absorbers and front forks from Wuxi Daen will be subject to a selection process overseen by our evaluation committee and the final purchase prices cannot exceed the price cap to be determined by the Company. Please refer to the sub-section headed "— B. Non-Exempt Continuing Connected Transactions — Selection of Suppliers" in this section for details with respect to the selection process and the determination of the price cap.

Annual Caps

It is expected that the maximum amount of our purchases of shock absorbers and front forks from Wuxi Daen for the financial years ending December 31, 2016, 2017 and 2018 will be RMB9,100,000, nil and nil, respectively.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical values of shock absorbers and front forks we purchased from Wuxi Daen during the Track Record Period;
- past changes in the prices of shock absorbers and front forks during the Track Record Period; and
- the expected transaction volumes in 2016, 2017 and 2018, in view of our goal to decrease the transaction amount with our Connected Suppliers and based on our production plans as well as our capability to source shock absorbers and front forks from alternate third-party suppliers.

(iii). Purchases of electric motors and meters and related components from Wuxi Xingwei

We began to purchase electric motors and meters and related components from Wuxi Xingwei in 2008 as part of our ordinary and usual course of business. These raw materials are mainly used in the production of our electric two-wheeled vehicles.

Historical Transaction Amounts

The following table sets forth the total amounts of purchases of electric motors and meters and related components from Wuxi Xingwei during the Track Record Period:

Year ended December 31,		
2013	**2014**	**2015**
(RMB'000)	**(RMB'000)**	**(RMB'000)**
269,157	252,223	181,661

The above amounts of purchases represented approximately 6.5%, 5.8% and 3.7% of our total purchases in the same periods, respectively.

Framework Purchase Agreement

On [●], we entered into a framework purchase agreement with Wuxi Xingwei to govern the terms and conditions of the transactions between the Group and Wuxi Xingwei in connection with the purchase of electric motors and meters and related components (the "**Wuxi Xingwei Framework Purchase Agreement**"). Pursuant to the Wuxi Xingwei Framework Purchase Agreement, Wuxi Xingwei has agreed, where it is selected following the relevant selection process, to provide electric motors and meters and related components to the Group according to the purchase agreements to be signed between Wuxi Xingwei and the Group from time to time. The Wuxi Xingwei Framework Purchase Agreement will take effect upon [**REDACTED**] and will be valid until December 31, 2018, renewable by mutual agreement subject to independent Shareholders' approval.

Pursuant to the Wuxi Xingwei Framework Purchase Agreement, the purchases of electric motors and meters and related components from Wuxi Xingwei will be subject to

a selection process overseen by our evaluation committee and the final purchase prices cannot exceed the price cap to be determined by the Company. Please refer to the sub-section headed "— B. Non-Exempt Continuing Connected Transactions — Selection of Suppliers" in this section for details with respect to the selection process and the determination of the price cap.

Annual Caps

It is expected that the maximum amount of our purchases of electric motors and meters and related components from Wuxi Xingwei for the financial years ending December 31, 2016, 2017 and 2018 will be RMB93,200,000, RMB45,900,000 and RMB25,000,000, respectively.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical values of electric motors and meters and related components we purchased from Wuxi Xingwei during the Track Record Period;
- past changes in the prices of electric motors and meters and related components during the Track Record Period; and
- the expected transaction volumes in 2016, 2017 and 2018, in view of our goal to decrease the transaction amount with our Connected Suppliers and based on our production plans as well as our capability to source electric motors and meters and related components from alternate third-party suppliers.

(iv). Purchases of vehicle frames from Dongguan Hanrun

We began to purchase vehicle frames from Dongguan Hanrun in 2012 as part of our ordinary and usual course of business. These raw materials are mainly used in the production of our electric scooters.

Historical Transaction Amounts

The following table sets forth the total amounts of purchases of vehicle frames from Dongguan Hanrun during the Track Record Period:

Year ended December 31,		
2013	**2014**	**2015**
(RMB'000)	**(RMB'000)**	**(RMB'000)**
29,370	29,015	18,400

The above amounts of purchases represented approximately 0.7%, 0.7% and 0.4% of our total purchases in the same periods, respectively.

Framework Purchase Agreement

On [●], we entered into a framework purchase agreement with Dongguan Hanrun to govern the terms and conditions of the transactions between the Group and Dongguan Hanrun in connection with the purchase of vehicle frames (the "**Dongguan Hanrun Framework Purchase Agreement**"). Pursuant to the Dongguan Hanrun Framework Purchase Agreement, Dongguan Hanrun has agreed, where it is selected following the relevant selection process, to provide vehicle frames to the Group according to the purchase agreements to be signed between Dongguan Hanrun and the Group from time to time. The Dongguan Hanrun Framework Purchase Agreement will take effect upon [**REDACTED**] and will be valid until December 31, 2018, renewable by mutual agreement subject to independent Shareholders' approval.

Pursuant to the Dongguan Hanrun Framework Purchase Agreement, the purchases of vehicle frames from Dongguan Hanrun will be subject to a selection process overseen by our evaluation committee and the final purchase prices cannot exceed the price cap to be determined by the Company. Please refer to the sub-section headed "— B. Non-Exempt Continuing Connected Transactions — Selection of Suppliers" in this section for details with respect to the selection process and the determination of the price cap.

Annual Caps

It is expected that the maximum amount of our purchases of vehicle frames from Dongguan Hanrun for the financial years ending December 31, 2016, 2017 and 2018 will be RMB10,200,000, nil and nil, respectively.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical values of vehicle frames we purchased from Dongguan Hanrun during the Track Record Period;

- past changes in the prices of vehicle frames during the Track Record Period; and

- the expected transaction volumes in 2016, 2017 and 2018, in view of our goal to decrease the transaction amount with our Connected Suppliers and based on our production plans as well as our capability to source vehicle frames from alternate third-party suppliers.

(v). Purchases of front forks from Ningbo Suogao

We began to purchase front forks from Ningbo Suogao in 2012 as part of our ordinary and usual course of business. These raw materials are mainly used in the production of our electric scooters.

Historical Transaction Amounts

The following table sets forth the total amounts of purchases of front forks from Ningbo Suogao during the Track Record Period:

Year ended December 31,		
2013	**2014**	**2015**
(RMB'000)	**(RMB'000)**	**(RMB'000)**
63,959	69,525	43,327

The above amounts of purchases represented approximately 1.5%, 1.6% and 0.9% of our total purchases in the same periods, respectively.

Framework Purchase Agreement

On [●], we entered into a framework purchase agreement with Ningbo Suogao to govern the terms and conditions of the transactions between the Group and Ningbo Suogao in connection with the purchase of front forks (the "**Ningbo Suogao Framework Purchase Agreement**"). Pursuant to the Ningbo Suogao Framework Purchase Agreement, Ningbo Suogao has agreed, where it is selected following the relevant selection process, to provide front forks to the Group according to the purchase agreements to be signed between Ningbo Suogao and the Group from time to time. The Ningbo Suogao Framework Purchase Agreement will take effect upon [**REDACTED**] and will be valid until December 31, 2018, renewable by mutual agreement subject to independent Shareholders' approval.

Pursuant to the Ningbo Suogao Framework Purchase Agreement, the purchases of front forks from Ningbo Suogao will be subject to a selection process overseen by our evaluation committee and the final purchase prices cannot exceed the price cap to be determined by the Company. Please refer to the sub-section headed "— B. Non-Exempt Continuing Connected Transactions — Selection of Suppliers" in this section for details with respect to the selection process and the determination of the price cap.

Annual Caps

It is expected that the maximum amount of our purchases of front forks from Ningbo Suogao for the financial years ending December 31, 2016, 2017 and 2018 will be RMB24,600,000, nil and nil, respectively.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical values of front forks we purchased from Ningbo Suogao during the Track Record Period;
- past changes in the prices of front forks during the Track Record Period; and
- the expected transaction volumes in 2016, 2017 and 2018, in view of our goal to decrease the transaction amount with our Connected Suppliers and based on our production plans as well as our capability to source front forks from alternate third-party suppliers.

(vi). Purchases of electric motors and meters and related components from Tianjin Xingwei

We began to purchase electric motors and meters and related components from Tianjin Xingwei in 2011 as part of our ordinary and usual course of business. These raw materials are mainly used in the production of our electric bicycles.

Historical Transaction Amounts

The following table sets forth the total amounts of purchases from Tianjin Xingwei during the Track Record Period:

Year ended December 31,		
2013	**2014**	**2015**
(RMB'000)	**(RMB'000)**	**(RMB'000)**
64,520	54,888	46,448

The above amounts of purchases represented approximately 1.6%, 1.3% and 0.9% of our total purchases in the same periods, respectively.

Framework Purchase Agreement

On [●], we entered into a framework purchase agreement with Tianjin Xingwei to govern the terms and conditions of the transactions between the Group and Tianjin Xingwei in connection with the purchase of electric motors and meters and related components (the "**Tianjin Xingwei Framework Purchase Agreement**"). Pursuant to the Tianjin Xingwei Framework Purchase Agreement, Tianjin Xingwei has agreed, where it is selected following the relevant selection process, to provide electric motors and meters and related components to the Group according to the purchase agreements to be signed between Tianjin Xingwei and the Group from time to time. The Tianjin Xingwei Framework Purchase Agreement will take effect upon [**REDACTED**] and will be valid until December 31, 2018, renewable by mutual agreement subject to independent Shareholders' approval.

Pursuant to the Tianjin Xingwei Framework Purchase Agreement, the purchases of electric motors and meters and related components from Tianjin Xingwei will be subject

to a selection process overseen by our evaluation committee and the final purchase prices cannot exceed the price cap to be determined by the Company. Please refer to the sub-section headed "— B. Non-Exempt Continuing Connected Transactions — Selection of Suppliers" in this section for details with respect to the selection process and the determination of the price cap.

Annual Caps

It is expected that the maximum amount of our purchases of electric motors and meters and related components from Tianjin Xingwei for the financial years ending December 31, 2016, 2017 and 2018 will be RMB22,500,000, RMB6,700,000 and nil, respectively.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical values of electric motors and meters and related components we purchased from Tianjin Xingwei during the Track Record Period;
- past changes in the prices of electric motors and meters and related components during the Track Record Period; and
- the expected transaction volumes in 2016, 2017 and 2018, in view of our goal to decrease the transaction amount with our Connected Suppliers and based on our production plans as well as our capability to source electric motors and meters and related components from alternate third-party suppliers.

The Wuxi Colorful Framework Service Agreement, Wuxi Daen Framework Purchase Agreement, Wuxi Xingwei Framework Purchase Agreement, Dongguan Hanrun Framework Purchase Agreement, Ningbo Suogao Framework Purchase Agreement and Tianjin Xingwei Framework Purchase Agreement are collectively referred to as the "**Framework Agreements**".

The table below summarizes, in relation to the continuing connected transactions under the Framework Agreements, the historical transaction amounts during the Track Record Period and the expected maximum transaction amounts for the three years ending December 31, 2018.

		Historical Transaction Amount			**Annual Cap**		
		Year ended December 31,			**Year ending December 31,**		
Supplier	**Services/ raw materials**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
		(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(RMB'000)**	**(RMB'000)**	**(RMB'000)**
Wuxi Colorful .	Plastic component painting	14,822	15,418	12,507	6,800	3,000	Nil
Wuxi Daen . . .	Shock absorbers and front forks	42,525	58,757	37,729	9,100	Nil	Nil
Wuxi Xingwei .	Electric motors and meters and related components	269,157	252,223	181,661	93,200	45,900	25,000
Dongguan Hanrun . . .	Vehicle frames	29,370	29,015	18,400	10,200	Nil	Nil

		Historical Transaction Amount			Annual Cap		
		Year ended December 31,			Year ending December 31,		
Supplier	Services/ raw materials	2013	2014	2015	2016	2017	2018
		(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Ningbo Suogao	Front forks	63,959	69,525	43,327	24,600	Nil	Nil
Tianjin Xingwei	Electric motors and meters and related components	64,520	54,888	46,448	22,500	6,700	Nil
Total	—	**484,353**	**479,826**	**340,072**	**166,400**	**55,600**	**25,000**

Reasons for entering into continuing connected transactions with the Connected Suppliers

We believe that it is in the interest of the Company and our Shareholders as a whole to continue to carry out connected transactions with the Connected Suppliers upon [**REDACTED**] having considered the following factors: (1) each Connected Supplier has a well-established quality control system and research and development capability to meet our requirements; (2) the production capacity of each Connected Supplier allows it to meet our increase in demand in the case that we plan to expand the production of our products; (3) each Connected Supplier provides high quality after-sales and maintenance services to ensure quality of products provided to us; (4) each Connected Supplier is reputable and has a certain degree of brand influence in the relevant industry; (5) we have established a stable relationship with each Connected Supplier during the course of which the relevant Connected Supplier has provided us with a steady and reliable supply of high quality products and/or services in accordance with our specifications; and (6) the prices and terms of services offered by the Connected Suppliers have been no less favorable than those offered by Independent Third Parties.

Selection of Suppliers

To ensure that the prices and terms of services offered by the Connected Suppliers are fair and reasonable and no less favorable than those offered by Independent Third Parties, we will form an evaluation committee to oversee the selection of suppliers in our purchases of raw materials and services. The evaluation committee will comprise nine members, including the supervisor of our finance department, supervisor of our auditing department, general manager of our production facility, person-in-charge of our ancillary facilities management center, representatives from our legal department, technology department and quality control department and an independent non-executive Director.

Before purchasing raw materials or services, our ancillary facilities management center will obtain supply proposals from a minimum of three potential suppliers based on our production needs and the criteria set out by our technology department and quality control department. Where the Connected Suppliers are among the potential suppliers, our technology department and quality control department will conduct an in-depth evaluation using a scoring system on all potential suppliers (including suppliers who are Independent Third Parties) who will each be assessed on areas including product prices, organization structure, production facility, product quality, quality control system, maintenance and after-sales services, ability to meet delivery deadlines, cost control and technical knowledge of relevant personnel. The evaluation assessment report will then be submitted to our evaluation committee for review. Suppliers must receive scores beyond certain minimum thresholds to be eligible for selection and

the supplier(s) with the highest score(s) will be selected. As such, the Connected Suppliers will only be selected if they are considered to have competitive advantages in the provision of the relevant raw materials and services.

With the comprehensive composition of our evaluation committee as well as the inclusion of an independent non-executive Director in the evaluation committee, we believe the members of the committee possess the knowledge and skills to thoroughly consider all offers and properly assess our potential suppliers to ensure that the prices and terms of services offered by the Connected Suppliers are fair and reasonable and no less favorable than those offered by Independent Third Parties and all transactions with the Connected Suppliers are conducted in the ordinary and usual course of our business, on normal commercial terms, in accordance with the relevant Framework Agreements and are fair and reasonable and in the interests of the Group and our Shareholders as a whole.

Further, to enhance cost control, we have set out internal benchmark prices for plastic component painting services, shock absorbers, front forks, electric motors and meters and related components, vehicle frames and packaging boxes. Depending on the type of raw materials and services, the benchmark prices are determined with reference to factors including, but not limited to, the following:

(a) cost of materials of which the respective raw materials are composed, with reference to the prevailing market prices of the relevant materials. We consider the prevailing market prices with reference to publicly available data we obtain from sources such as ChinaCCM.com or privately available data we obtain from our existing, previous or potential suppliers;

(b) packaging and transportation cost with reference to data we obtain from our existing, previous or potential suppliers;

(c) processing fees, which typically range between 1–20% of the cost of materials;

(d) utility cost, with reference to the expected level of utilities required and the prevailing utility prices;

(e) rental price, with reference to the prevailing rental prices we obtain from real estate agents;

(f) labor cost, with reference to data we obtain from our existing, previous or potential suppliers;

(g) taxation, which is typically approximately 6–7% of the cost of materials; and

(h) profit margin, which typically ranges 2–6% of the cost of materials.

Such internal benchmark prices apply to the plastic component painting services, shock absorbers, front forks, electric motors and meters and related components, vehicle frames and packaging boxes we purchase from all of our suppliers, including the Connected Suppliers and suppliers who are Independent Third Parties, and the final purchase prices of such raw materials and services will not in any event exceed 110% of the internal benchmark prices calculated based on the above.

Listing Rules Implications

Since the Connected Suppliers are all associates of Mr. Dong and Ms. Qian and deemed connected persons relating to Mr. Dong and Ms. Qian, the continuing connected transactions under the Framework

Agreements have been aggregated pursuant to Rules 14A.81 and 14A.82 of the Listing Rules for purpose of determining the Group's compliance obligations under Chapter 14A of the Listing Rules.

Further, since at least one of the applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of the annual caps is expected to be more than 5%, the transactions will be subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under the Listing Rules.

C. APPLICATION FOR WAIVER

The transactions described under the sub-section headed "B. Non-Exempt Continuing Connected Transactions" above constitute our continuing connected transactions under the Listing Rules, which are subject to the reporting, annual review, announcement and independent Shareholders' approval requirements of the Listing Rules.

In respect of these continuing connected transactions, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange has granted, a waiver exempting us from strict compliance with the announcement and independent Shareholders' approval requirements of the Listing Rules, subject to the condition that (i) the aggregate values of the continuing connected transactions for each financial year not exceeding the relevant annual cap amounts set forth in the respective caps (as stated above); and (ii) the aforementioned non-exempt continuing connected transactions will be carried out and that the Company shall comply with relevant requirements for continuing connected transactions in accordance with Chapter 14A of the Listing Rules.

D. SOLE SPONSOR'S AND DIRECTORS' VIEWS

The Sole Sponsor and our Directors (including our independent non-executive Directors) consider that all the continuing connected transactions described under the sub-section headed "B. Non-Exempt Continuing Connected Transactions" above have been entered into, and will be carried out: (i) in the ordinary and usual course of our business; (ii) on normal commercial terms; and (iii) in accordance with the Framework Agreements governing them on terms that are fair and reasonable and in the interests of our Shareholders as a whole. The Sole Sponsor and our Directors (including our independent non-executive Directors) are also of the view that the annual caps of the continuing connected transactions under the sub-section headed "B. Non-Exempt Continuing Connected Transactions" above are fair and reasonable and are in the interests of our Shareholders as a whole.

OVERVIEW

Our Controlling Shareholders, namely Mr. Dong and Ms. Qian, who are husband and wife, reached the Concert Parties Arrangement, pursuant to which Mr. Dong and Ms. Qian confirmed that they are parties acting in concert in relation to the exercise of their voting rights at the meetings of the shareholders and the board of directors of the members of our Group. They have also further undertaken that during the period when they remain interested in, directly or indirectly, the Shares, they will continue to act in accordance with the Concert Parties Arrangement.

Immediately after completion of the [**REDACTED**] and the [**REDACTED**] (but excluding any Shares which may be allotted and issued pursuant to the exercise of the [**REDACTED**] and options which may be granted under the Share Option Scheme), indirectly through Dai Wei and Fang Yuan, respectively, each an investment holding company, Mr. Dong and Ms. Qian, will own approximately [**REDACTED**]% and [**REDACTED**]% of the issued share capital of the Company, respectively. Accordingly, Mr. Dong, Ms. Qian, Dai Wei and Fang Yuan, as parties acting-in-concert, are considered to be collectively interested in [**REDACTED**]% of the issued share capital of the Company and will continue to be a group of Controlling Shareholders.

NO COMPETITION AND CLEAR DELINEATION OF BUSINESS

Our Controlling Shareholders and Directors, including our independent non-executive Directors, confirm that, as of the Latest Practicable Date, none of them or any of their respective close associates had any interest in any business, other than the business of our Group, which competes, or is likely to compete, either directly or indirectly, with our business which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we can function, operate and carry on our business independently from the Controlling Shareholders and their respective close associates after the [**REDACTED**].

Management Independence

Our Board will comprise five executive Directors, one non-executive Director and three independent non-executive Directors upon [**REDACTED**]. For more information, please refer to the section headed "Directors and Senior Management" in this document.

On the basis of the following reasons, our Directors consider that our Board is able to perform and manage our business independently from the Controlling Shareholders:

(a) our Board consists of three independent non-executive Directors, which represents one-third of the members of the Board required under the Listing Rules. With one-third of our Board members being independent non-executive Directors, there will be a sufficiently robust and independent voice within our Board to counter-balance any situation involving conflict of interest and protect the interests of our independent Shareholders;

(b) the daily operation of the Group is carried out by an independent and experienced management team. We have the capabilities and personnel to perform all essential administrative functions, including financial and accounting, human resources, business management and research and development on a stand-alone basis;

(c) each Director is aware of his/her fiduciary duties as a Director, which require, among other things, that he/she must act for the benefit and in the best interests of the Company and not allow any conflict between his/her duties as a Director and his/her personal interest;

(d) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Company and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant board meetings of the Company in respect of such transactions and shall not be counted in the quorum; and

(e) connected transactions between our Group and our Controlling Shareholders or their respectively close associates are subject to the requirements under the Listing Rules, including the requirements of reporting, announcement and independent Shareholders' approval (where applicable).

Operational Independence

We have full rights to make business decisions and to carry out our business independent of the Controlling Shareholders and their respective close associates. On the basis of the following reasons, our Directors consider that the Company will continue to be operationally independent of the Controlling Shareholders and their respective close associates after [**REDACTED**]:

(a) we are not reliant on trademarks owned by the Controlling Shareholders, or by other companies controlled by the Controlling Shareholders;

(b) we are the holder of all relevant licenses material to the operation of our business and has sufficient capital, equipment and employees to operate our business independently;

(c) we make our own procurement purchases and conduct our own sales and marketing primarily through Independent Third Party distributors. Save as disclosed in this document, the Group has a large and diversified base of customers and our customers and suppliers are unrelated to the Controlling Shareholders and their respective close associates;

(d) as of the Latest Practicable Date, we leased factory and office space from Independent Third Parties with a total GFA of approximately 76,589.4 sq.m. as factory facilities and 2,074.6 sq.m. as office facilities in Tianjin, Wuxi and Dongguan. All the properties and facilities necessary to our business operations are independent from the Controlling Shareholders and their respective close associates.

(e) we have our own administrative and corporate governance infrastructure, including our own accounting, legal and human resources departments;

(f) as of the Latest Practicable Date, all of our full-time employees were recruited independently from the Controlling Shareholders and their respective close associates and primarily through campus recruiting, job market recruiting, headhunters' recommendations and internal referrals;

(g) save for the continuing connected transactions set out in the section headed "Connected Transactions" in this document, which accounted for only approximately 11.7%, 11.1% and 7.0% of the total purchases in the years ended December 31, 2013 and 2014 and 2015, our Directors do not expect that there will be any other transactions between our Group and our Controlling Shareholders or their respective close associates upon or shortly after [**REDACTED**]. In addition, the Group expects to decrease the transaction amount with its Connected Suppliers and has capability to source the relevant services and raw materials from alternate third-party suppliers; and

(h) none of our Controlling Shareholders and their respective close associates has any interest which competes or is likely to compete with the business of our Group. Dai Wei and Fang Yuan are holding companies and do not carry on any business other than holding the equity interests in the Company.

Financial Independence

We have our own financial management system and we make financial decisions according to our own business needs. Our Directors confirm that during the Track Record Period and as of the Latest Practicable Date, save for the guarantees set forth in notes 25 and 27 to the accountants' report included in Appendix I to this document, none of the Controlling Shareholders or their respective close associates had provided any guarantees to our Group. Our Directors confirm that all such guarantees have been released as of the Latest Practicable Date. As our Group is able to obtain the same amount of loan facility without the guarantee or other financial support from our Controlling Shareholders, our Directors are satisfied that our Group will be financially independent of our Controlling Shareholders and any of their respective close associates upon [**REDACTED**].

During the Track Record Period and as of the Latest Practicable Date, the Group had certain outstanding balances due from/to the close associates of our Controlling Shareholders as a result of the connected transactions set forth in the section headed "Connected Transactions", details of which are set forth in note 35(d) to the accountants' report included in Appendix I to this document. Our Directors confirm that, save as such connected transactions set forth in the section headed "Connected Transactions", there will be no balances due to or from our Controlling Shareholders or their respective close associates which had not been fully settled nor were there any financial assistance, security or guarantee provided by the Controlling Shareholders or their respective close associates in favor of our Group or vice versa upon [**REDACTED**].

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders and their close associates after [**REDACTED**].

NON-COMPETITION UNDERTAKING

Each of Mr. Dong, Ms. Qian, Dai Wei and Fang Yuan (the "**Covenantors**") has entered into a Deed of Non-competition in favor of the Company on [●], pursuant to which the Covenantors have, among other things, unconditionally, irrevocably and jointly and severally undertaken with our Group that they shall not, and shall use their best endeavors to procure that none of their respective close associates (other than the members of the Group) will directly or indirectly, carry on, engage in, invest in, participate in, attempt to participate in, render any services to, provide any financial support to or otherwise be involved or interested (economically or otherwise) in, whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person, any business or investment activity in the PRC and Hong Kong which is the same as, similar to or in competition with the business carried on or contemplated to be carried on by any member of our Group during the period (collectively, the "**Restricted Business**") commencing on the [**REDACTED**] and ending on the earlier of:

(i) the date when collectively the Covenantors, and any of their respective close associates, cease to hold, or otherwise be interested in, whether directly or indirectly, 30% or more (or such other percentage of shareholding as stipulated in the Listing Rules to constitute a controlling shareholder) of the voting rights of the Company; or

(ii) the date when the Shares cease to be [**REDACTED**] on the Stock Exchange (paragraphs (i) and (ii) collectively, the "**Non-Competition Period**").

The above restrictions do not prohibit any of the Covenantors and their close associates (excluding members of our Group) from:

(i) holding any securities of any companies which conduct or are engaged in any Restricted Business through their interests in our Group; or

(ii) acquiring or holding any investment or interest in units or shares of any company, investment trust, joint venture, partnership or other entity in whatever form which engages in any Restricted Business where such investment or interest does not exceed 10% of the issued shares of such entity, provided that (1) such investment or interest does not grant the Convenators or their respective close associates any right to control the composition of the board of directors or managers of such entity, (2) none of the Covenantors or their respective close associates controls the board of directors or managers of such entity, and (3) such investment or interest does not grant the Covenantors or their respective close associates any right to participate directly or indirectly in such entity.

Each of the Covenantors has also undertaken to refer, or to procure the referral of, any investment or commercial opportunities relating to any Restricted Business ("**New Opportunities**" and each a "**New Opportunity**") to us (for ourselves and as trustee for the benefit of each of our Subsidiaries from time to time) in the following manner:

- As soon as it/he/she becoming aware of any New Opportunity, give written notice (the "**Offer Notice**") to us identifying the target company (if relevant) and the nature of the New Opportunity, detailing all information available to it/him/her for us to consider whether to pursue such New Opportunity (including details of any investment or acquisition costs and the contact details of the third parties offering, proposing or presenting the New Opportunity to it).

- The Company shall, as soon as possible and in any case within 25 Business Days from the receipt of the Offer Notice (the "**Offer Notice Period**") notify the relevant Covenantor in writing of any decision taken to pursue or decline the New Opportunity. During the Offer Notice Period, the Company may negotiate with the third party offering his/her, proposing or presenting the New Opportunity and the relevant Covenantor shall use its/his/her best endeavors to assist us in obtaining such New Opportunity on the same or more favorable terms.

- The Company is required to seek approval from our independent non-executive Directors who do not have any material interest in the matter for consideration as to whether to pursue or decline the New Opportunity, and that the appointment of an independent financial advisor to advise on the terms of the transaction in the subject the New Opportunity may be required.

- The relevant Covenantor may, at its/his/her absolute discretion, consider extending the Offer Notice Period as appropriate.

- The relevant Covenantor shall be entitled to but shall not be obliged to carry on, engage, invest, participate or be interested (economically or otherwise) in the New Opportunity (whether individually or jointly with another person and whether directly or indirectly or on behalf of or to assist any other person) on the same, or less favorable, terms and conditions in all material respects as set out in the Offer Notice if:

  (i) it/he/she has received a written notice from us declining the New Opportunity; or

  (ii) it/he/she has not received any written notice from us of our decision to pursue or decline the New Opportunity within 25 Business Days from our receipt of the Offer Notice, or if it/he/she has extended the Offer Notice Period, within such other period as agreed by it, in which case the Company shall be deemed to have declined the New Opportunity.

- If there is a change in the nature or proposal of the New Opportunity pursued by the relevant Covenantor, it/he/she shall refer the New Opportunity as revised and shall provide to us details of all available information for us to consider whether to pursue the New Opportunity as revised.

When considering whether or not to pursue any New Opportunities, our independent non-executive Directors will form their views based on a range of factors, including but not limited to, the estimated profitability, investment value and permits and approval requirements. The Covenantors, for themselves and on behalf of their close associates (except any members of our Group), have also acknowledged that the Company may be required by the relevant laws, regulations and rules and regulatory bodies to disclose, from time to time, information on the New Opportunities, including but not limited to disclosure in public announcements or annual reports of the Company our decisions to pursue or decline the New Opportunities, and have agreed to disclose to the extent necessary to comply with any such requirements.

Further, each of the Covenantors has undertaken the following under the Deed of Non-competition:

(i) it/he/she shall provide, and shall procure its/his/her close associates (other than any members of our Group) to provide, during the Relevant Period, where necessary and at least on an annual basis, all information necessary for the review by our independent non-executive Directors, subject to any relevant laws, rules and regulations or any contractual obligations, to enable them to review the compliance with the Deed of Non-competition of the Covenantors and their close associates (other than any members of our Group), and to enable the independent non-executive Directors to enforce the Deed of Non-competition;

(ii) without prejudicing the generality of paragraph (i) above, it shall provide to us with an annual declaration for inclusion in the annual report of the Company in respect of the Covenantors' compliance with the terms of the Deed of Non-competition; and

(iii) it/he/she shall indemnify the Company from and against any and all losses, damages, claims, liabilities, costs and expenses (including legal costs and expenses) where the Company may suffer or incur as a result of any failure to comply with the terms of the Deed of Non-competition by the Covenantors or any of their respective close associates.

The Company will disclose the decisions with basis on matters reviewed by the independent non-executive Directors relating to the compliance with and enforcement of the Deed of Non-competition either in the annual reports of the Company or by way of announcement to the public.

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage the conflict of interests arising from competing business and to safeguard the interests of our shareholders, including:

- the independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertaking by the Controlling Shareholders under the Deed of Non-competition;

- the Controlling Shareholders to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition;

- the Company will disclose decisions and related basis on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-competition undertaking by the Controlling Shareholders under the Deed of Non-competition in the annual reports of the Company; and

- the Controlling Shareholders to make annual statement on compliance with the Deed of Non-competition in our annual report, which is consistent with the principles of making disclosure in the corporate governance report of the annual report.

BOARD OF DIRECTORS

Our Board is responsible for and has general powers over the management and conduct of our business. It consists of nine Directors including five executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth certain information in respect of the members of our Board:

Name	Age	Year of joining our Group	Existing position in the Company	Date of appointment	Key role
Jinggui Dong (董經貴) . . .	46	2001	Chairman and executive Director	July 17, 2014	Responsible for the overall strategic planning and general management, as well as the external economic affairs of the Group
Jinghong Qian (錢靜紅) . . .	43	2001	Vice chairman and executive Director	July 17, 2014	Responsible for the overall strategic planning and general management, as well as the external economic affairs of the Group
Yeming Liu (劉曄明)	44	2013	Executive Director and president	December 10, 2014	Responsible for the overall strategic planning and general management, as well as the external affairs of the Group
Rui Shi (石銳)	38	2014	Executive Director and chief financial officer	December 10, 2014	Responsible for the financial aspects of the Group
Yu Shen (沈瑜)	40	2005	Executive Director, joint company secretary, assistant to the Chairman and supervisor of the president's office	December 10, 2014	Responsible for the administrative affairs of the Group, as well as assisting the Chairman and president in external affairs and public relations management
Xiang Fan (范翔)	39	2014	Non-executive Director	December 10, 2014	Responsible for supervising and providing judgment to our Board
Biguang Wu (吳郺光)	58	2014	Independent non-executive Director	December 10, 2014	Responsible for supervising and providing independent judgment to our Board

Name	Age	Year of joining our Group	Existing position in the Company	Date of appointment	Key role
Zongwei Li (李宗煒)	43	2015	Independent non-executive Director	January 18, 2015	Responsible for supervising and providing independent judgment to our Board
Naisheng Yao (姚乃勝) . . .	43	2015	Independent non-executive Director	August 28, 2015	Responsible for supervising and providing independent judgment to our Board

Executive Directors

Mr. Jinggui Dong (董經貴), aged 46, the spouse of Ms. Qian, is the co-founder of the Group and our Chairman. Mr. Dong has been our Director since July 17, 2014 and was re-designated as our executive Director on January 19, 2015. Mr. Dong is currently a director of Yadea Group, Jiangsu Yadea and Jiangsu Xindi and a supervisor of Tianjin Weiye. In addition to serving in our Group companies, Mr. Dong has been a director of Jiangsu Yadea Investment Co., Ltd. (江蘇雅迪投資有限公司) since June 2014. Mr. Dong has approximately 18 years of experience in the electric two-wheeled vehicle industry. Mr. Dong began tapping into the electric two-wheeled vehicle industry in 1997 when he began the preparation of the establishment of Jiangsu Yadea with Ms. Qian. In order to expand his networks and acquire the latest industry knowledge and resources, Mr. Dong also frequently attended industry related seminars and conferences. Prior to 1997, Mr. Dong was employed for six years at a motorcycle factory where he acquired relevant industry knowledge and experience. Mr. Dong has not been a director of any listed company in the three years immediately preceding the date of this document.

In December 2008, Mr. Dong was named the "Pride of Sushang — the Most Respected Entrepreneur in Jiangsu in the 30 Years of Reform and Opening up (改革開放30年，「蘇商驕傲」— 江蘇最受尊敬企業家)" by Nanjing University Business School (南京大學商學院), the Institute of Economics of Jiangsu Provincial Academy of Social Sciences (江蘇省社會科學院經濟研究所) and Quality "Sushang" Magazine (精品《蘇商》雜誌社). In July 2013, Mr. Dong was recognized as an outstanding leader in quality management group activities in the national light industry (全國輕工業品質管制小組活動卓越領導者) by the Light Industry Branch of the China Association for Quality (中國質量協會輕工分會). Mr. Dong has been the vice president of the Jiangsu Bicycle and Electric Bicycle Association (江蘇省自行車電動車協會) since July 2013. Mr. Dong is currently a student in the Executive Master of Business Administration Program jointly offered by the Harbin Institute of Technology and the ASIA Pacific Institute of Management China.

Ms. Jinghong Qian (錢靜紅), aged 43, the spouse of Mr. Dong, is the co-founder of the Group and our vice Chairman. Ms. Qian has been our Director since July 17, 2014 and was re-designated as our executive Director on January 19, 2015. Ms. Qian is currently a director of Yadea Import Export and a supervisor of Yadea Group and Tianjin Industry. Ms. Qian has approximately 18 years of experience in the electric two-wheeled vehicle industry. Ms. Qian began tapping into the electric two-wheeled vehicle industry in 1997 when she began the preparation of the establishment of Jiangsu Yadea with Mr. Dong. In order to expand her networks and acquire the latest industry knowledge and resources, Ms. Qian also frequently attended industry related seminars and conferences. Prior to 1997, Ms. Qian was employed for

four years at a motorcycle factory where she acquired relevant industry knowledge and experience. Ms. Qian has not been a director of any listed company in the three years immediately preceding the date of this document.

Currently, Ms. Qian also serves as the vice president of the Junior Chamber of Commerce of Xishan District (錫山區青商會). Ms. Qian received the Certificate of Accounting Professional from the Finance Bureau of Xishan, Wuxi (無錫市錫山區財政局) in September 2000. Ms. Qian is currently a student in the Executive Master of Business Administration Program jointly offered by the Harbin Institute of Technology and the ASIA Pacific Institute of Management China.

Mr. Yeming Liu (劉曄明), aged 44, is our president and has been our Director since December 10, 2014. Mr. Liu was re-designated as our executive Director on January 19, 2015. Mr. Liu joined the Group in December 2013 and is responsible for the overall strategic planning and general management, as well as the external affairs of the Group.

Prior to joining the Group, Mr. Liu had held various positions in COFCO Corporation (formerly known as China Cereals, Oils and Foodstuffs Import and Export Corporation (中國糧油食品進出口總公司) until 1998, China Cereals, Oils and Foodstuffs Import and Export (Group) Co., Ltd. (中國糧油食品進出口(集團)有限公司) until 2004 and China Cereals, Oils and Foodstuffs (Group) Co., Ltd. (中國糧油食品(集團)有限公司) until 2007) from 1992 to 2013, including positions as a deputy general manager of COFCO (New York) Co., Ltd. (中糧(紐約)有限公司), a deputy general manager of the oil division of COFCO Corporation and a deputy general manager of Hangzhou CPMC Co., Ltd. (杭州中糧包裝有限公司). Mr. Liu has not been a director of any listed company in the three years immediately preceding the date of this document.

Mr. Liu graduated from Jiangnan University (江南大學) with a doctoral degree in Food Commerce and Culture in December 2011.

Mr. Rui Shi (石銳), aged 38, is our chief financial officer and has been our Director since December 10, 2014. Mr. Shi was re-designated as our executive Director on January 19, 2015. Mr. Shi joined the Group in March 2014 and is responsible for the financial aspects of the Group.

Prior to joining the Group, Mr. Shi had held various positions at Beijing Zhongchang Accounting Firm (北京中昌會計師事務所) from January 2001 to June 2006 and from July 2008 to February 2014, including positions as a project manager, a division manager, a senior manager and a partner. In addition, Mr. Shi was a financial manager and consultant at Shenzhen Winscom Industrial Co., Ltd., Beijing Branch (深圳市維新康實業有限公司北京分公司) between July 2006 and June 2008. Mr. Shi has not been a director of any listed company in the three years immediately preceding the date of this document.

Mr. Shi became a registered member of the Chinese Institute of Certified Public Accountant in July 2003 and received his accountant qualification from the Ministry of Finance of the People's Republic of China (中華人民共和國財政部) in September 2003. Mr. Shi graduated from Shaanxi University of Finance and Economics (陝西財經學院) with a tertiary qualification in International Accounting in June 1999.

Mr. Yu Shen (沈瑜), aged 40, has been our Director since December 10, 2014 and was re-designated as our executive Director on January 19, 2015. Mr. Shen joined the Group in May 2005 and has since

served as the assistant to the Chairman and supervisor of the president's office. Mr. Shen is responsible for the administrative affairs of the Group, as well as assisting our Chairman and president in external affairs and public relations management. Mr. Shen is also a joint company secretary of the Company.

Prior to joining the Group, Mr. Shen was a deputy general manager of Wuxi Lianmei Public Relations Co., Ltd. (無錫聯美公關有限公司) from May 2001 to April 2005, a quality control engineer at Wuxi Murata Electronics Co., Ltd. (無錫村田電子有限公司) from October 2000 to May 2001, an electrical engineer at Wuxi Mining Machinery Plant (無錫礦山機械廠) from January 1997 to October 2000 and an electrical engineer at Yizheng Huaxian Group Co., Ltd. (儀征化纖集團有限公司) from July 1995 to December 1996. Mr. Shen has not been a director of any listed company in the three years immediately preceding the date of this document.

Mr. Shen graduated from Xi'an Jiaotong University (西安交通大學) with a tertiary qualification in Industrial Automation in July 1995 and graduated from Southeast University (東南大學) with a master's degree in Business Administration in June 2013.

Non-executive Director

Mr. Xiang Fan (范翔), aged 39, has been our Director since December 10, 2014 and was re-designated as our non-executive Director on January 19, 2015. Mr. Fan is responsible for supervising and providing judgment to our Board and is not involved in the daily operations of the Group.

In addition to serving as a Director, Mr. Fan has been the chairman and general manager of Goldman Sachs Broad Street (Beijing) Equity Investment Management Co., Ltd. (北京高盛寬街博華股權投資管理有限公司), a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (高盛集團有限公司) (collectively referred to as "**Goldman Sachs**") since January 2013. Prior to his relocation to Beijing in January 2013, Mr. Fan was with the Hong Kong principal investment area and New York investment banking division of Goldman Sachs as a managing director between January 2012 and December 2012 and an executive director between August 2007 and December 2011. Mr. Fan was an associate at KKR Asia Limited between March 2006 and July 2007, and was an associate at the investment banking division of Goldman Sachs between August 2004 and February 2006.

Further, Mr. Fan is currently a director of China Shengmu Organic Milk Limited (Stock Exchange stock code: 1432) and a director of Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科牧業有限公司). Saved as disclosed herein, Mr. Fan has not been a director of any listed company in the three years immediately preceding the date of this document.

Mr. Fan graduated from Yale University with a bachelor's degree of arts in May 1999 and from the Wharton School of the University of Pennsylvania with a master's degree in Business Administration in May 2004.

Independent Non-executive Directors

Mr. Biguang Wu (吳邴光), aged 58, was appointed as our independent non-executive Director on December 10, 2014. Mr. Wu is responsible for supervising and providing independent judgment to our Board.

In addition to serving as an independent non-executive Director, Mr. Wu is currently the head of the Faculty of Law, the first level academic leader of the master's program and the professor-in-charge of the

master's program in Criminal Law at the College of Humanities and Law of the North China University of Technology (北方工業大學文法學院), where he has been teaching since May 1989. Mr. Wu is also a committee member of the Professional Advisory Committee of the District People's Court of Shijingshan District, Beijing (北京市石景山區人民法院專家諮詢委員會委員) and a committee member of the Government Administration Review Committee of Shijingshan District (石景山區政府行政復議委員會委員). Mr. Wu is a part-time legal practitioner as certified by the Bureau of Justice of Beijing (北京市司法局) in December 2009.

Previously, Mr. Wu served as an independent non-executive Director of Inner Mongolia Yili Industrial Group Co., Ltd. (蒙古伊利實業集團股份有限公司) (Shanghai Stock Exchange stock code: 600887) between October 2004 and May 2011, where he had been a member of the remuneration committee, nomination committee and strategy committee. Mr. Wu was a professor at the School of Law of Zhengzhou University (鄭州大學法學院) between July 1984 and May 1989. Save as disclosed above, Ms. Wu has not been a director of any listed company in the three years immediately preceding the date of this document.

Mr. Wu was recognized as an "Outstanding Teacher in Beijing (北京市優秀教師)" by the Education Commission of Beijing Municipal Committee of the Communist Party of China (中國共產黨北京市委員會教育工作委員會), Beijing Municipal Commission of Education (北京市教育委員會), Human Resources and Social Security Bureau of Beijing Municipality (北京市人事局), Finance Bureau of Beijing Municipality (北京市財政局), Labor Bureau of Beijing Municipality (北京市勞動局) and Trade Union on Education of China, Beijing Committee (中國教育工會北京市委員會) in 1997. Mr. Wu graduated from China University of Political Science and Law (中國政法大學) with a bachelor's degree in Law in July 1984 and from Peking University (北京大學) with a master's degree in Criminal Law in July 1996.

Zongwei Li (李宗煒), aged 43, was appointed as our independent non-executive Director on January 18, 2015. Mr. Li is responsible for supervising and providing independent judgment to our Board.

In addition to serving as an independent non-executive Director, Mr. Li is currently the chief strategic officer of Yingli Green Energy Holding Company Limited (New York Stock Exchange stock code: YGE), where he was the chief financial officer between November 2006 and May 2009, an executive director and the chief financial officer between May 2009 and May 2014 and an executive director and the chief strategic officer between May 2014 and November 2014. Mr. Li is also the president of Shanghai Sailing Huili Asset Management Co., Ltd. (上海賽領暉力資產管理有限公司) and an independent non-executive director and the chairman of the auditing committee of Youku Tudou Inc. (New York Stock Exchange stock code: YOKU). Mr. Li was a senior auditing manager of PricewaterhouseCoopers between April 1995 and October 2006. Save as disclosed above, Mr. Li has not been a director of any listed company in the three years immediately preceding the date of this document.

Mr. Li was consecutively listed as one of the "Forty Business Elites in China Under the Age of 40 (中國40位40歲以下的商界精英)" by Fortune China from 2011 to 2013. Mr. Li became a non-practicing member of the Shanghai Institute of Certified Public Accountants in December 2009 and was admitted as a fellow chartered chief financial officer by the International Association of Education in August 2010. Mr. Li graduated from Shanghai Institute of Technology (上海應用技術學院) with a bachelor's degree in Mechanical Engineering in July 1993 and from Washington University in Saint Louis with a master's degree in Business Administration in December 2006.

Naisheng Yao (姚乃勝), aged 43, was appointed as an independent non-executive Director on August 28, 2015. Mr. Yao is responsible for supervising and providing independent judgment to our Board.

In addition to serving as an independent non-executive Director, Mr. Yao is currently a vice president at JD.com. Previously, Mr. Yao was a senior investor at Hillhouse Capital Group between November 2009 and January 2011, an associate partner at International Business Machines Corporation (IBM) between April 2007 and October 2009, and a director at CertainTeed Corporation between July 2005 and March 2007. Mr. Yao has not been a director of any listed company in the three years immediately preceding the date of this document.

Mr. Yao graduated from Tianjin University with a bachelor's degree in Chemical Engineering in July 1993 and a master's degree in Engineering in April 1996. Mr. Yao graduated from Yale University with a Doctor of Philosophy in May 2002.

Please refer to the section headed "Statutory and General Information — C. Further Information About Our Directors and Substantial Shareholders" in Appendix IV to this document for details of our Directors' respective interests or short positions (if any) in our Shares, particulars of our Directors' service agreements and our Directors' remuneration.

Save as disclosed in this document, each of our Directors has confirmed that there are no other matters relating to his/her appointment as a Director that need to be brought to the attention of our Shareholders and there is no other information in relation to his/her appointment which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management and operation of our business. The following table sets forth certain information concerning our senior management personnel.

Name	Age	Year of joining our Group	Position in the Company	Key role
Yeming Liu (劉曄明)	44	2013	Executive Director and president	Responsible for the overall strategic planning and general management, as well as the external affairs of the Group
Rui Shi (石銳)	38	2014	Executive Director and chief financial officer	Responsible for the financial aspects of the Group
Jiazhong Wang (王家中) . .	37	1999	Executive director of Tianjin Industry, executive director of Tianjin Weiye and deputy general manager of Yadea Sales	Responsible for the sales of our Group

Name	Age	Year of joining our Group	Position in the Company	Key role
Chaoyang Zhou (周朝陽) . .	32	2000	General manager of the Wuxi facility	Responsible for the operations of the Wuxi facility
Bo Xue (薛波)	41	2013	Chief officer of products of the Group	Responsible for the product development and planning of the Group
Shuchang Xu (許舒暢) . . .	33	2007	Deputy general manager of Yadea Sales	Responsible for the business operations of Yadea Sales
Jinlong Wang (王金龍) . . .	40	2012	Technical supervisor of Yadea Group	Responsible for the operations of the research and development center

For details of **Mr. Yeming Liu (劉曄明)**, please refer to the sub-section headed "— Board of Directors — Executive Directors" in this section.

For details of **Mr. Rui Shi (石銳)**, please refer to the sub-section headed "— Board of Directors — Executive Directors" in this section.

Mr. Jiazhong Wang (王家中), aged 37, joined the Group in February 1999 as an officer. Mr. Wang has been the executive director of Tianjin Industry since January 2011, the executive director of Tianjin Weiye since September 2009 and the deputy general manager of Yadea Sales since October 2014. Mr. Wang is responsible for the sales of our Group. Mr. Wang was the general manager of the Tianjin branch of Jiangsu Yadea between September 2006 and May 2013. Mr. Wang has not been a director of any listed company in the three years immediately preceding the date of this document.

Mr. Wang served as a member of the Standing Committee of the People's Congress of Beichen District, Tianjin (天津市北辰區人民代表大會常務委員會) in November 2011. Mr. Wang was recognized as the "Most Beautiful Youth Who Creates Wealth Through Entrepreneurship (最美創業致富青年)" by the Beichen District Committee of the Youth League of the Communist Party of China (中國共青團北辰區委員會) in April 2014. Mr. Wang received the Qualification Certification of Senior Professional Manager from the China Enterprise Confederation (中國企業聯合會) and the China Enterprise Directors Association (中國企業家協會) in December 2013. Mr. Wang graduated from Nankai University (南開大學) with a tertiary qualification in Business Administration, an online program, in January 2014. Mr. Wang is currently a student in the Executive Master of Business Administration Program at Tianjin University (天津大學).

Mr. Chaoyang Zhou (周朝陽), aged 32, joined the Group in May 2000 as an officer and became the general manger of Guangdong Yadea in August 2010. Mr. Zhou has been the general manager of our Wuxi facility since October 2014 and is responsible for the operations of the Wuxi facility. Mr. Zhou has not been a director of any listed company in the three years immediately preceding the date of this document.

Mr. Zhou graduated from Wuhan University of Technology (武漢理工大學) with a tertiary qualification in Business Administration, an online program, in July 2009.

Mr. Bo Xue (薛波), aged 41, has been the chief officer of products of the Group since he joined the Group in April 2013. He is responsible for the product development and planning of the Group.

Prior to joining the Group, Mr. Xue was an officer of Jiangsu Tianjue Motorcycle Technology Co., Ltd. (江蘇天爵機車科技有限公司) between October 2006 and February 2010, and was the officer of Longxin Motorcycle Co., Ltd. (隆鑫摩托有限公司) between July 1997 and October 2006. Mr. Xue has not been a director of any listed company in the three years immediately preceding the date of this document.

Mr. Xue graduated from Chongqing Yuzhou University (重慶渝州大學) with a tertiary qualification in Automobiles Manufacturing in June 1997.

Mr. Shuchang Xu (許舒暢), aged 33, has been the deputy general manager of Yadea Sales since October 2014 and is responsible for the business operations of Yadea Sales. Mr. Xu joined our Group in February 2007 as the assistant of the general manager of Zhejiang Yadea and was the deputy general manager of our Wuxi facility between May 2013 and October 2014. Mr. Xu has not been a director of any listed company in the three years immediately preceding the date of this document.

Mr. Xu graduated from Zhengzhou University of Light Industry (鄭州輕工業學院) with a bachelor's degree in Electronic and Information Engineering in July 2006.

Mr. Jinlong Wang (王金龍), aged 40, has been the technical supervisor of Yadea Group since October 2014 and is responsible for the operations of our research and development center. Mr. Wang first joined the Group in April 2004 as a production deputy manager of Jiangsu Yadea. Mr. Wang left the Group temporarily in December 2006 and became the general manager of Wuxi Auspicious Lion Technology Co., Ltd. (無錫吉祥獅科技有限公司) from February 2007 to May 2012. Mr. Wang rejoined the Group in October 2012 as the deputy general manager of Jiangsu Yadea and became the supervisor of our research and development center for electric scooters between July 2013 and October 2014. Mr. Wang has not been a director of any listed company in the three years immediately preceding the date of this document.

Mr. Wang graduated from Zhenjiang Shipping College (鎮江船舶學院) (currently known as Jiangsu University of Science and Technology (江蘇科技大學)) with a bachelor's degree in Welding Materials and Engineering in July 1996.

JOINT COMPANY SECRETARIES

Mr. Yu Shen (沈瑜) was appointed as a joint company secretary of the Company on January 19, 2015. For details of Mr. Shen, please refer to the sub-section headed "Board of Directors — Executive Directors" in this section.

Ms. Sau Ping Wong (黃秀萍) was appointed as a joint company secretary of the Company on January 19, 2015. Ms. Wong is a senior manager of the listing services department of TMF Hong Kong Limited (a subsidiary of KCS Hong Kong Limited). She has over 14 years of professional experience in the company secretarial field and has acquired extensive knowledge and experience in corporate governance and compliance affairs of listed companies. Ms. Wong graduated from City University of Hong Kong with a Master of Arts degree in Professional Accounting and Information Systems. Ms. Wong is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom.

Ms. Wong will work closely with Mr. Shen to jointly discharge the duties and responsibilities as joint company secretaries of the Company. We have applied to the Stock Exchange for and obtained a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules. Please refer to the section headed "Waivers from Compliance with the Listing Rules — Joint Company Secretaries" in this document for further details.

AUDIT COMMITTEE

We have established an audit committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system of the Group, oversee the audit process, provide advice and comments to our Board and perform other duties and responsibilities as may be assigned by the Board.

The audit committee consists of three members, namely Mr. Zongwei Li (李宗煒), Mr. Biguang Wu (吳邠光) and Mr. Xiang Fan (范翔). The chairman of the audit committee is Mr. Zongwei Li (李宗煒), who is the independent non-executive Director with the appropriate professional qualifications.

REMUNERATION COMMITTEE

We have established a remuneration committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to establish, review and make recommendations to our Directors on our policy and structure concerning the remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration, determine the terms of the specific remuneration package of each executive Director and senior management and review and approve performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time.

The remuneration committee consists of three members, namely Mr. Biguang Wu (吳邠光), Mr. Naisheng Yao (姚乃勝) and Mr. Yeming Liu (劉曄明). The chairman of the remuneration committee is Mr. Biguang Wu (吳邠光).

NOMINATION COMMITTEE

We have established a nomination committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to review the structure, size and composition of our Board on a regular basis and make recommendations to the Board regarding any proposed changes, identify, select or make recommendations to our Board on the selection of individuals nominated for directorship, assess the independence of our independent non-executive Directors and make recommendations to the Board on relevant matters relating to the appointment, reappointment and removal of our Directors and succession planning for our Directors.

The nomination committee consists of three members, namely Mr. Dong, Ms. Qian, Mr. Naisheng Yao (姚乃勝), Mr. Biguang Wu (吳邠光) and Mr. Zongwei Li (李宗煒). The chairman of the nomination committee is Mr. Dong.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and members of our senior management receive compensation from the Company in the form of salaries, bonuses and other benefits in kind such as contributions to pension plans.

The remuneration (including fees, salaries, share-based payments, contributions to pension schemes, discretionary bonuses, housing and other allowances and benefits in kind) paid to our Directors in aggregate for the years ended December 31, 2013, 2014 and 2015 were approximately RMB499,000, RMB27,152,000 and RMB2,640,000, respectively.

The remuneration (including fees, salaries, share-based payments, contributions to pension schemes, discretionary bonuses, housing and other allowances and benefits in kind) paid to our Group's five highest paid individuals in aggregate for the years ended December 31, 2013, 2014 and 2015 were approximately RMB832,000, RMB70,349,000 and RMB3,133,000, respectively.

During the Track Record Period, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. None of the Directors had waived or agreed to waive any remuneration during the Track Record Period.

Pursuant to the existing arrangements that are currently in force as of the date of this document, the amount of remuneration (including benefits in kind but excluding discretionary bonuses) payable to our Directors by the Company for the year ending December 31, 2016 is estimated to be approximately RMB3.3 million in aggregate.

To incentivize our Directors, senior management and employees, the Company has conditionally adopted the Share Option Scheme on [●]. Please refer to the section headed "Statutory and General Information — D. Other Information — 1. Share Option Scheme" in this document for further details.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management and will, following the [**REDACTED**], receive recommendations from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

Save as disclosed in this document, no other payments had been made, or are payable, by any member of the Group to the Directors during the Track Record Period.

For additional information on the Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to notes 8 and 9 in the accountants' report set out in Appendix I to this document.

WAIVERS GRANTED BY THE STOCK EXCHANGE

Management Presence

We have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules in relation to the requirement of management presence in Hong Kong. For details of the waiver, please refer to the section headed "Waivers from Compliance with the Listing Rules — Management Presence in Hong Kong" in this document.

COMPLIANCE ADVISOR

The Company has appointed Cinda International Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules.

The material terms of the compliance advisor's agreement entered into between the Company and Cinda International Capital Limited are as follows:

(1) the compliance advisor shall provide the Company with services including guidance and advice as to compliance with the requirement of the Listing Rules and other applicable laws, rules, codes and guidelines, and accompany the Company to any meetings with the Stock Exchange;

(2) the Company may terminate the appointment of the compliance advisor by giving a 30 days' prior written notice to the compliance advisor. The Company will exercise such right in compliance with Rule 3A.26 of the Listing Rules. The compliance advisor will have the right to terminate its appointment as compliance advisor under certain specific circumstances and upon notification of the reason of its resignation to the Stock Exchange; and

(3) during the period of appointment, the Company must consult with, and if necessary, seek advice from the compliance advisor on a timely basis in the following circumstances:

   (a) before the publication of any regulatory announcement, circular or financial report;

   (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

   (c) where we propose to use the proceeds of the [**REDACTED**] in a manner different from that detailed in this document or where our business activities, developments or results materially deviate from any forecast, estimate, or other information in this document; and

   (d) where the Stock Exchange makes an inquiry of the Company regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the [**REDACTED**] and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the [**REDACTED**].

You should read this section in conjunction with our audited consolidated financial statements as of and for each of the years ended December 31, 2013, 2014 and 2015, including the notes thereto, as set forth in the accountants' report included as Appendix I to this document, which have been prepared in accordance with HKFRS. The following discussion contains forward-looking statements concerning events that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and "Business" and elsewhere in this document.

For purposes of this section, unless the context otherwise requires, references to 2013, 2014 and 2015 refer to our financial years ended December 31, 2013, 2014 and 2015, respectively.

OVERVIEW

We are the leading electric two-wheeled vehicle brand in China both in terms of revenue and profitability. We are the largest player in the Chinese electric two-wheeled vehicle market, with our market share accounting for 10.5% in terms of revenue in 2015, according to Frost & Sullivan. We have adopted a high-end positioning strategy in establishing our premium brand. According to Frost & Sullivan, we are the most profitable company among the leading players in the electric two-wheeled vehicle market in terms of net profit and our net profit accounted for 24.0% of the overall market in 2015.

We sell our products through our nationwide sales and distribution network in China, which consisted of over 1,700 distributors as well as their sub-distributors as of December 31, 2015. We also have an extensive international customer base and had sales over 50 countries during the Track Record Period through our extensive international distribution network. Our international sales accounted for 1.9% of the total electric two-wheeled vehicle export volume from China in 2015 according to Frost & Sullivan. We believe that our market leading position and strong brand recognition have enabled us to develop long-term relationships with our distributors and suppliers and to obtain favorable terms from them.

Our headquarters is located in Jiangsu Province and includes our principal office buildings, our product research and development center and our Wuxi production facilities. In addition to our Wuxi production facilities, we have three other production facilities, which are located in Tianjin, Cixi and Dongguan. As of December 31, 2015, we had annual electric two-wheeled vehicle production capacity of approximately 5.0 million units.

We experienced significant growth over the Track Record Period. Our profit increased by 28.4%, from RMB174.1 million in 2013 to RMB223.5 million in 2014 and further by 68.0% to RMB375.5 million in 2015. Our revenue grew from RMB5,059.2 million in 2013 to RMB5,824.1 million in 2014 and further to RMB6,429.2 million in 2015.

RECENT DEVELOPMENTS

Subsequent to December 31, 2015, the date of the latest audited financial information appearing in this document, and up to the Latest Practicable Date, there was no material adverse industry, market, operational (including sales performance) or regulatory development relating to our business or any other event that materially and adversely affected our operating results or financial condition. The sales volumes of our electric scooters and electric bicycles continued to increase as compared to the corresponding period in 2015. The average sales prices of our electric scooters and bicycles increased as compared to the same period in 2015 as we began in the fourth quarter of 2015 to phase out the previous discounts offered to our distributors. Our overall cost of raw materials increased as compared to the same period in 2015. To further enhance our liquidity position, we had total unutilized credit facilities amounting to RMB841.1 million (comprising RMB718.5 million in unutilized general credit facilities and RMB122.6 million in unutilized banking facilities available for issuing bank acceptance bills) as of the Latest Practicable Date.

BASIS OF PRESENTATION

Pursuant to the Reorganization as described in "History, Development and Reorganization — The Reorganization", the Company became the holding company of the companies now comprising the Group on December 9, 2014. The companies now comprising the Group were under the common control of the Controlling Shareholders before and after the Reorganization. Accordingly, our financial information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganization was completed at the beginning of the Track Record Period.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Track Record Period include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as of December 31, 2013, 2014 and 2015 have been prepared to present the assets and liabilities of the subsidiaries using the existing book values from the Controlling Shareholders' perspective. No adjustments have been made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization. All intra-group transactions and balances have been eliminated on consolidation.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following factors are the principal factors that have affected, and which we expect will continue to affect, our business, financial condition, results of operations and prospects. The following should be read in conjunction with the section headed "Risk Factors" in this document and the accountants' report included as Appendix I to this document.

Consumer Demand for Electric Two-Wheeled Vehicles and Sales Volume of Our Products

Our results of operations have been and will continue to be influenced by consumer demand for electric two-wheeled vehicles in China, which is largely affected by the economic growth, urbanization and purchasing power of Chinese consumers. Urban expansion caused by the rapid development of the Chinese economy and increasing urbanization, has lengthened daily travel distances and caused serious traffic congestion and pollution problems. Electric two-wheeled vehicles are replacing traditional motorcycles and bicycles and becoming one of the mainstream modes of transportation as they are environmentally friendly, economical and convenient. As purchasing power and brand consciousness continue to increase among Chinese consumers, electric two-wheeled vehicles are becoming more

popular. We have in the past benefitted from the robust growth of our industry. According to Frost & Sullivan, the total retail sales value of electric two-wheeled vehicles in China increased from RMB69.3 billion in 2010 to RMB82.2 billion in 2015, a CAGR of 5.62%. Frost & Sullivan estimates that the industry will continue to expand, with total sales reaching RMB124.7 billion in 2020, a CAGR of 5.29% from 2015.

The sales volume of our products is affected by consumer demand for electric two-wheeled vehicles and is one of the key drivers of our revenue. The sales volume of our electric scooters was 1,594,618 units, 1,869,290 units and 2,044,610 units for the years ended December 31, 2013, 2014 and 2015, respectively. The sales volume of our electric bicycles was 1,137,225 units, 1,141,646 units and 1,276,448 units for those same periods, respectively. We believe that the significant growth over the Track Record Period in the sales volumes of our electric scooters and electric bicycles was primarily due to the increasing demand for electric two-wheeled vehicles in China, the increased recognition of our brand among consumers, the expansion of our distribution network and our marketing efforts. As a result of the increases in the sales volume of our electric two-wheeled vehicles, our revenue increased from RMB5,059.2 million in 2013 to RMB5,824.1 million in 2014, and further to RMB6,429.2 million in 2015. During the Track Record Period, as our international sales represented a minor portion of our total sales and we consider most of the products sold to international customers to be high-end models, the revenue and sales volume of our international sales have been classified as electric scooter revenue and sales volume in our financial statements and operating data.

The Pricing of Our Products

We seek product positioning strategies aimed at enhancing perceptions of our brand and value to differentiate our products from other products in the electric two-wheeled vehicle market. We believe that these positioning strategies allow us to obtain a price premium for our products.

The table below sets forth the average prices at which we sold our two main products during the Track Record Period (excluding batteries and chargers):

Product	**For the year ended December 31,**		
	2013	**2014**	**2015**
	Price (RMB)	**Price (RMB)**	**Price (RMB)**
Electric scooters	1,635	1,736	1,704
Electric bicycles	1,102	1,231	1,140

The average prices of our electric scooters and bicycles increased from 2013 to 2014 which was primarily due to the increasing demand for electric two-wheeled vehicles in China, our introduction of new models with advanced performance characteristics and higher average unit prices as well as the increasing popularity of our products in the market.

The average prices of our electric scooters and bicycles decreased in 2015 as compared to 2014, as we offered discounts to our distributors for certain of our products in order to capture additional market share and in response to market competition as competitors were able to lower their prices due to the decreased market prices of raw materials. We offered such discounts from the second half of 2014 through the third quarter of 2015. We began phasing out the discounts in the fourth quarter of 2015, resulting in an increase in the average selling price of our products.

Raw Materials and Payment Terms

Our principal raw materials include batteries, electric motors and vehicle frames. Raw materials represented 92.9%, 91.6% and 91.6% of our cost of sales for the years ended December 31, 2013, 2014 and 2015, respectively.

We meet our supply requirements for direct raw materials by purchasing from suppliers according to market prices. The majority of our principal raw material suppliers have been supplying raw materials to us for multiple years. We believe that, due to our long term relationships with our suppliers, we are able to obtain high quality raw materials at competitive prices.

Our principal raw materials are subject to price volatility caused by external conditions, such as commodity price fluctuations and market competition amongst suppliers. The prices we pay are also influenced by factors such as the geographic location of our plants in China, fluctuations in seasonal production, the availability of alternative suppliers and substitute materials, the number of product models we offer at any particular time and the frequency with which we upgrade the packaging we use.

We seek to reduce the impact of increases in raw material prices by centralizing our procurement of raw materials for all production facilities to leverage economies of scale and maximize our bargaining power with suppliers. We also focus on developing the use of substitute raw materials and in-house manufacturing with the aim of reducing production costs. In addition, for certain raw materials, we continually search for substitutes to reduce our reliance on particular raw materials.

Our operations are also partially affected by the payment terms offered to us by our raw material suppliers. We are normally required to make payment to our raw material suppliers within 15 to 90 days of making purchases from them. During the Track Record Period, by leveraging our bargaining power with suppliers, we increased our use of bank acceptance bills to make payments to suppliers. Bank acceptance bills typically have payment periods of six months. Accordingly, our use of bank acceptance bills allows us to extend the timing of payment for an additional six months beyond the normal credit periods offered to us by our suppliers. Any change in the credit terms offered to us by our suppliers may affect our liquidity position.

Product Mix

Our two main products are electric scooters and electric bicycles. Electric scooters and electric bicycles have different pricing and profit margins. The average price and the profit margin of electric scooters are higher than those of electric bicycles. As such, our revenue and gross profit for a given period are impacted by changes to the proportions of our total sales volume made up by the various models and changes to the pricing of the products. During the Track Record Period, the sales volume of our electric scooters generally increased as compared to our electric bicycles as we increasingly placed marketing emphasis on electric scooters to benefit from their higher gross profit margins.

Distribution Network and Marketing Expenses

Our results of operations are and will continue to be affected by the breadth and penetration of our distribution network. We primarily sell our products through our distribution network in China. We had 1,549, 1,790 and 1,760 domestic distributors as of December 31, 2013, 2014 and 2015, respectively. Please see "Business — Sales and Distribution Network — Domestic Sales — Network of Domestic

Distributors" for an explanation of the fluctuations in the number of our distributors during the Track Record Period. Our distribution network covers each province of China. This extensive network allows us to distribute our products across China, from cities and urban centers to counties and rural areas. Our distribution network is managed by our sales and marketing team. As of the Latest Practicable Date, our sales department consisted of over 500 employees. As a supplement to our traditional sales network in China, we have developed an online platform to support our distributor points of sales and keep pace with the shift in shopping habits toward online sales, particularly among young consumers. We had international sales to over 50 countries during the Track Record Period through our extensive international distribution network.

We engage in substantial promotional and advertising activities to develop consumer awareness of our products and brand as well as increase our market share. We focus in particular on advertising campaigns on television, the internet, outdoor advertising and other print media, as well as on-site promotions at distributor points of sales and participation in domestic and international industry trade shows. For example, we are now advertising our products during certain popular Chinese television programs during prime-time on major TV channels, in the Chinese high speed rail network and through major Chinese search engines. From time to time, we also engage celebrities as product spokesmen to promote our products. Our marketing expenses generally are higher when we launch new product models. Our selling and distribution expenses were equal to 5.5%, 6.0% and 7.1% of our revenue for the years ended December 31, 2013, 2014 and 2015, respectively.

Taxation

Our profitability and financial performance are affected by applicable tax rates and the availability of preferential tax treatment. For the year ended December 31, 2013, Jiangsu Yadea enjoyed a preferential 15% tax rate, and the applicable tax rate for each of our other PRC subsidiaries was 25%. For the years ended December 31, 2014 and 2015, the applicable tax rate for Tianjin Industry was a preferential 15% rate, and the applicable tax rate for each of our other PRC subsidiaries was 25%. The preferential tax rates applicable to Jiangsu Yadea and Tianjin Industry during those time periods were due to those companies qualifying as new and high technology enterprises according to PRC laws for those periods. The preferential tax treatment of Tianjin Industry will continue to be effective until the end of 2016 assuming that Tianjin Industry continues to meet the relevant requirements of PRC law. There can be no assurance that Tianjin Industry will continue to be able to meet the requirements to be entitled to the preferential tax treatment or that the preferential rate will not otherwise be challenged, altered or terminated. Any challenge, alteration, termination or inability or failure to maintain the current preferential tax rate could increase our tax liability, which in turn would adversely affect our net profit and cash flow. See "Risk Factors — Risks Relating to our Business — The preferential tax treatment that we enjoy for a portion of our operations in China may be altered or terminated or our qualification may be lost or challenged" in this document. We intend to apply for an extension of the preferential tax rate of Tianjin Industry in due course, but there can be no assurance that we will qualify for the preferential tax rate in future as we must satisfy certain criteria to be qualified as a new and high technology enterprise. See "Regulatory Overview — XIII. Laws and Regulations Relating to Taxation" in this document for details of criteria to be qualified as a new and high technology enterprise. The qualification as a new and high technology enterprise is also subject to timely filling with tax authorities and annual evaluation and review by relevant authorities in China.

Seasonality

Our sales are subject to seasonal fluctuations. Historically, we have experienced higher sales in the summer months and at the end of the year. Our distributors purchase the most electric two-wheeled

vehicles during the summer months as that is the time of the highest consumer demand. They also increase their purchases at the end of the year (i) as we typically have increased promotions and marketing activities during that time and (ii) in preparation for the holiday season. Our sales may also fluctuate from time to time during the course of a financial year due to other reasons, including new product model launches and advertising and promotional campaigns.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgment relating to accounting items. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. When reviewing our consolidated financial statements, you should consider (i) our critical accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set out below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, are set out in detail in the financial information contained in the accountants' report attached as Appendix I to this document.

Revenue Recognition

Revenue represents the net invoiced value of goods sold, after allowances for rebates and trade discounts and is recognized when it is probable that economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold, and for the non-cash sales incentives provided to customers which are directly related to sales transactions, they would be deducted against revenue;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when our right as a shareholder to receive a payment has been established.

Deferred Tax Assets

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets were RMB14.0 million, RMB13.8 million and RMB18.2 million as of December 31, 2013, 2014 and 2015, respectively.

Impairment of Trade Receivables

The provision policy for impairment of trade receivables of the Group is based on ongoing assessment of the recoverability and the aging analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realization of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

Impairment of Non-financial Assets (other than Goodwill)

We assess whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Write-down of Inventories to Net Realizable Value

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes a provision for slow-moving inventory items. Management estimates the net realizable value for such inventories based primarily on the latest invoice prices and current market conditions. Write-down of inventories to net realizable value is made based on the estimated net realizable value of inventories. The assessment of the write-down amount requires management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying values of inventories and write-down/write-back of inventories in the period in which such estimate has been changed.

Useful Lives of Property, Plant and Equipment

Our management determines the estimated useful lives and the related depreciation charge for our property, plant and equipment (mainly, our production facilities, headquarters and research and development centers). This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management increases the depreciation charges where useful lives are less than previously estimated lives or writes off or writes down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore the depreciation charges in the future periods.

Share-based Payments

The Group granted ordinary shares to employees for the purpose of providing incentives and rewards to eligible participants for their contributions to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Fair Value of Wealth Management Products

The wealth management products included in the financial assets at fair value through profit or loss have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires us to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty.

SUMMARY OF RESULTS OF OPERATIONS DURING THE TRACK RECORD PERIOD

Consolidated Statements of Profit or Loss and Adjusted Net Profit

	For the year ended December 31,		
	2013	**2014**	**2015**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**
Revenue	5,059,200	5,824,142	6,429,187
Cost of sales	(4,404,654)	(4,855,684)	(5,211,994)
Gross profit	**654,546**	**968,458**	**1,217,193**
Other income and gains, net	27,184	81,280	85,770
Selling and distribution expenses	(275,792)	(349,390)	(453,544)
Administrative expenses	(192,234)	(394,616)	(358,528)
Finance costs	(427)	(251)	(24)
Share of profits and losses of an associate	12,178	1,222	—
Profit before tax	**225,455**	**306,703**	**490,867**
Income tax expense	(51,382)	(83,239)	(115,400)
Profit for the year	**174,073**	**223,464**	**375,467**
Adjusted net profit[(1)] (unaudited)	**163,819**	**282,603**	**350,653**

Note:

(1) Please refer to the section headed "— Non-HKFRS Measure".

NON-HKFRS MEASURE

In addition to the HKFRS measures in our consolidated financial statements, we also use the non-HKFRS financial measure of adjusted net profit to evaluate our operating performance. We believe that this non-HKFRS measure provides useful information to [**REDACTED**] in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

Adjusted Net Profit

Adjusted net profit eliminates the effect of equity-settled share award expense, [**REDACTED**] expenses incurred in preparation for the [**REDACTED**], gains from financial assets at fair value through profit or loss. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that have impacted our net profit in the relevant periods. We compensate for these limitations by reconciling adjusted net profit to the nearest HKFRS performance measure, net profit. The following table reconciles our adjusted net profit for the periods presented to our net profit for those periods:

	For the year ended December 31,		
	2013	**2014**	**2015**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**
Profit for the year	**174,073**	**223,464**	**375,467**
Add:			
[**REDACTED**] expenses	450	6,742	17,837
Equity-settled share award expense	—	75,574	—
Deduct:			
Gains from financial assets at fair value through profit or loss	10,704	23,177	42,651
Adjusted net profit (unaudited)	**163,819**	**282,603**	**350,653**

In light of the foregoing limitations for other financial measures, when assessing our operating and financial performance, you should not consider adjusted net profit in isolation or as a substitute for our profit for the period, operating profit, net profit or any other operating performance measure that is calculated in accordance with HKFRS. In addition, as different companies may calculate adjusted net profit differently, this measure may not be comparable to the adjusted net profit figures of other companies.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenue

We derived substantially all of our revenue during the Track Record Period from sales of our electric scooters and electric bicycles as well as batteries and chargers. We also derived a small portion of our revenue from sales of other products, which included our specialty vehicles and electric two-wheeled vehicle parts.

The following table sets out a breakdown of our sales by products for the periods indicated:

	For the year ended December 31,								
Product Type	**2013**			**2014**			**2015**		
	Revenue (RMB'000)	**% of total**	**Volume '000 units**	**Revenue (RMB'000)**	**% of total**	**Volume '000 units**	**Revenue (RMB'000)**	**% of total**	**Volume '000 units**
Electric scooters[(1)]	2,607,007	51.5	1,594.6	3,244,385	55.7	1,869.3	3,483,214	54.2	2,044.6
Electric bicycles	1,253,472	24.8	1,137.2	1,405,911	24.1	1,141.6	1,455,416	22.6	1,276.4
Subtotal	**3,860,479**	**76.3**	**2,731.8**	**4,650,296**	**79.8**	**3,010.9**	**4,938,630**	**76.8**	**3,321.1**
Specialty vehicles	75,331	1.5	5.1	18,429	0.3	1.6	—	—	—
Batteries and chargers	1,027,624	20.3	Batteries: 2,284.6 Chargers: 1,961.6	1,109,598	19.1	Batteries: 2,446.4 Chargers: 2,293.6	1,427,914	22.2	Batteries: 3,115.1 Chargers: 2,117.0
Electric two-wheeled vehicle parts	95,766	1.9	N/A	45,819	0.8	N/A	62,643	1.0	N/A
Total	**5,059,200**	**100**	**—**	**5,824,142**	**100**	**—**	**6,429,187**	**100**	**—**

Notes:

(1) The revenue and sales volume of our international sales and have been included in the revenue and sales volume of electric scooters, as those sales represented a minor portion of our total sales during the Track Record Period and we consider most of the products sold to international customers as high-end models. For the years ended December 31, 2013, 2014 and 2015, revenue generated from our international sales accounted for 2.1%, 2.9% and 1.7% of our total revenue, respectively.

Cost of Sales

Our cost of sales consists of costs of raw materials, manufacturing overhead and direct labor costs.

We use various raw materials in our electric two-wheeled vehicle production process, including, primarily, batteries and chargers, electric motors, plastic parts, vehicle frames, tires, controllers and other components. Our raw materials cost accounted for 92.9%, 91.6% and 91.6% of our cost of sales for the years ended December 31, 2013, 2014 and 2015, respectively.

Manufacturing overhead costs primarily consist of depreciation of our property, plant and equipment, plastic component painting expenses and other manufacturing costs. Manufacturing overhead accounted for 4.9%, 6.0% and 5.9% of our cost of sales for the years ended December 31, 2013, 2014 and 2015, respectively.

Direct labor costs primarily consist of expenses related to wages, bonuses and various employee benefits paid to production personnel. Direct labor costs accounted for 2.2%, 2.4% and 2.5% of our cost of sales for the years ended December 31, 2013, 2014 and 2015, respectively.

The table below sets forth a breakdown of our cost of sales by type for the periods indicated:

	For the year ended December 31,					
	2013		2014		2015	
	Amount (RMB'000)	% of total	Amount (RMB'000)	% of total	Amount (RMB'000)	% of total
Raw Materials						
Batteries and chargers	1,019,523	23.1	1,075,449	22.1	1,365,738	26.2
Electric motors	668,947	15.2	736,627	15.2	751,971	14.4
Plastic carts	323,992	7.4	384,104	7.9	440,682	8.5
Vehicle frames	357,970	8.1	359,256	7.4	380,483	7.3
Tires	173,728	3.9	197,042	4.1	189,702	3.6
Controllers	158,374	3.6	177,787	3.7	182,458	3.5
Others	1,389,743	31.6	1,518,801	31.2	1,464,942	28.1
Subtotal	4,092,277	92.9	4,449,066	91.6	4,775,976	91.6
Manufacturing overhead	215,396	4.9	290,807	6.0	304,861	5.9
Direct labor	96,981	2.2	115,811	2.4	131,157	2.5
Total	**4,404,654**	**100.0**	**4,855,684**	**100.0**	**5,211,994**	**100.0**

Raw materials historically represent a significant majority of our cost of sales. During the Track Record Period, the absolute amounts of our raw materials and our total cost of sales have continued to increase as a result of the continued increase in our sales. However, our cost of sales as a percentage of revenue has continued to decrease, i.e. our gross margin has continued to increase, during the Track Record Period. For details, see "— Description of Selected Income Statement Line Items— Gross Profit" and "— Period to Period Comparison of Results of Operations".

The table below sets forth a breakdown of our cost of sales by product for the periods indicated:

	For the year ended December 31,					
Products	**2013**		**2014**		**2015**	
	Amount (RMB'000)	**% of total**	**Amount (RMB'000)**	**% of total**	**Amount (RMB'000)**	**% of total**
Electric scooters	2,147,128	48.7	2,554,835	52.6	2,606,385	50.0
Electric bicycles	1,101,270	25.0	1,166,256	24.0	1,191,087	22.9
Specialty vehicles	52,137	1.2	16,547	0.3	—	—
Batteries and chargers	1,019,523	23.1	1,075,449	22.1	1,365,738	26.2
Electric two-wheeled vehicle parts	84,596	2.0	42,597	1.0	48,784	0.9
Total	**4,404,654**	**100**	**4,855,684**	**100**	**5,211,994**	**100**

Gross Profit

Gross profit represents the excess of revenue over cost of sales. The following table sets forth the gross profit and gross profit margin of our products and the percentage of our total gross profit by product for the periods indicated:

	For the year ended December 31,								
Products	**2013**			**2014**			**2015**		
	Gross Profit (RMB'000)	**% of total**	**Gross Profit Margin**	**Gross Profit (RMB'000)**	**% of total**	**Gross Profit Margin**	**Gross Profit (RMB'000)**	**% of total**	**Gross Profit Margin**
Electric scooters	459,879	70.3	17.6%	689,550	71.3	21.3%	876,829	72.0	25.2%
Electric bicycles	152,202	23.3	12.1%	239,655	24.7	17.0%	264,329	21.7	18.2%
Specialty vehicles	23,194	3.5	30.8%	1,882	0.2	10.2%	—	—	—
Batteries and chargers	8,101	1.2	0.8%	34,149	3.5	3.1%	62,176	5.1	4.4%
Electric two-wheeled vehicle parts	11,170	1.7	11.7%	3,222	0.3	7.0%	13,859	1.2	22.1%
Total	**654,546**	**100**	**12.9%**	**968,458**	**100**	**16.6%**	**1,217,193**	**100**	**18.9%**

Other Income and Gains, Net

Other income and gains, net includes gains from the wealth management products included in the financial assets at fair value through profit or loss, bank interest income, government grants, net gain/(loss) on disposal of items of property, plant and equipment, dividend income from available-for-sale investments, gain on disposal of available-for-sale investments, and others.

Gains from the wealth management products included in the financial assets at fair value through profit or loss represent the realized and unrealized gains from wealth management products that we have purchased from certain reputable commercial banks. For details of wealth management products, please see section headed "Business — Cashflow and Investment Management".

Dividend income from available-for-sale investments and gain on disposal of available-for-sale investments represents the dividends received from, and gain on disposal of, our equity investments in several unlisted companies.

Government grants mainly represent subsidies obtained from governments, such as enterprise expansion subsidies, subsidies for exports of products, research and development subsidies, awards for our contributions to the local economy and awards for promotion of energy-efficient motors. During the Track Record Period, we did not breach any conditions relating to the government grants we received. There are no unfulfilled conditions or other contingencies relating to these government grants that have been recognized in our financial statements of profit or loss.

The following table sets forth a breakdown of our other income and gains, net for the periods indicated:

	For the year ended December 31,		
Other income and gains, net	**2013**	**2014**	**2015**
	Amount (RMB'000)	**Amount (RMB'000)**	**Amount (RMB'000)**
Gains from the wealth management products included in the financial assets at fair value through profit or loss	10,704	23,177	42,651
Bank interest income	7,031	16,820	19,180
Government grants	6,372	26,478	14,138
Net gain/(loss) on disposal of items of property, plant and equipment	(2,339)	(198)	988
Dividend income from available-for-sale investments	4,344	4,400	—
Gain on disposal of available-for-sale investments	—	3,738	—
Others	1,072	6,865	8,813
Total	**27,184**	**81,280**	**85,770**

Selling and Distribution Expenses

Our selling and distribution expenses primarily include advertising and promotion expenses, logistic expenses as well as wages and salaries for sales personnel. For the years ended December 31, 2013, 2014 and 2015, our selling and distribution expenses were RMB275.8 million, RMB349.4 million and RMB453.5 million, respectively, equal to 5.5%, 6.0% and 7.1% of our revenue for those periods, respectively. The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	For the year ended December 31,		
Selling and Distribution Expenses	**2013**	**2014**	**2015**
	Amount (RMB'000)	**Amount (RMB'000)**	**Amount (RMB'000)**
Advertising and promotion expenses	233,778	240,879	297,265
Logistic expenses	17,916	42,595	67,241
Wages and salaries and other welfare payments	9,596	36,777	44,819
Travelling expenses	6,525	16,402	29,761
Depreciation of items of property, plant and equipment	2,389	2,902	2,593
Others	5,588	9,835	11,865
Total	**275,792**	**349,390**	**453,544**

Administrative Expenses

Our administrative expenses primarily include research and development costs, wages and salaries for administrative personnel, depreciation and amortization, professional fees, office expenses, taxation, conference and travelling expenses and equity-settled share award expense. Equity-settled share award expense represent the expenses related to our allotting and issuing shares to senior management in recognition of their contributions to the Group. Please see "History, Development and Reorganization — Reorganization — Offshore Reorganization — Step 1: Establishment of the offshore shareholding structure — the Company" for more details. Taxation represents land use tax, real estate tax and stamp duty. For the years ended December 31, 2013, 2014 and 2015, our administrative expenses were RMB192.2 million, RMB394.6 million and RMB358.6 million, equal to 3.8%, 6.8% and 5.6% of our

revenue for those periods, respectively. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	For the year ended December 31,		
Administrative Expenses	**2013**	**2014**	**2015**
	Amount (RMB'000)	**Amount (RMB'000)**	**Amount (RMB'000)**
Research and development costs	83,342	133,812	133,679
Wages and salaries, social and other welfare payments	49,943	84,625	101,375
Professional fees[(1)]	7,842	18,201	36,523
Taxation	9,326	14,243	10,917
Office expenses	9,178	15,768	15,981
Conference and travelling expenses	7,472	14,845	13,630
Depreciation and amortization	16,556	23,951	31,253
Equity-settled share award expense	—	75,574	—
Others	8,575	13,597	15,170
Total	**192,234**	**394,616**	**358,528**

Notes:

(1) Our professional fees for 2013, 2014, and 2015 included [**REDACTED**] *expenses of RMB*[**REDACTED**]*, RMB*[**REDACTED**] *million and RMB*[**REDACTED**] *million, respectively.*

Finance Costs

Finance costs represent interest on bank loans. For the years ended December 31, 2013, 2014 and 2015, our finance costs were RMB427,000, RMB251,000 and RMB24,000, respectively.

Share of Profits of An Associate

Share of profits of an associate represented the profits attributable to us from our previously-held equity interest in Wuxi Xishan District Da Zhong Nong Cun Micro-credit Co. Ltd. ("Wuxi Micro-credit"). For the years ended December 31, 2013, 2014 and 2015, our share of the profits of Wuxi Micro-credit was RMB12.2 million, RMB1.2 million and nil, respectively. We disposed of our interest in Wuxi Micro-credit on June 30, 2014 as part of our spin-off of certain non-core assets in the demerger of Jiangsu Yadea pursuant to the Reorganization. For more details, please refer to section headed "History, Development and Reorganization — Reorganization — Onshore Reorganization".

Income Tax Expense

Income tax expense represents our total current corporate income tax and deferred tax expenses. In the years ended December 31, 2013, 2014 and 2015, our effective income tax rate was 22.8%, 27.1% and 23.5%, respectively. For the years ended December 31, 2013, 2014 and 2015, our income tax expenses in relation to our international sales were RMB2.6 million, RMB1.6 million and RMB2.7 million, respectively. Our effective income tax rate was relatively high in 2014 primarily due to equity-settled share award expense for share awards that we made to our senior management in 2014 which were not deductible from taxable income. Excluding the effect of the equity-settled award expense, the effective income tax rate would have been 21.8% for 2014. During the Track Record Period, we paid all relevant taxes and did not have any material tax disputes with the relevant tax authorities. The following table sets forth a breakdown of our income tax expenses for the periods indicated:

	For the year ended December 31,		
	2013	2014	2015
	(RMB'000)	(RMB'000)	(RMB'000)
Current — mainland China corporate income tax	40,063	83,044	119,834
Deferred tax	11,319	195	(4,434)
Total tax charge for the year	**51,382**	**83,239**	**115,400**

Our PRC subsidiaries are subject to income tax rate of 25%, with the exception of some of our PRC subsidiaries which were entitled to a preferential income tax rate of 15% during the Track Record Period. Please see "— Significant Factors Affecting Our Results of Operations — Taxation" for more details.

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, we are not subject to any income tax in the Cayman Islands or the British Virgin Islands. Our subsidiaries incorporated in Hong Kong were subject to income tax at the rate of 16.5% during the Track Record Period. No provision for Hong Kong profits tax has been made as we had no assessable profits arising in Hong Kong during the Track Record Period.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

2015 Compared to 2014

Revenue. Revenue was RMB6,429.2 million in 2015, which represented an increase of RMB605.1 million, or 10.4%, from RMB5,824.1 million in 2014. This increase was primarily attributable to an increase in the revenue from the sales of our electric two-wheeled vehicles and batteries and chargers.

Revenue from sales of our electric scooters increased by RMB238.8 million, or 7.4%, from RMB3,244.4 million in 2014 to RMB3,483.2 million in 2015; and revenue from sales of our electric bicycles increased by RMB49.5 million, or 3.5%, from RMB1,405.9 million in 2014 to RMB1,455.4 million in 2015. The increases were due to increases in the sales volumes of our electric scooters and electric bicycles which were offset in part by decreases in the average selling prices of our electric two-wheeled vehicles during 2015.

Our sales volume of electric scooters increased by 9.4% from 1,869,290 units in 2014 to 2,044,610 units in 2015; and our sales volume of electric bicycles increased by 11.8% from 1,141,646 units in 2014 to 1,276,448 units in 2015. We believe that the increases in the sales volumes of our electric two-wheeled vehicles were primarily due to (i) the decreased average selling price of our electric two-wheeled vehicles as we offered discounts to our distributors as part of promotions to capture additional market share and in response to market competition, and (ii) our marketing and advertising efforts. The average selling price of our electric scooters decreased from RMB1,736 in 2014 to RMB1,704 in 2015. The average selling price of our electric bicycles decreased from RMB1,231 in 2014 to RMB1,140 in 2015. In addition, the increase in the sales volume of our electric bicycles in 2015 was also partially attributable to our increased electric bicycle production capacity at our newly relocated Tianjin production facilities.

The increase in our total revenue in 2015 as compared to 2014 was also partially attributable to the increase of RMB318.3 million, or approximately 28.7% in the revenue derived from batteries and chargers, from RMB1,109.6 million in 2014 to RMB1,427.9 million in 2015 which was primarily related to (i) the increased sales volume of our electric two-wheeled vehicles, and (ii) our increased marketing efforts to encourage distributors to purchase batteries from us to ensure better performance of our electric two-wheeled vehicle products.

Cost of sales. Cost of sales was RMB5,212.0 million in 2015, which represented an increase of RMB356.3 million, or 7.3%, from RMB4,855.7 million in 2014. This increase in cost of sales was mainly attributable to an increase of RMB326.9 million, or 7.3%, in the cost of raw materials, from RMB4,449.1 million in 2014 to RMB4,776.0 million in 2015. The increases in our cost of sales generally and our cost of raw materials in particular were mainly related to the overall increase in our total sales volume. However, the increase in our cost of raw materials was not as significant as the increase in our sales volume due to a decrease in the average prices of our raw materials. This decrease in the average prices of our raw materials was primarily due to a decrease in the market prices of these raw materials. Our direct labor cost also increased by 13.3% from RMB115.8 million in 2014 to RMB131.2 million in 2015, primarily due to the increased average salaries and compensation of our production staff which was also generally in line with the increase in the sales volume of our electric two-wheeled vehicles.

Gross profit and gross profit margin. As a result of the foregoing, our gross profit increased by RMB248.7 million, or 25.7%, from RMB968.5 million in 2014 to RMB1,217.2 million in 2015.

Our gross profit margin increased from 16.6% in 2014 to 18.9% in 2015, mainly attributable to the increase in the gross profit margin of our electric two-wheeled vehicles. The increase in the gross profit margin of our electric two-wheeled vehicles was mainly due to (i) a decrease in the raw material procurement prices of electric motors, plastic parts, and vehicles frames, (ii) the scale effect relating to purchase of raw materials (i.e., increased economics of scale) brought by our increased sales volume, and (iii) our sales of optimized electric two-wheeled vehicle models designed for enhanced raw material use efficiency. The foregoing factors for the increase in our gross profit margin were partially offset by the decrease in the average selling prices of our electric two-wheeled vehicles as we offered discounts to distributors for certain of our products as part of promotions to capture additional market share and in response to market competition, as competitors were able to lower their prices due to the decreased cost of raw materials. The average selling price of our electric scooters decreased from RMB1,736 in 2014 to RMB1,704 in 2015, the average selling price of our electric bicycles decreased from RMB1,231 in 2014 to RMB1,140 in 2015.

The increase in our gross profit margin in 2015 was also partially attributable to the increase in the gross profit margin of batteries and chargers for the same period, primarily due to the decrease in the procurement prices of batteries.

Other income and gains, net. Our other income and gains, net was RMB85.8 million in 2015, which represented an increase of RMB4.5 million, or 5.5%, from RMB81.3 million in 2014. This increase was primarily due to (i) an increase of RMB19.5 million in gains from the wealth management products included in the financial assets at fair value through profit or loss as we increased our total investment in wealth management products in 2015, and (ii) an increase of RMB2.4 million in bank interest income, reflecting an increase in our total deposits under bank acceptance bills due to our increased use of bank acceptance bills in 2015, which were partially offset by (i) a decrease of RMB12.3 million in discretionary government grant, and (ii) a decrease of RMB4.4 million in dividend income from available-for-sale investments and a decrease of RMB3.7 million in gain on disposal of available-for-sale investments as a result of our one-off disposals of our entire equity investments in several unlisted companies in 2014.

Selling and distribution expenses. Selling and distribution expenses were RMB453.5 million in 2015, which represented an increase of RMB104.1 million, or 29.8%, from RMB349.4 million in 2014. This increase was primarily attributable to (i) an increase of RMB56.4 million in advertising and promotion expenses used for a series of advertising and promotional activities (such as advertising our products during certain popular prime-time Chinese television programs and in the high speed rail network and engaging popular celebrities as our product spokespersons), (ii) an increase of RMB24.6 million in logistics expenses primarily due to our paying the freight shipping charges for an increased proportion of our sales as part of promotions offered to certain distributors, (iii) an increase of RMB13.4 million in travelling expenses related to the increase in our marketing efforts, and (iv) an increase of RMB8.0 million in wages and salaries and other welfare payments for our sales team in 2015 as a result of the increased average staff salaries and bonuses. As a percentage of revenue, our selling and distribution expenses increased to 7.1% in 2015 from 6.0% in 2014.

Administrative expenses. Administrative expenses were RMB358.5 million in 2015, which represented a decrease of RMB36.1 million, or 9.1%, from RMB394.6 million in 2014. This decrease was primarily attributable to the equity-settled share award expense of RMB75.6 million incurred in 2014 as a result of the shares granted to senior management in recognition of their contributions to our Group, which was partially offset by (i) an increase of RMB18.3 million in professional fees primarily relating to professional parties engaged in relation to the [**REDACTED**], (ii) an increase of RMB16.8 million in wages and salaries, social and other welfare payments as a result of the increased average staff salaries and bonuses and (iii) an increase of RMB7.3 million in depreciation and amortization. As a percentage of revenue, our administrative expenses decreased to 5.6% in 2015 from 6.8% in 2014.

Finance costs. Our finance costs were RMB24,000 in 2015 as compared to RMB251,000 in 2014, as we had a lower average bank borrowing balance in 2015.

Share of profits of an associate. Share of profits of an associate was nil for 2015 as compared to RMB1.2 million for 2014. The decrease was attributable to our disposing of our interest in Wuxi Micro-credit on June 30, 2014 as part of the spin-off of certain non-core assets in the demerger of Jiangsu Yadea pursuant to the Reorganization, which was our only shareholding in an associate. As a result, we did not record any income from share of profits of an associate in 2015.

Profit before tax. As a result of the foregoing, our profit before tax increased by RMB184.2 million, or 60.1%, from RMB306.7 million in 2014 to RMB490.9 million in 2015.

Income tax expense. Income tax was RMB115.4 million in 2015, which represented an increase of RMB32.2 million, or 38.7%, from RMB83.2 million in 2014. This increase was primarily due to the increase in profit before tax.

Profit for the year. As a result of the foregoing, profit for the year increased by RMB152.0 million, or 68.0%, from RMB223.5 million in 2014 to RMB375.5 million in 2015.

Adjusted net profit for the year. Our adjusted net profit for 2015 was RMB350.7 million, representing a 24.1% increase from RMB282.6 million for 2014. Please refer to the section headed "— Non-HKFRS Measure" for further details regarding the calculation of adjusted net profit.

2014 Compared to 2013

Revenue. Revenue was RMB5,824.1 million in 2014, which represented an increase of RMB764.9 million, or 15.1%, from RMB5,059.2 million in 2013. This increase was primarily attributable to an increase in revenue from the sales of our electric scooters and electric bicycles.

Revenue from sales of our electric scooters increased by RMB637.4 million, or 24.4%, from RMB2,607.0 million in 2013 to RMB3,244.4 million in 2014; and revenue from sales of our electric bicycles increased by RMB152.4 million, or 12.2%, from RMB1,253.5 million in 2013 to RMB1,405.9 million in 2014. The increases were due to increases in both the average selling prices and sales volumes of our electric scooters and electric bicycles.

The average selling price of our electric scooters increased 6.2%, from RMB1,635 in 2013 to RMB1,736 in 2014. The average selling price of our electric bicycles increased 11.7%, from RMB1,102 in 2013 to RMB1,231 in 2014. We believe that the increase in the average selling prices of our electric two-wheeled vehicles was primarily due to the increasing demand for electric two-wheeled vehicles in China, our introduction of new models with advanced performance characteristics and higher average unit prices as well as the increasing popularity of our products in the market.

The sales volume of our electric scooters increased 17.2%, from approximately 1,594,618 units in 2013 to approximately 1,869,290 units in 2014; and the sales volume of our electric bicycles increased 0.4%, from approximately 1,137,225 units in 2013 to 1,141,646 units in 2014. We believe the increases in the sales volumes of our electric two-wheeled vehicles were primarily due to (i) increased recognition of our brand among consumers, (ii) the continued expansion of our distribution network (as the number of our domestic distributors increased from 1,549 in 2013 to 1,790 in 2014), (iii) our efforts to improve distributor points of sales and (iv) increased demand for electric two-wheeled vehicles in China. Further, we believe that the increasing preference among consumers for the advanced-performance of electric scooters was also one of the main reasons for the increase in the sales volume of our electric scooters.

The increase in our total revenue in 2014 was also partially attributable to the increase in the revenue derived from batteries and chargers by RMB82.0 million or 8.0%, from RMB1,027.6 million to RMB1,109.6 million, which was generally in line with and related to the increase in the sales volume of our electric two-wheeled vehicles.

Cost of sales. Cost of sales was RMB4,855.7 million in 2014, which represented an increase of RMB451.0 million, or 10.2%, from RMB4,404.7 million in 2013. This increase in cost of sales was mainly attributable to an increase of RMB356.8 million, or 8.7%, in the cost of raw materials from RMB4,092.3 million in 2013 to RMB4,449.1 million in 2014, which was generally from the increase in the total sales volume of our electric two wheeled vehicles and batteries and chargers.

Gross profit and gross profit margin. As a result of the foregoing, our gross profit increased by RMB313.9 million, or 48.0%, from RMB654.5 million in 2013 to RMB968.5 million in 2014.

Our gross profit margin increased from 12.9% in 2013 to 16.6% in 2014. The increase in our gross profit margin was mainly due to the increase in the prices of our electric scooters and electric bicycles and increased control of growth in our cost of sales. The average selling price of our electric scooters increased from RMB1,635 in 2013 to RMB1,736 in 2014. The average selling price of our electric bicycles increased from RMB1,102 in 2013 to RMB1,231 in 2014.

The increase in the gross profit margin of our electric scooters and electric bicycles from 2013 to 2014 was also attributable to the continued increase in the proportion of the sales made up by electric scooters, which have higher gross profit margins than those of our other products. We increased our efforts to develop and promote our electric scooters. The sales volume of our electric scooters as a percentage of the total sales volume of our electric scooters and electric bicycles increased from 58.4% in 2013 to 62.1% in 2014.

Other income and gains, net. Our other income and gains, net was RMB81.3 million in 2014, which represented an increase of RMB54.1 million, or 198.9%, from RMB27.2 million in 2013. This increase was primarily due to (i) an increase of RMB20.1 million in discretionary government grant, primarily as a result of a discretionary financial subsidy awarded to us for the promotion of energy-efficient motors in July 2014, (ii) an increase of RMB12.5 million in gains from the wealth management products included in the financial assets at fair value through profit or loss, as we increased our total investment in wealth management products as compared to 2013 and (iii) an increase of RMB9.8 million in bank interest income, reflecting an increase in our total deposits relating to bank acceptance bills due to our increasing use of bank acceptance bills in 2014.

Selling and distribution expenses. Selling and distribution expenses were RMB349.4 million in 2014, which represented an increase of RMB73.6 million, or 26.7%, from RMB275.8 million in 2013. This increase was primarily attributable to (i) an increase of RMB24.7 million in logistic expenses in 2014, primarily as we paid freight for an increased portion of our sales to distributors as part of promotions offered to certain distributors, and (ii) an increase of RMB27.2 million in wages and salaries for our sales team in 2014 as a result of an increase in headcount primarily related to the expansion of our distribution network and increased staff salaries and bonuses. As a percentage of revenue, our selling and distribution expenses increased to 6.0% in 2014 from 5.5% in 2013.

Administrative expenses. Administrative expenses were RMB394.6 million in 2014, which represented an increase of RMB202.4 million, or 105.3%, from RMB192.2 million in 2013. This increase was primarily attributable to (i) equity-settled share award expense of RMB75.6 million as a result of shares that we granted to senior management in recognition of their contributions to our Group, (ii) an increase of RMB50.5 million in research and development costs as a result of the increased procurement of materials and molds for the new research projects in our technology research and development center in Zhejiang and Tianjin, and (iii) an increase of RMB34.7 million in wages and salaries, social welfare and other benefits as a result of an increase in headcount relating to the expansion of our business and increased average staff salaries and bonuses. This increase in administrative expenses was also attributable to an increase in professional fees primarily paid to professional parties engaged in connection with the [**REDACTED**] and an increase in consulting fees primarily relating to our engaging an internal control consultant. As a percentage of revenue, our administrative expenses increased to 6.8% in 2014 from 3.8% in 2013.

Finance costs. Finance costs remained relatively small, decreasing from RMB427,000 in 2013 to RMB251,000 in 2014 as our total outstanding bank borrowings decreased.

Share of profits of an associate. Share of profits of an associate was RMB1.2 million in 2014, which represented a decrease of RMB11.0 million, or 90.2%, from RMB12.2 million in 2013. The decrease was attributable to our disposing of our interest in Wuxi Micro-credit on June 30, 2014 in our spin-off of certain non-core assets in the demerger of Jiangsu Yadea as part of the Reorganization, which was our only shareholding in an associate. As a result, we recorded income from share of profits of an associate only between January 1, 2014 and June 30, 2014 in 2014, whereas we recorded income from Wuxi Micro-credit for the whole year in 2013. The share of profits of an associate decreased in 2014 also because Wuxi Micro-credit recorded smaller profit during the first half of 2014 as compared to the same period in the preceding year.

Profit before tax. As a result of the foregoing, our profit before tax increased by RMB81.2 million, or 36.0%, from RMB225.5 million in 2013 to RMB306.7 million in 2014.

Income tax expense. Income tax expense was RMB83.2 million in 2014, which represented an increase of RMB31.8 million, or 61.9%, from RMB51.4 million in 2013. This increase was primarily due to an increase in profit before tax.

Profit for the year. As a result of the foregoing, profit for the year increased by RMB49.4 million, or 28.4%, from RMB174.1 million in 2013 to RMB223.5 million in 2014.

Adjusted net profit for the year. Our adjusted net profit in 2014 was RMB282.6 million, representing a 72.5% increase from RMB163.8 million 2013. Please see "— Non-HKFRS Measure" for further details regarding the calculation of adjusted net profit.

CERTAIN BALANCE SHEET ITEMS

Consolidated Statements of the Financial Position of the Group

	As of December 31,		
	2013	2014	2015
	(RMB'000)	(RMB'000)	(RMB'000)
NON-CURRENT ASSETS			
Property, plant and equipment	447,447	584,301	679,709
Prepaid land lease payments	184,709	225,845	220,612
Intangible assets	11,262	12,408	14,162
Investment in an associate	139,081	—	—
Available-for-sale investments	75,800	—	8,223
Prepayments	4,008	3,041	84,600
Deferred tax assets	13,963	13,768	18,202
Total non-current assets	**876,270**	**839,363**	**1,025,508**
CURRENT ASSETS			
Inventories	361,163	159,621	141,491
Trade and bills receivables	55,571	111,924	183,225
Prepayments, deposits and other receivables	119,529	90,680	212,097
Due from related parties	40,000	—	—
Financial assets at fair value through profit or loss	345,600	555,000	861,700
Pledged bank deposits	504,384	659,401	779,056
Cash and cash equivalents	283,087	501,322	786,691
Total current assets	**1,709,334**	**2,077,948**	**2,964,260**

	As of December 31,		
	2013	2014	2015
	(RMB'000)	(RMB'000)	(RMB'000)
CURRENT LIABILITIES			
Trade and bills payables	1,614,800	2,106,220	2,880,431
Other payables and accruals	190,215	265,448	256,740
Interest-bearing bank borrowings	10,000	—	12,997
Due to a related party	49,000	—	—
Due to the Controlling Shareholders	73,474	—	—
Tax payable	20,866	29,070	35,603
Total current liabilities	**1,958,355**	**2,400,738**	**3,185,771**
NET CURRENT LIABILITIES	**(249,021)**	**(322,790)**	**(221,511)**
TOTAL ASSETS LESS CURRENT LIABILITIES	**627,249**	**516,573**	**803,997**
NON-CURRENT LIABILITIES			
Other payables	—	—	22,160
NET ASSETS	**627,249**	**516,573**	**781,837**
EQUITY			
Equity attributable to owners of the parent			
Share capital	—	135	135
Reserves	627,249	516,438	781,702
Total equity	**627,249**	**516,573**	**781,837**

Inventories

The following table sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31,		
Inventories	2013	2014	2015
	Amount (RMB'000)	Amount (RMB'000)	Amount (RMB'000)
Raw materials	291,252	120,424	101,301
Finished goods	69,911	39,197	40,190
Total	**361,163**	**159,621**	**141,491**

The balance of our inventories decreased by 55.8% from RMB361.2 million as of December 31, 2013 to RMB159.6 million as of December 31, 2014, further decreased by RMB18.1 million, or approximately 11.3%, to RMB141.5 million as of December 31, 2015, and primarily due to the decrease in the balance of our raw materials as a result of our increased operational efficiency and improvement in inventory management, partly as a result of our implementation of our Lean Production System. For details of our Lean Production System, please see "Business — Our Raw Materials and Suppliers — Inventory Control".

Our relatively high balance of finished goods of RMB69.9 million as of December 31, 2013 was primarily due to our increased production at the end of 2013 in preparation for increased consumer demand in the Chinese New Year holiday in 2014 as the Chinese New Year in 2014 was earlier than usual and our factories are closed during the Chinese New Year.

The following table sets forth our inventory turnover days for the periods indicated:

	For the year ended December 31,		
	2013	**2014**	**2015**
	(days)	**(days)**	**(days)**
Inventory turnover days[(1)]	31.4	19.6	10.5

Note:

(1) Inventory turnover days for 2013, 2014 and 2015 were calculated by dividing the average of the opening and closing balances of inventories for the relevant period by our cost of sales for the same period and multiplying the quotient by 365 days.

Our inventory turnover days decreased from 31.4 days in 2013 to 19.6 days in 2014, and further decreased to 10.5 days for 2015, as we improved our inventory management system during the Track Record Period. Please see "Business — Our Raw materials and Suppliers — Inventory Control" in this document for more details.

Trade and Bills Receivables

The following table sets forth our trade and bills receivables as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	Amount (RMB'000)	Amount (RMB'000)	Amount (RMB'000)
Trade receivables	40,667	105,749	181,799
Impairment	(4,090)	(2,949)	(1,952)
	36,577	102,800	179,847
Bills receivable	18,994	9,124	3,378
Balance	**55,571**	**111,924**	**183,225**

Our trade and bill receivables primarily relate to trade and bills receivables for goods sold to our third party distributors in the ordinary course of business. We normally collect payment from our third-party distributors in advance of pick-up by the distributors. In order to further increase our market share and strengthen our market position, in certain cases, we granted a short credit term of generally no more than 180 days to selected distributors with established business relationships and good credit histories on a case-by-case basis.

As of December 31, 2015, our balance of trade and bills receivables was RMB183.2 million, representing an increase of RMB71.3 million, or approximately 63.7%, from RMB111.9 million as of December 31, 2014. The increase was primarily attributable to an increase of RMB76.1 million in trade receivables which was due to (i) our offering higher credit limits to selected distributors with good credit histories in 2015 and (ii) an increase in our sales in 2015. The increased number of selected distributors with good credit histories also partially contributed to this increase in trade receivables.

As of December 31, 2014, the balance of our trade and bills receivables was RMB111.9 million, representing an increase of RMB56.3 million, or approximately 101.3%, from RMB55.6 million as of December 31, 2013. The increase was mainly attributable to the increase in the balance of our trade receivables, as a result of (i) the increase in our sales of goods and (ii) our offering more generous credit terms to selected distributors. The increased number of selected distributors with good credit histories also partially contributed to this increase in trade receivables.

The following table sets forth our trade and bills receivables turnover days for the periods indicated.

	For the year ended December 31,		
	2013	**2014**	**2015**
	(days)	**(days)**	**(days)**
Trade and bills receivables turnover days[(1)]	4.7	5.2	8.4

Note:

(1) Trade and bills receivables turnover days for 2013, 2014 and 2015 were calculated by dividing the average of the opening and closing balances of trade and bills receivables for the relevant periods by our revenue for the same period and multiplying the quotient by 365 days.

Trade and bills receivables turnover days increased from 5.2 days in 2014 to 8.4 days in 2015, primarily due to our granting higher credit limits to a greater number of selected distributors with good credit histories in 2015 in order to further increase our market share.

Trade and bills receivables turnover days remained relatively stable, increasing only slightly from 4.7 days in 2013 to 5.2 days in 2014, primarily due to increased sales to selected distributors with good credit histories who were granted longer credit terms of up to 180 days.

The following table sets out an aging analysis of our trade receivables as of the dates indicated.

	As of December 31,		
	2013	**2014**	**2015**
	Amount (RMB'000)	**Amount (RMB'000)**	**Amount (RMB'000)**
Within 6 months	25,157	101,121	177,456
More than 6 months but less than a year	2,265	318	—
Over a year	9,155	1,361	2,391
	36,577	**102,800**	**179,847**

As of the Latest Practicable Date, we had successfully collected RMB95.2 million from the outstanding balance of our trade receivables as of December 31, 2015.

We use credit instruments (i.e. bank acceptance bills) issued by banks in China obtained in the transactions with our customers to settle certain of our trade payables with our suppliers ("**Derecognized Bills**"). These Derecognized Bills generally have terms of one to six months and the payee has a right of recourse against us if the bank fails to make payment under the instrument. As of December 31, 2013, 2014 and 2015, our Derecognized Bills amounted to RMB484.9 million, RMB320.0 million and RMB[104.3] million, respectively.

When holding a bank acceptance bill, we are primarily exposed to credit risks relating to the issuing banks' default in payments and interest rate risks relating to market interest rate fluctuations. Upon the transfer of the bank acceptance bills, interest rate risks are transferred to the transferees, whereas the credit risks are retained by us because the transferees have rights of recourse against us under the PRC Law of Negotiable Instruments. Our Directors believe that, as the issuing banks of these Derecognized Bills are all creditworthy banks, the risk of default by these banks is relatively remote. Accordingly, we believe that we had transferred substantially all risks and rewards (representing primarily interest rate risks) of the bills to the transferees as of December 31, 2013, 2014 and 2015. We therefore derecognized the relevant bank acceptance bills from our consolidated financial statements. As advised by our PRC Legal Advisors, our use of Derecognized Bills obtained from our customers to settle payments with our suppliers complies with applicable PRC laws and regulations.

Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables consist of prepayments to suppliers, deposits, prepayments for advertising, VAT recoverable, prepaid decoration expenses, prepayments related to the [**REDACTED**] of the Company's shares and others. Our prepayments, deposits and other receivables amounted to RMB119.5 million, RMB90.7 million and RMB212.1 million as of December 31, 2013, 2014 and 2015, respectively. The following table sets forth a breakdown of our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,		
	2013	**2014**	**2015**
	RMB'000	**RMB'000**	**RMB'000**
Prepayments to suppliers	43,733	38,753	83,949
Deposits	15,440	15,195	20,508
Prepayments for advertising	46,383	24,074	44,406
Prepaid decoration expenses	—	—	44,438
VAT recoverable	4,638	5,959	5,202
Prepayments related to the [**REDACTED**] of the Company's shares	550	2,089	7,794
Others	8,785	4,610	5,800
Total	**119,529**	**90,680**	**212,097**

As of December 31, 2015, our prepayments, deposits and other receivables was RMB212.1 million, representing an increase of RMB121.4 million, or approximately 133.8%, from RMB90.7 million as of December 31, 2014. This increase was mainly attributable to (i) an increase of RMB45.1 million in the balance of prepayments to suppliers primarily as we made prepayment to selected suppliers to establish long-term relationships with them and to ensure the supply stability, (ii) an increase of RMB44.4 million in the balance of prepaid decoration expenses, and (iii) an increase of RMB20.3 million in prepayments for advertising, mainly attributable to the prepayment for our TV advertising campaign during the Chinese New Year of 2016. Due to the continuing implementation of our distributor points of sales overhaul campaign, we invested significant amounts in the overhaul campaign by providing non-cash incentives in forms of decoration materials to the distributors in 2015. The non-cash incentives which are provided as part of current or future sales transactions, are initially capitalized as prepaid decoration expenses, and are subsequently amortized and deducted against revenue over the applicable periods in which the sales are related. For further details relating to the prepaid decoration expenses, please see note 21 in the accountants' report set out in Appendix I to this document.

As of December 31, 2014, our prepayments, deposits and other receivables was RMB90.7 million, representing a decrease of RMB28.8 million, or approximately 24.1%, from RMB119.5 million as of December 31, 2013. This decrease was mainly attributable to a decrease of RMB22.3 million in the balance of prepayments for advertising due to a decrease in prepayments for television advertisements as of December 31, 2014, which was partially offset by an increase of RMB1.5 million in the balance of prepayments related to the [**REDACTED**] of the Company's shares.

Pledged Bank Deposits

Our pledged bank deposits amounted to RMB504.4 million, RMB659.4 million and RMB779.1 million as of December 31, 2013, 2014 and 2015, respectively.

Our balance of pledged bank deposits increased from RMB504.4 million as of December 31, 2013, RMB155.0 million, or approximately 30.7%, to RMB659.4 million as of December 31, 2014, and further increased by RMB119.7 million, or approximately 18.2%, to RMB779.1 million as of December 31, 2015. The increases were mainly attributable to deposits pledged with banks for bills payable due to our increasing use of bank acceptance bills for settling payments with our suppliers.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss represent the fair value of wealth management products and derivative financial instruments of foreign exchange swaps. Our financial assets at fair value through profit or loss amounted to RMB345.6 million, RMB555.0 million and RMB861.7 million as of December 31, 2013, 2014 and 2015, respectively. The following table sets forth a breakdown of our financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,		
	2013	**2014**	**2015**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**
Wealth management products, at fair value	345,600	555,000	861,700

Our balance of financial assets at fair value through profit or loss increased by RMB306.7 million, or approximately 55.3%, from RMB555.0 million as of December 31, 2014 to RMB861.7 million as of December 31, 2015, primarily due to our increased total investment in wealth management products in 2015 as part of our overall cash flow management.

Our balance of financial assets at fair value through profit or loss increased by RMB209.4 million, or approximately 60.6%, from RMB345.6 million as of December 31, 2013 to RMB555.0 million as of December 31, 2014, due to increases in the aggregate principal amounts of our wealth management products.

During the Track Record Period, we invested in wealth management products and foreign exchange swaps to improve our cash management and for investment returns, particularly when we had significant cash on hand from our operations. For details, please see section headed "Business — Cashflow and Investment Management" in this document.

Trade and Bills Payables

Our trade and bills payables primarily relate to purchases of raw materials from our suppliers. Our raw material suppliers typically require payment within 15 to 90 days. During the Track Record Period, we increased our use of bank acceptance bills to make payments to our suppliers. Bank acceptance bills typically have payment periods of six months. Accordingly, our use of bank acceptance bills allows us to extend the timing of payment for an additional six months beyond the normal credit periods provided by our suppliers. The following table sets out a breakdown of our trade and bills payables as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	Amount (RMB'000)	Amount (RMB'000)	Amount (RMB'000)
Trade payables	701,951	794,727	940,537
Bills payables	912,849	1,311,493	1,939,894
Total	**1,614,800**	**2,106,220**	**2,880,431**

Our trade and bills payables increased by RMB774.2 million, or approximately 36.8%, from RMB2,106.2 million as of December 31, 2014 to RMB2,880.4 million as of December 31, 2015, due to an increase of RMB628.4 million in bills payable as of December 31, 2015 due to our increased use of bank acceptance bills to settle payments with suppliers and an increase of RMB145.8 million in trade payables as of December 31, 2015 due to our increased purchases of raw materials related to the growth in the sales volume of our products in 2015.

Our trade and bills payables increased by RMB491.4 million, or approximately 30.4%, from RMB1,614.8 million as of December 31, 2013 to RMB2,106.2 million as of December 31, 2014. This increase in our trade and bills payables was primarily attributable to the increase in our bills payable, from RMB912.8 million as of December 31, 2013 to RMB1,311.5 million as of December 31, 2014. The increase in our trade and bill payables was also partially attributable to the increased purchases of raw materials due to the growth in the sales volume of our products from 2013 to 2014.

The continuing increases in our bills payable was due to our increasing use of bank acceptance bills, which typically have payment periods of 180 days. We believe that the willingness of banks to issue and our suppliers to accept bank acceptance bills evidences the strength of our creditworthiness and established relationships.

The following table sets forth the balances of our trade and bills payables turnover days for the periods indicated:

	For the year ended December 31,		
	2013	**2014**	**2015**
	(days)	**(days)**	**(days)**
Trade and bills payables turnover days[(1)] . .	111.7	139.9	174.6

Note:

(1) Trade and bills payables turnover days for 2013, 2014 and 2015 have been calculated by dividing the average of the opening and closing balances of trade and bills payables for the relevant period by our cost of sales for the same period and multiplying the quotient by 365 days.

Trade and bills payables turnover days increased from 111.7 days in 2013 to 139.9 days in 2014 and further to 174.6 days in 2015 mainly reflecting our increased use of bank acceptance bills during the Track Record Period.

Certain of our bills payables were guaranteed. The following table sets forth the balances of our guaranteed bill payables as of the date indicated:

	As of December 31,		
	2013	**2014**	**2015**
Bill payables – guaranteed by	**Amount (RMB'000)**	**Amount (RMB'000)**	**Amount (RMB'000)**
Mr. Dong and Ms. Qian	230,182	302,758	–
Mr. Dong, Ms. Qian and Mr. Jiazhong Wang[(1)]	–	28,751	–

Note:

(1) Mr. Jiazhong Wang is the executive director of Tianjin Industrial and Tianjin Weiye.

As of the Latest Practicable Date, all of the guarantees provided in relation to the bill payables described above had been released or had expired and there were no remaining guarantees outstanding.

The following table sets out an aging analysis of our trade and bills payables as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	Amount (RMB'000)	Amount (RMB'000)	Amount (RMB'000)
Within 3 months	1,073,352	1,276,040	1,651,079
3 to 6 months	523,996	782,269	1,180,176
6 to 12 months	14,452	30,691	21,905
12 to 24 months	2,511	16,230	23,930
Over 24 months	489	990	3,341
Total	**1,614,800**	**2,106,220**	**2,880,431**

Our trade and bills payables aged more than 6 months primarily consist of (i) outstanding payments to our suppliers and (ii) retention money withheld from suppliers. Such amount increased from RMB17.5 million as of December 31, 2013 to RMB47.9 million as of December 31, 2014, primarily because beginning in January, 2014, as part of our enhanced internal control measures to ensure product quality, we implemented a policy of withholding retention money from more suppliers until the expiration of their after-sales service, which normally ranges up to 42 months after delivery. Our trade and bills payables aged more than 6 months further increased to RMB49.2 million as of December 31, 2015 primarily due to increased outstanding payments to our suppliers reflecting our deepening relationship with and increasing bargaining power vis-a-vis our suppliers as our business continued to expand and purchase volume continued to increase.

Other Payables and Accruals

Current Other Payables and Accruals

Our current other payables and accruals consist of advances from customers, payables for purchase of property, plant and equipment, staff payroll and welfare payables, sales rebate, other tax payable and others. Our current other payables and accruals amounted to RMB190.2 million, RMB265.4 million and RMB256.7 million as of December 31, 2013, 2014 and 2015, respectively. The following table sets forth a breakdown of our current other payables and accruals as of the dates indicated:

	As of December 31,		
	2013	**2014**	**2015**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**
Advances from customers	79,360	81,896	40,830
Payables for purchase of property, plant and equipment	28,128	50,689	55,298
Staff payroll and welfare payables	38,907	59,018	49,841
Other tax payable	13,223	34,103	62,491
Sales rebate	20,333	19,736	22,667
Deferred revenue	5,052	7,831	10,138
Others	5,212	12,175	15,475
Total	**190,215**	**265,448**	**256,740**

As of December 31, 2015, our current other payables and accruals was RMB256.7 million, representing a decrease of RMB8.7 million, or approximately 3.3%, from RMB265.4 million as of December 31, 2014. The decrease was mainly attributable to a decrease of RMB41.1 million in the balance of advances from customers mainly due to our offering more generous credit terms to distributors in 2015, which led to a decrease in advances from customers, which was partially offset primarily by an increase of RMB28.4 million in the balance of other tax payables relating to our increased VAT.

As of December 31, 2014, our other payables and accruals was RMB265.4 million, representing an increase of RMB75.2 million, or approximately 39.5%, from RMB190.2 million as of December 31, 2013. The increase was mainly attributable to (i) an increase of RMB20.9 million in the balance of other tax payable primarily due to the growth in our sales of goods, (ii) an increase of RMB22.6 million in the balance of payables for purchase of property, plant and equipment primarily related to the final outstanding payment owed to construction contractors for the construction of our Tianjin and Wuxi facilities, and (iii) an increase of RMB20.1 million in the balance of staff payroll and welfare payables primarily due to increases in our total number of employees and increased average salaries and benefits (which were in line with the expansion of our business).

Non-current Other Payables

Our non-current other payables represent deferred government subsidy. As of December 31, 2015, we recorded an amount of RMB22.2 million in the balance of deferred government subsidy in relation to a government subsidy granted to us in Ningbo. The relevant government subsidy policy set an ultimate target for a three-year assessment period from 2014 to 2016 and phased targets for each year during the assessment period. We are entitled to receive subsidies each year that we achieve the phased targets for the years and to receive the full subsidy amount when we achieve the ultimate target at the end of the three-year assessment period. However, if we fail to satisfy the ultimate target we will be required to return the phased subsidies previously received.

Property, Plant and Equipment

As of December 31, 2013, 2014 and 2015, the balance of our property, plant and equipment was RMB447.4 million, RMB584.3 million and RMB679.7 million, respectively. The increase in the balance of our property, plant and equipment during the Track Record Period primarily reflected the increase in our new production facilities for production expansion and acquiring new equipment for the research and development centers.

Prepaid Land Lease Payments

The carrying amount of our prepaid land lease payments represents land premium we paid to acquire for land use rights net of accumulated amortization.

As of December 31, 2015, our balance of prepaid land lease payments was RMB220.6 million, which remained relatively unchanged from the balance of prepaid land lease payments of RMB225.8 million as of December 31, 2014.

As of December 31, 2014, our balance of prepaid land lease payments was RMB225.8 million, representing an increase of RMB41.1 million, or approximately 22.3%, from RMB184.7 million as of December 31, 2013. The increase was mainly attributable to land premium that we paid for a land parcel in Wuxi for the construction of new production facilities.

Investment in an Associate

As of December 31, 2013 we had an investment interest of RMB139.1 million in Wuxi Micro-credit. We disposed of our interest in Wuxi Micro-credit on June 30, 2014 in relation to our spin-off of certain non-core assets in the demerger of Jiangsu Yadea pursuant to the Reorganization. For more details, please refer to section headed "History, Development and Reorganization — Reorganization — Onshore Reorganization".

Available-for-sale Investments

As of December 31, 2013, 2014 and 2015, the balance of our available-for-sale investments was RMB75.8 million, nil and RMB8.2 million, respectively. The balance of our available-for-sale investments decreased from RMB75.8 million as of December 31, 2013 to nil as of December 31, 2014 as we disposed of all of our equity investments in several unlisted companies in the first half 2014. The balance of our available-for-sale investments increased from nil as of December 31, 2014 to RMB8.2 million as of December 31, 2015 as we acquired approximately 11.1% of Lightning Motors in 2015.

Prepayments

As of December 31, 2013, 2014 and 2015, the balance of our prepayments was RMB4.0 million, RMB3.0 million and RMB84.6 million. The significant increase of RMB81.6 million in 2015 as compared in 2014 was primarily due to an increase of RMB72.2 million in the prepaid decoration expenses. For details of prepaid decoration expenses, please see the sub-section headed "— Prepayments, deposits and other receivables" in this document.

Amounts due from Related Parties

As of December 31, 2013, we recorded a non-trade related amount of RMB40.0 million due from related parties which was fully settled prior to December 31, 2014.

Amounts due to a Related Party

As of December 31, 2013, we recorded a non-trade related amount of RMB49.0 million due to a related party, representing interest-free cash advances from a related party to us. The balance of the non-trade related amount due to a related party was settled prior to December 31, 2014.

Amount due to the Controlling Shareholders

Amount due to the Controlling Shareholders is non-trade related and represents the unsecured and interest-free cash advances to us and the amount incurred mainly as a result of the equity interest in Zhejiang Yadea that Mr. Dong transfered to Yadea Group in 2010 as part of our internal shareholding restructuring. Please see "History, Development and Reorganization — Our Subsidiaries Established in the PRC — Zhejiang Yadea" for additional details regarding this equity transfer. The following table sets forth our amount due to the Controlling Shareholders as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Mr. Dong and Ms. Qian	73,474	—	—

As of December 31, 2014, the amount due to the Controlling Shareholders had been settled.

RELATED PARTY TRANSACTION

During the Track Record Period, we entered into transactions with our related parties. The following table sets forth our trade-related amounts due to related parties and trade-related amounts due from related parties as of the dates indicated:

Amounts due to Related Parties

Trade Payables

	As of December 31,		
	2013	2014	2015
	(RMB'000)	(RMB'000)	(RMB'000)
Wuxi Xingwei	49,575	12,704	—
Ningbo Suogao	15,101	8,682	—
Wuxi Daen	7,870	11,889	2,505
Tianjin Xingwei	6,225	4,328	—
Tianjin Xingmao	1,407	4,226	2,645
Wuxi Colorful	5,939	5,197	—
Wuxi Yakang	3,252	7,253	4
Ningbo Quanmei	1,493	2,455	121
Dongguan Hanrun	937	2,311	295
Jiangsu Tianmei	1,470	180	910
Total	**93,269**	**59,225**	**6,480**

Bill Payables

	As of December 31,		
	2013	2014	2015
	(RMB'000)	(RMB'000)	(RMB'000)
Wuxi Xingwei	55,669	54,239	84,830
Ningbo Suogao	17,220	17,680	10,750
Wuxi Daen	6,430	12,740	7,630
Tianjin Xingwei	—	2,650	26,880
Wuxi Colorful	—	—	6,150
Wuxi Yakang	—	—	2,950
Ningbo Quanmei	480	440	—
Total	**79,799**	**87,749**	**139,190**

Amounts due from Related Parties

As of December 31, 2013, 2014 and 2015, our balance of amounts due from related parties were nil, nil and RMB12.2 million, respectively.

The trade related amounts due to related parties during the Track Record Period were from our transactions with related parties mainly for acquiring raw materials and services, including electric motors, vehicles frames, front forks, plastic component painting services, rear shock absorbers, meters and packaging boxes. The trade related amounts due from related parties during the Track Record Period represent prepayments we made to the related parties for purchases of raw materials and services. The following tables set forth a breakdown of our purchases of raw materials and items of property, plant and equipment from related parties for the periods indicated:

Purchases of Raw Materials

	For the year ended December 31,		
	2013	**2014**	**2015**
	Amount (RMB'000)	**Amount (RMB'000)**	**Amount (RMB'000)**
Wuxi Xingwei	269,157	252,223	181,661
Tianjin Xingwei	64,520	54,888	46,448
Tianjin Xingmao	2,006	8,373	3,244
Ningbo Suogao	63,959	69,525	43,327
Wuxi Daen	42,525	58,757	37,729
Dongguan Hanrun	29,370	29,015	18,400
Wuxi Colorful	14,822	15,418	12,507
Wuxi Yakang	7,865	15,128	10,218
Ningbo Quanmei	294	8,453	—
Total	**494,518**	**511,780**	**353,534**

Purchases of Items of Property, Plant and Equipment

For the years ended December 31, 2013, 2014 and 2015, purchases of items of property, plant and equipment from our related parties amounted to RMB4.5 million, nil and nil, respectively.

Our Directors confirm that these transactions were conducted on normal commercial terms and/or on terms not less favorable than terms available from Independent Third Parties, which are considered fair, reasonable and in the interest of our Shareholders as a whole.

With respect to the non-trade related amounts due to or due from related parties including Controlling Shareholders, please see "— Certain Balance Sheet Items — Amounts due from Related Parties", "— Certain Balance Sheet Items — Amounts due to a Related Party" and "— Certain Balance Sheet Items — Amounts due to the Controlling Shareholders" for details, respectively. All of these amounts were fully settled as of Latest Practicable Date.

For further details relating to the related parties transaction, please see "Connected Transactions — B. Non-exempt Continuing Connected Transactions" and note 35 in the accountants' report set out in Appendix I to this document.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The following table sets forth a summary of our consolidated cash flows as of and for the periods indicated:

	As of and for the year ended December 31,		
	2013	2014	2015
Selected cash flow statement data	**Amount (RMB'000)**	**Amount (RMB'000)**	**Amount (RMB'000)**
Net cash generated from operating activities	444,077	861,648	910,465
Net cash used in investing activities	(333,346)	(256,077)	(527,484)
Net cash (used in)/generated from financing activities	52,490	(387,273)	(98,219)
Net increase in cash and cash equivalents	163,221	218,298	284,762
Cash and cash equivalents at beginning of year	119,866	283,087	501,322
Cash and cash equivalents at end of year	283,087	501,322	786,691

Net Cash Generated from Operating Activities

For the year ended December 31, 2015, we recorded net cash generated from operating activities of RMB910.5 million, as a result of (i) an increase of RMB774.2 million in trade and bills payables (primarily due to our increased use of bank acceptance bills to make payments to our suppliers) and (ii) profit before tax of RMB490.9 million; which were partially offset, primarily by (i) an increase of RMB119.7 million in pledged bank deposits and (ii) an increase of RMB70.3 million in trade and bills receivables.

For the year ended December 31, 2014, we recorded net cash generated from operating activities of RMB861.6 million, primarily as a result of (i) profit before tax of RMB306.7 million, (ii) an increase of RMB491.4 million in trade and bills payables (primarily due to our increased use of bank acceptance bills to make payments to our suppliers) and (iii) a decrease of RMB201.5 million in inventories as we improved our inventory management in 2014; which were partially offset by (i) an increase of RMB155.0 million in pledged bank deposits and (ii) the payments of tax of RMB74.8 million.

For the year ended December 31, 2013, we recorded net cash generated from operating activities of RMB444.1 million, primarily as a result of (i) profit before tax of RMB225.5 million, (ii) an increase of RMB533.6 million in trade and bills payables (primarily due to our increased use of bank acceptance bills to make payments to our suppliers) and (iii) an increase of RMB62.2 million in other payables and accruals; which were partially offset by (i) an increase of RMB374.8 million in pledged bank deposits and (ii) an increase of RMB31.8 million in prepayments, deposits and other receivables.

Net Cash Used in Investing Activities

For the year ended December 31, 2015, we had net cash used in investing activities of RMB527.5 million. This net cash used in investing activities was mainly attributable to (i) RMB9,756.1 million of purchases of wealth management products included in the financial assets at fair value through profit or loss (ii) an amount of RMB149.6 million of purchases of items of property, plant and equipment and (iii) an amount of RMB116.6 million of additions to prepaid decoration expenses, which was partially offset, primarily by RMB9,492.1 million in redemptions of wealth management products included in the financial assets at fair value through profit or loss.

For the year ended December 31, 2014, our net cash used in investing activities was RMB256.1 million. This net cash used in investing activities was mainly attributable to (i) purchases of wealth management products included in the financial assets at fair value through profit or loss of RMB186.2 million and (ii) purchases of items of property, plant and equipment of RMB150.8 million; which were partially offset by (i) proceeds from disposals of available-for-sale investments of RMB64.7 million and (ii) cash received from capital reduction of an associate of RMB25.0 million.

For the year ended December 31, 2013, our net cash used in investing activities was RMB333.3 million. This net cash used in investing activities was mainly attributable to (i) purchase of wealth management products included in the financial assets at fair value through profit or loss of RMB198.1 million and (ii) purchase of items of property, plant and equipment of RMB148.2 million due to the construction of our new production facilities in Tianjin and Wuxi, partially offset by (i) dividends from an associate of RMB30.0 million, (ii) repayment of advance to a related party of RMB25.0 million, and (iii) cash received from capital reduction of an associate of RMB25.0 million.

Net Cash (Used in)/Generated from Financing Activities

For the year ended December 31, 2015, our net cash used in financing activities was RMB98.2 million, which was attributable to the dividends we paid of RMB111.2 million to our Shareholders in January 2015 as partially offset by RMB13.0 million in proceeds from bank loans.

For the year ended December 31, 2014, our net cash used in financing activities was RMB387.3 million. The net cash used in financing activities was mainly attributable to (i) an amount of RMB394.5 million used in our acquisition of equity interests from Mr. Dong and Ms. Qian and (ii) repayments of advances from a related party of RMB49.0 million; which were partially offset by a capital injection from shareholders of RMB121.5 million.

For the year ended December 31, 2013, our net cash generated from financing activities was RMB52.5 million. The net cash generated from financing activities was mainly attributable to (i) advance from a related party of RMB49.0 million and (ii) proceeds from bank loans of RMB10.0 million, partially offset by advances to Mr. Dong and Ms. Qian of RMB6.1 million.

Net Current Liabilities

The following table sets forth a breakdown of our current assets and current liabilities as of the dates indicated.

	As of December 31,			As of January 31,
	2013	2014	2015	2016
	Amount (RMB'000)	Amount (RMB'000)	Amount (RMB'000)	Amount (RMB'000)
				(unaudited)
CURRENT ASSETS				
Inventories	361,163	159,621	141,491	271,474
Trade and bills receivables	55,571	111,924	183,225	179,185
Prepayments, deposits and other receivables	119,529	90,680	212,097	237,392
Due from related parties	40,000	—	—	—
Financial assets at fair value through profit or loss	345,600	555,000	861,700	1,157,899
Pledged bank deposits	504,384	659,401	779,056	762,131
Cash and cash equivalents	283,087	501,322	786,691	193,864
Total current assets	**1,709,334**	**2,077,948**	**2,964,260**	**2,801,945**
CURRENT LIABILITIES				
Trade and bills payables	1,614,800	2,106,220	2,880,431	2,859,340
Other payables and accruals	190,215	265,448	256,740	151,543
Interest-bearing bank borrowings	10,000	—	12,997	13,103
Due to a related party	49,000	—	—	—
Due to the Controlling Shareholders	73,474	—	—	—
Tax payable	20,866	29,070	35,603	6,627
Total current liabilities	**1,958,355**	**2,400,738**	**3,185,771**	**3,030,613**
NET CURRENT LIABILITIES	**(249,021)**	**(322,790)**	**(221,511)**	**(228,668)**

We recorded net current liabilities of RMB249.0 million, RMB322.8 million, RMB221.5 million and RMB228.7 million as of December 31, 2013, 2014 and 2015 and January 31, 2016, respectively.

Our net current liabilities decreased to RMB221.5 million as of December 31, 2015 from RMB322.8 million as of December 31, 2014. This decrease was primarily attributable to (i) an increase of RMB306.7 million in financial assets at fair value through profit or loss due to our increased total investment in wealth management products, (ii) an increase of RMB119.7 million in pledged bank deposits, (iii) an increase of RMB285.4 million in cash and cash equivalents and (iv) an increase of RMB71.3 million in trade and bills receivables primarily due to our offering more generous credit terms to certain of our distributors with good credit histories, which was offset primarily by an increase of RMB774.2 million in trade and bills payables mainly due to our increasing use of bank acceptance bills to pay our suppliers.

Our net current liabilities increased to RMB322.8 million as of December 31, 2014 from RMB249.0 million as of December 31, 2013. This increase was primarily attributable to (i) a significant increase in trade and bills payables of RMB491.4 million due to our increasing use of bank acceptance bills, (ii) a decrease of RMB201.5 million in inventories due to our effort in management of inventories, and (iii) certain payment that we made to the Controlling Shareholders in 2014 for equity transfers related to our Reorganization, which was partially offset by (i) an increase of RMB218.2 million in cash and cash equivalents, (ii) an increase of RMB209.4 million in financial assets at fair value through profit or loss mainly due to the increase in our wealth management products, and (iii) an increase of RMB155.0 million in pledged bank deposits mainly due to our increasing use of bank acceptance bills for settling payments with our suppliers.

Our net current liabilities positions primarily reflected that we obtained financing for our long-term investments in land, property, plant and equipment through the increasing use of bank acceptance bills for settling payments with our suppliers. Our directors are of the view that we derive benefits from this payment method as it allows us to leverage our market position, our creditworthiness and established relationships with banks and suppliers in order to retain more cash on-hand for long-term investment in our production facilities and to implement our expansion plans.

Working Capital

During the Track Record Period, we met our working capital needs mainly from our cash and cash equivalents on hand and cash generated from operations. Upon satisfying our capital requirements for operating activities and long-term investments, and when our internal cash flow and liquidity forecasts indicate that we have significant surplus capital resources, we invest from time to time in financial products to improve our cash management and for investment returns. Our investments in these wealth management products can be redeemed at any time as necessary to meet our working capital needs. See section headed "Business — Cashflow and Investment Management" in this document for details regarding the wealth management products and investment strategies. We manage our cash flow and working capital by closely monitoring and managing our operations and expansion plans. We also diligently review future cash flow requirements and adjust our operations and expansion plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations and expansion plans. As of the Latest Practicable Date, we did not have any outstanding bank borrowings. We are in the process of obtaining credit facilities with some reputable commercial banks and expect to obtain such credit facilities in the next few months. In particular, one of the commercial banks approved our application for credit facilities of RMB200 million as of Latest Practicable Date.

We recorded net current liabilities of RMB249.0 million, RMB322.8 million and RMB221.5 million as of December 31, 2013, 2014 and 2015, respectively. Taking into account cash generated from our operations and the banking facilities (including RMB718.5 million in unutilized general banking

facilities and RMB122.6 million in unutilized banking facilities available for issuance of bank acceptance bills) as of the Latest Practicable Date, our Directors are satisfied, after due and careful inquiry, that we have sufficient available working capital for our requirements for at least the 12 months from the date of this document. Based on the above financial resources available to us, the Sponsor concurs with the view of our Directors. However, we cannot assure you that we will not experience liquidity problems in future, please see "Risk Factors — Risks Relating to Our Business — We had net current liabilities as of December 31, 2013, 2014 and 2015 and cannot assure you that we will not continue to record net current liabilities in the future or experience liquidity problems."

CAPITAL EXPENDITURES AND COMMITMENTS

Capital expenditure

Capital expenditure is principally comprised of purchases of fixed assets and prepaid land lease payments. The following table sets forth our capital expenditures for the periods indicated:

	For the year ended December 31,		
Capital expenditures	**2013**	**2014**	**2015**
	Amount (RMB'000)	**Amount (RMB'000)**	**Amount (RMB'000)**
Additions to prepaid land lease payments	29,081	45,843	2,634
Purchase of items of property, plant and equipment	148,203	150,794	149,588
Total capital expenditures	**177,284**	**196,637**	**152,222**

Capital commitments

The following table sets forth the breakdown of our capital commitments as of the dates indicated:

	As of December 31,		
	2013	**2014**	**2015**
	Amount (RMB'000)	**Amount (RMB'000)**	**Amount (RMB'000)**
Contracted, but not provided for:			
Property, plant and equipment	101,289	29,997	5,516

The capital commitments were primarily related to our construction of our new production facilities and research and development center. We expect to fund such commitments principally from cash generated from operating activities and net proceeds from the [**REDACTED**].

Operating Lease Commitments

We leased certain of our plant and office buildings under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to seventeen years. The table below sets forth the outstanding commitments under these non-cancellable lease agreements as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	Amount (RMB'000)	Amount (RMB'000)	Amount (RMB'000)
Within one year	3,513	4,282	8,364
In the second to fifth years, inclusive	7,359	9,333	13,027
After five years	9,533	8,433	7,333
Total	**20,405**	**22,048**	**28,724**

INDEBTEDNESS AND CONTINGENCIES

Bank Loans and Other Borrowings

The following table sets forth a breakdown of our loans and borrowing as of the dates indicated:

	As of December 31,			As of January 31
	2013	2014	2015	2015
	Amount (RMB'000)	Amount (RMB'000)	Amount (RMB'000)	Amount (RMB'000)
Bank loans	10,000[(1)]	—	12,997	13,103
Total	**10,000**	**—**	**12,997**	**13,103**

Note:

(1) These loans were also guaranteed by Mr. Dong and Yadea Group.

Our loan and borrowings decreased from RMB10.0 million as of December 31, 2013 to nil as of December 31, 2014. The decrease was due to our repayment of bank loans.

As of December 31, 2015 and the latest practicable date for purposes of indebtedness statement, our outstanding loan and borrowings represented the RMB equivalent of a US$2.0 million loan that we incurred to finance our acquisition of an approximately 11.1% equity interest in Lightning Motors.

As of the Latest Practicable Date, we had total unutilized credit facilities amounting to RMB841.1 million (comprising RMB718.5 million in unutilized general credit facilities and RMB122.6 million in unutilized banking facilities available for issuing bank acceptance bills).

Contingent Liabilities

In 2012, our Group provided corporate guarantees to Jiangsu Lin Zhi Shan Yang Group Co., Ltd. (江蘇林芝山陽集團有限公司) for its bank facilities of RMB20.0 million. The guarantees expired in the year ended December 31, 2013.

As of December 31, 2015, being the latest practicable date for the purpose of the indebtedness statement, except as disclosed in this section headed "— Indebtedness and Contingencies" our Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding.

As of the date hereof, we confirm that there has not been any material change in our indebtedness position since December 31, 2015.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Except for the past contingent liabilities described above, we have not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

SENSITIVITY ANALYSIS

The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in the cost of raw materials and the average selling price of our products on our gross profit, gross profit margin, net profit/loss and net profit/loss margin during the Track Record Period:

Effect on Gross Profit and Gross Profit Margin[(1)]

	Change in Gross Profit (RMB'000)								
	For the year ended December 31,								
Change in cost of raw materials	2013 Effect on			2014 Effect on			2015 Effect on		
	Gross profit	(Decrease)/ increase in percentage	Gross profit margin (%)	Gross profit	(Decrease)/ increase in percentage	Gross profit margin (%)	Gross profit	(Decrease)/ increase in percentage	Gross profit margin (%)
If the costs had been 5% higher	449,932	(31.3)	8.9	746,005	(23.0)	12.8	978,394	(19.6)	15.2
If the costs had been 5% lower	859,160	31.3	17.0	1,190,911	23.0	20.4	1,455,992	19.6	22.6

	Change in Gross Profit (RMB'000)								
	For the year ended December 31,								
Change in the average selling price of our products	2013 Effect on			2014 Effect on			2015 Effect on		
	Gross profit	(Decrease)/ increase in percentage	Gross profit margin (%)	Gross profit	(Decrease)/ increase in percentage	Gross profit margin (%)	Gross profit	(Decrease)/ increase in percentage	Gross profit margin (%)
If the product price had been 5% higher	907,506	38.6	17.1	1,259,665	30.1	20.6	1,538,652	26.4	22.8
If the product price had been 5% lower	401,586	(38.6)	8.4	677,251	(30.1)	12.2	895,734	(26.4)	14.7

Note:

(1) The sensitivity analysis above assumes that all other variables remain unchanged. This sensitivity analysis is intended for reference only. **[REDACTED]** *should note in particular that this sensitivity analysis is not intended to be exhaustive and is limited to the impact on changes in the cost of our raw materials or in the average selling price of our products.*

Effect on Net Profit/(Loss) and Net Profit/(loss) Margin[(1)]

	Change in Net Profit/Loss) (RMB'000)								
	For the year ended December 31,								
Change in cost of raw materials	2013 Effect on			2014 Effect on			2015 Effect on		
	Net profit/(loss)	(Decrease)/ increase in percentage	Net profit/(loss) margin (%)	Net profit/(loss)	(Decrease)/ increase in percentage	Net profit/(loss) margin (%)	Net profit/(loss)	(Decrease)/ increase in percentage	Net profit/(loss) margin (%)
If the costs had been 5% higher	(30,541)	(117.5)	(0.6)	1,010	(99.5)	0.02	136,668	(63.6)	2.1
If the costs had been 5% lower	378,687	117.5	7.5	445,916	99.5	7.7	614,266	63.6	9.6

	Change in Net Profit/(Loss) (RMB'000)								
	For the year ended December 31,								
Change in the average selling price of our products	2013 Effect on			2014 Effect on			2015 Effect on		
	Net profit/(loss)	(Decrease)/ increase in percentage	Net profit/(loss) margin (%)	Net profit/(loss)	(Decrease)/ increase in percentage	Net profit/(loss) margin (%)	Net profit/(loss)	(Decrease)/ increase in percentage	Net profit/(loss) margin (%)
If the product price had been 5% higher	427,033	145.3	8.0	514,672	130.3	8.4	696,926	85.6	10.3
If the product price had been 5% lower	(78,887)	(145.3)	(1.6)	(67,742)	(130.3)	(1.2)	54,008	(85.6)	0.9

Note:

(1) The sensitivity analysis above assumes that all other variables remain unchanged. This sensitivity analysis is intended for reference only. [**REDACTED**] *should note in particular that this sensitivity analysis is not intended to be exhaustive and is limited to the impact on changes in the cost of our raw materials or in the average selling price of our products.*

MARKET RISKS

We are exposed to various types of market risks from its use of financial instruments, in the normal course of our operations, mainly including credit risk, liquidity risk, interest rate risk and foreign currency risk.

Credit Risk

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

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The credit terms generally vary from 15 days to six months from the date of billing. A credit limit is established for each customer which represents the maximum open amount or credit term without requiring approval from the Board of Directors. We follow up with the customers to settle the due balances and monitor the settlement progress on an ongoing basis. During the Track Record Period, we typically required customers to make payment in advance of delivery. However, we granted longer credit terms and increased credit limits to certain of our customers with good credit histories during the Track Record Period. We accepted payments in advance of delivery from certain customers in the form of bank acceptance bills. Normally, we do not obtain collateral from customers.

Our Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when our Group has significant exposure to a risk of default by individual customers.

Liquidity Risk

Liquidity risk is the risk that an enterprise may encounter deficiency of funds in meeting obligations associated with financial liabilities. We are responsible for our own cash management, including short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by our Board when the borrowings exceed certain pre-determined levels of authority. Our Group's policy is to regularly monitor its risk of experiencing a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations. We aim to maintain a balance between continuity of funding and flexibility through the combined use of projected cash flows from our operations and shareholders' capital injections.

Foreign Currency Risk

We conduct our domestic business in RMB. As of December 31, 2015, substantially all of our assets and liabilities were denominated in RMB. We believe that we do not have significant foreign currency exposure. Our limited foreign exchange exposure is from our international sales, which are denominated in U.S. dollars, and represented approximately 2%, 3%, and 2% of our sales for the years ended December 31, 2013, 2014 and 2015, respectively.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the U.S. dollars exchange rate, with all other variables held constant, of our profit before tax due to changes in the fair value of monetary assets and liabilities:

	Increase/ (decrease) in the US$ exchange rate	Increase/ (decrease) in profit before tax
	%	(RMB'000)
2013		
Where RMB weakened against US$.	(5)	49
Where RMB strengthened against US$	5	(49)
2014		
Where RMB weakened against US$.	(5)	535
Where RMB strengthened against US$	5	(535)
2015		
Where RMB weakened against US$.	(5)	247
Where RMB strengthened against US$	5	(247)

The RMB has recently depreciated against the U.S. dollar. As the payments from our international customers are all settled in U.S. dollars, this has been beneficial to us.

DIVIDEND POLICY

On January 29, 2015, we declared a special one-time cash dividend in the amount of HK$154.0 million which was paid on January 30, 2015 (except an amount of approximately HK$13.6 million of the declared dividends remained unpaid and in our share premium account, as the First [**REDACTED**] Investor waived its right to receive its portion of the dividend). Other than the aforementioned dividend, the Company did not declare or pay any dividends during the Track Record Period.

Subject to the Cayman Companies Law, through a general meeting we may declare dividends in any currency but no dividend shall be declared in excess of the amount recommended by the Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Companies Law.

Future dividend payments will also depend upon the availability of dividends we will receive from our subsidiaries in China. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our PRC subsidiaries may also be subject to any restrictive covenants in bank credit facilities or loan agreements, convertible bond instruments or other agreements that we or they may enter into in the future. We currently do not intend to have our subsidiaries pay any dividends to the Company in the foreseeable future. We intend to use the retained earnings of our subsidiaries for expansion of our operations. Additionally, we currently have no plans to pay dividends to the Shareholders in the foreseeable future.

Our Board has absolute discretion in whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare. We will continue to re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. However, the determination to pay dividends will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future. There can be no assurance that dividends of any amount will be declared or distributed in any year.

KEY FINANCIAL RATIOS

	For the year ended December 31,		
	2013	**2014**	**2015**
Gross profit margin (%) [(1)]	12.9	16.6	18.9
Net profit margin (%) [(2)]	3.4	3.8	5.8
Return on equity (%) [(3)]	32.2	39.1	57.8
Return on total assets (%) [(4)]	8.0	8.1	10.9
Interest coverage [(5)]	529.0	1,222.9	20,453.8

	As of December 31,		
	2013	**2014**	**2015**
Current ratio [(6)]	0.87	0.87	0.93
Quick ratio [(7)]	0.69	0.80	0.89
Gearing ratio (%) [(8)]	1.6	–	1.7

Notes:

1. *Gross profit margin is based on gross profit divided by revenue and multiplied by 100%.*

2. *Net profit margin is based on net profit divided by revenue and multiplied by 100%.*

3. *Return on equity is calculated based on our net profit for the respective periods divided by the average of the opening and closing balances of total equity of the same periods, multiplied by 100%.*

4. *Return on total assets is calculated based on our net profit for the respective periods divided by the average of the opening and closing balances of total assets of the same periods, multiplied by 100%.*

5. *Interest coverage is calculated based on our profits before interest and income taxes for the respective periods divided by our interest expenses for the same periods.*

6. *Current ratio is calculated based on our current assets divided by our current liabilities of respective dates.*

7. *Quick ratio is calculated based on the difference between our current assets and inventory in the respective dates divided by our current liabilities of the same dates.*

8. *Gearing ratio is calculated based on total borrowings divided by total equity and multiplied by 100%. We did not have any borrowings as of December 31, 2014.*

Please refer to "— Description of Selected Income Statement Line Items — Gross Profit" above for a discussion of factors affecting gross profit margin during the respective periods.

Net Profit Margin

Our net profit margin was 3.4%, 3.8% and 5.8% for the years ended December 31, 2013, 2014 and 2015, respectively. The increases in our net profit margin were in line with the increases in our gross profit margin during the Track Record Period.

Return on Equity

Our return on equity was 32.2%, 39.1% and 57.8% for the years ended December 31, 2013, 2014 and 2015, respectively. The increase in our return on equity was primarily due to the increases in our net profit outpacing the increases in our average equity over those periods.

Return on Total Assets

Our return on total assets was 8.0%, 8.1% and 10.9% for the years ended December 31, 2013, 2014 and 2015, respectively. The increase in our return on total assets was primarily due to the continuing increase in our net profits during the Track Record Period.

Interest Coverage Ratio

Our interest coverage ratio was 529.0 times, 1,222.9 times and 20,453.8 times for the years ended December 31, 2013, 2014 and 2015, respectively. The increases were mainly due to our increases in profit before interest and tax outpacing the increases in interest payable over those periods.

Current Ratio

Our current ratio was 0.87, 0.87 and 0.93 as of December 31, 2013, 2014, and 2015 respectively. The increase in our current ratio from 0.87 as of December 31, 2014 to 0.93 as of December 31, 2015 was mainly due to our increase in current assets outpacing the increases in our current liabilities during 2015. Our current ratio otherwise remained relatively stable over the Track Record Period.

Quick Ratio

Our quick ratio was 0.69, 0.80 and 0.89 as of December 31, 2013, 2014, and 2015, respectively. The increase in our quick ratio during the Track Record Period primarily reflected our efforts to manage and reduce our inventories over those periods.

Gearing Ratio

Our gearing ratio was 1.6% and 1.7% as of December 31, 2013 and 2015, respectively, as we had an outstanding bank borrowing with a relatively small principal amount as of those dates, respectively. We did not have any outstanding bank borrowings as of December 31, 2014.

[**REDACTED**] EXPENSES

We incurred [**REDACTED**] expenses of RMB[**REDACTED**] million, RMB[**REDACTED**] million and RMB[**REDACTED**] million in 2013, 2014 and 2015, of which RMB[**REDACTED**] million were expensed and accounted for as part of our administrative expenses and RMB[**REDACTED**] million were accounted for as prepayments related to the [**REDACTED**] of the Company's shares. We expect to incur a further RMB[**REDACTED**] million of [**REDACTED**] expenses for the completion of the [**REDACTED**] (including [**REDACTED**] commissions of HK$[**REDACTED**] million, assuming the [**REDACTED**] is not exercised and based on an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the [**REDACTED**] range stated in this document, of which we expect to charge RMB[**REDACTED**] million to our consolidated statements of profit or loss and to account for RMB[**REDACTED**] million as a deduction from equity. The [**REDACTED**] expenses above are the latest practicable estimate and are for reference only. The actual amount and the accounting treatment may differ from this estimate. We do not expect these [**REDACTED**] expenses to have a material impact on our results of operations for 2015.

The [**REDACTED**] commissions, the Stock Exchange trading fees, SFC transaction levies, the brokerage fees and other expenses relating to the [**REDACTED**] payable by the [**REDACTED**], are expected to be RMB[**REDACTED**] million, assuming the [**REDACTED**] is not exercised and based on an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**].

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is prepared to show the effect on the consolidated net tangible assets of our Group as of December 31, 2015 as if the [**REDACTED**] had occurred on December 31, 2015 and is based on the consolidated net tangible assets of our Group as of December 31, 2015 attributable to the owners of our Company derived from the accountants' report as set out in Appendix I to this document and adjusted as described below.

	Consolidated net tangible assets of our Group attributable to the owners of our Company as of December 31, 2015	**Estimated net proceeds from the [REDACTED]**	**Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**
	(RMB'000) (Note 1)	**(RMB'000) (Note 2)**	**(RMB'000)**	**(RMB) (Note 3)**	**(HK$) (Note 4)**
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

Notes:

(1) The consolidated net tangible assets of our Group attributable to owners of our Company as of December 31, 2015, was determined as follow:

	(RMB'000)
Consolidated net assets of our Group as set out in Appendix I	*[781,837]*
Less: Intangible assets as set out in Appendix I	*[14,162]*
Consolidated net tangible assets attributable to owners of our Company	*[767,675]*

(2) The estimated net proceeds from the [**REDACTED**] *are based on the indicative* [**REDACTED**] *of HK$*[**REDACTED**] *and HK$*[**REDACTED**]*, respectively, after deduction of the* [**REDACTED**] *fees and other related expenses payable by our Company and* [**REDACTED**] *Shares are in issue assuming that the* [**REDACTED**] *has been completed on December 31, 2015, taking no account of any Shares which may be issued upon the exercise of the* [**REDACTED**].

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that [**REDACTED**] *Shares expected to be in issue immediately following completion of the* [**REDACTED**] *and without taking into account any Shares which may be issued upon exercise of the* [**REDACTED**].

(4) The unaudited pro forma adjusted consolidated net tangible assets per share is converted into Hong Kong dollars at an exchange rate of RMB1.00 to HK$1.19.

(5) No adjustment has been made to reflect any trading results or other transactions of our Group entered into subsequent to December 31, 2015.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules had the Shares been [**REDACTED**] on the Hong Kong Stock Exchange on that date.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, since December 31, 2015 and up to the date of this document, there had been no material adverse change in our financial position or prospects and no event had occurred that would materially and adversely affect the information shown in the accountants' report as set out in Appendix I to this document.

PROPERTY INTERESTS AND PROPERTY VALUATION

As of December 31, 2015, we did not have any property interest relating to property activities and we didn't have any single property interest relating to non-property activities with a carrying amount of 15% or more of our consolidated total assets. Thus, this document is exempted from compliance with the requirements of Rules 5.01A and 5.01B of the Hong Kong Listing Rules, with respect to the inclusion of a property valuation report in this document.

On the basis of the above, we are not required by Chapter 5 of the Hong Kong Listing Rules to value or include in this document any valuation report on our property interests. Accordingly, pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempt from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report with respect to all the Company's interests in land or buildings.

FUTURE PLANS

Please see the section headed "Business — Our Strategies" in this document for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that the net proceeds from the [**REDACTED**] which we will receive will be approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the [**REDACTED**] range stated in this document) and after deducting the [**REDACTED**] fees and commissions and estimated expenses in connection with the [**REDACTED**] payable by us and assuming the [**REDACTED**] is not exercised.

We intend to use the net proceeds from the [**REDACTED**] for the following purposes:

- approximately [50]% of the net proceeds (approximately RMB[**REDACTED**] million) to improve our distribution and sales including (i) brand promotion, advertising and marketing (approximately 19%), (ii) expansion of our distributor points of sales overhaul campaign (approximately 16%), (iii) expansion of our international sales (approximately 10%), and (iv) development of our online platform, including online sales promotion and marketing (approximately 5%);

- approximately [30]% of the net proceeds (approximately RMB[**REDACTED**] million) for our business expansion, including (i) purchases of new automated production equipment (approximately 5%) and production expansion (approximately 12%) and (ii) potential mergers and acquisitions (approximately 13%);

- approximately [10]% of the net proceeds (approximately RMB[**REDACTED**] million) for the research and development of products, improvement of research and development facilities as well as recruitment of research and development personnel; and

- approximately [10] % of the net proceeds (approximately RMB[**REDACTED**] million) for general working capital.

As of the Latest Practicable Date, we had not identified any production facility for purchase or any potential acquisition target.

We will not receive any of the proceeds from the sale of the [**REDACTED**] by the [**REDACTED**] in the [**REDACTED**]. The [**REDACTED**] estimates that it will receive, in aggregate, net proceeds from the [**REDACTED**] of approximately HK$[**REDACTED**] million, after deducting the estimated [**REDACTED**] commissions and expenses payable by them in the [**REDACTED**] and assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**], being the mid-point of the indicative [**REDACTED**] range of HK$[**REDACTED**] to HK$[**REDACTED**] per [**REDACTED**] in this document.

In the event that we receive net proceeds from the [**REDACTED**] higher or lower than the estimated amount stated above, we will increase or decrease the intended use of the net proceeds for the above purposes on a pro rata basis.

In the event the [**REDACTED**] is exercised in full and assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the [**REDACTED**] range stated in this document), the net proceeds from the [**REDACTED**] will increase to approximately HK$[**REDACTED**] million.

If the [**REDACTED**] is determined to be HK$[**REDACTED**] per [**REDACTED**] (being the high end of the [**REDACTED**] range stated in this document), we will receive (i) net proceeds of approximately HK$[**REDACTED**] million, assuming the [**REDACTED**] is not exercised; and (ii) net proceeds of approximately HK$[**REDACTED**] million, assuming the [**REDACTED**] is exercised in full.

If the [**REDACTED**] is determined to be HK$[**REDACTED**] per [**REDACTED**] (being the low end of the [**REDACTED**] range stated in this document), the net proceeds we receive will be (i) decreased to approximately HK$[**REDACTED**] million, assuming the [**REDACTED**] is not exercised; and (ii) decreased to approximately HK$[**REDACTED**] million, assuming the [**REDACTED**] is exercised in full.

The above allocation of the net proceeds will be adjusted on a pro rata basis in the event that the [**REDACTED**] is fixed at a higher or lower level compared to the midpoint of the proposed [**REDACTED**] range.

In the event the [**REDACTED**] is exercised in part or in full, we intend to apply the additional net proceeds to the above uses in the proportions stated above.

To the extent that the net proceeds from the [**REDACTED**] are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorized financial institutions in Hong Kong and/or the PRC and/or money market instruments for so long as it is in our best interests and to the extent permitted by applicable laws and regulations. We will make appropriate announcement(s) if there are any material changes to the proposed use of proceeds as described above.

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of the Company in issue as of the date of this document and to be issued as fully paid or credited as fully paid immediately following the completion of the [**REDACTED**] and the [**REDACTED**]:

As of the Latest Practicable Date

Authorized share capital	***US$***
5,000,000,000 Shares with a par value of US$0.00001 each, comprising:	50,000
(i) 4,807,000,000 ordinary shares with a par value of US$0.00001 each; and	48,070
(ii) 193,000,000 series A convertible preferred shares with a par value of US$0.00001 each	1,930

Issued share capital	
2,193,000,000 Shares with a par value of US$0.00001 each, comprising:	21,930
(i) 2,000,000,000 ordinary shares with a par value of US$0.00001 each; and	20,000
(ii) 193,000,000 series A convertible preferred shares with a par value of US$0.00001 each	1,930

Immediately upon completion of the [REDACTED] and the [REDACTED] (assuming that the [REDACTED] is not exercised):

Shares in issue and to be issued, fully paid or credited as fully paid	***US$***
[**REDACTED**] ordinary Shares with a par value of US$0.00001 each in issue, comprising:	[**REDACTED**]
(i) [**REDACTED**] ordinary shares with a par value of US$0.00001 each; and	[**REDACTED**]
(ii) [**REDACTED**] series A convertible preferred shares with a par value of US$0.00001 each	[**REDACTED**]
[**REDACTED**] Shares to be issued under the [**REDACTED**]	[**REDACTED**]
[**REDACTED**] Shares to be issued pursuant to the [**REDACTED**]	[**REDACTED**]
[**REDACTED**]	[**REDACTED**]

Immediately upon completion of the [REDACTED] and the [REDACTED] (assuming that the [REDACTED] is exercised in full):

Shares in issue and to be issued, fully paid or credited as fully paid		*US$*
[**REDACTED**] ordinary Shares with a par value of US$0.00001 each in issue, comprising:		[**REDACTED**]
(i)	[**REDACTED**] ordinary shares with a par value of US$0.00001 each; and	[**REDACTED**]
(ii)	[**REDACTED**] series A convertible preferred shares with a par value of US$0.00001 each	[**REDACTED**]
[**REDACTED**]	Shares to be issued under the [**REDACTED**]	[**REDACTED**]
[**REDACTED**]	Shares to be issued pursuant to the [**REDACTED**]	[**REDACTED**]
[**REDACTED**]		[**REDACTED**]

ASSUMPTIONS

The above table assumes that the [**REDACTED**] becomes unconditional and is completed in accordance with the relevant terms and conditions, and the Shares are issued pursuant to the [**REDACTED**]. The above does not take into account any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme, or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Shares are Ordinary Shares in the share capital of the Company and rank equally with all Shares currently in issue (all Series A Preferred Shares will be automatically converted into Ordinary Shares immediately prior to the completion of the [**REDACTED**]) or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document except for any entitlement to the [**REDACTED**].

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Companies Law and the terms of the Memorandum and the Articles, the Company may from time to time by ordinary shareholders' resolution (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, the Company may reduce its share capital by shareholders' special resolution. For more details, please see the section headed "Summary of the Constitution of the Company and Cayman Companies Law — 2. Articles of Association — 2.5 Alteration of capital" in Appendix III to this document.

Pursuant to the Cayman Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to the Shares or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value

of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For more details, please see the section headed "Summary of the Constitution of the Company and Cayman Companies Law — 2. Articles of Association — 2.4 Variation of rights of existing shares or class of shares" in Appendix III to this document.

We have adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarized in Appendix IV to this document.

GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed "Structure of the [**REDACTED**] — The [**REDACTED**] — Conditions of the [**REDACTED**]" in this document, our Directors have been granted a general unconditional mandate to issue, allot and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to:

(a) a rights issue;

(b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles;

(c) a specific authority granted by the Shareholders in general meeting; or

(d) the exercise of options which may be granted under the Share Option Scheme or any arrangement which may be regulated under Chapter 17 of the Listing Rules,

shall not exceed the aggregate of:

(a) 20% of the total nominal value of the share capital of the Company in issue immediately following the completion of the [**REDACTED**] and the [**REDACTED**] (but excluding any Shares which may be issued pursuant to the exercise of the [**REDACTED**] and options which may be granted under the Share Option Scheme); and

(b) the total nominal value of the share capital of the Company repurchased by the Company (if any) under the general mandate to repurchase Shares referred to below.

This general mandate to issue Shares will expire at the earliest of:

(a) the conclusion of our next annual general meeting;

(b) the expiration of the period within which we are required by any applicable laws or the Articles to hold our next annual general meeting; or

(c) when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

For further details of this general mandate, please refer to the section headed "Statutory and General Information — A. Further Information About The Company And Our Subsidiaries — 3. Written resolutions of all our Shareholders passed on [●]" in Appendix IV to this document.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed "Structure of the [**REDACTED**] — Conditions of the [**REDACTED**]" in this document, our Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal value of our share capital in issue immediately following the completion of the [**REDACTED**] and the [**REDACTED**] (but excluding any Shares which may be issued pursuant to the exercise of the [**REDACTED**] and options which may be granted under the Share Option Scheme).

This general mandate relates only to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with the Listing Rules and all applicable laws. A summary of the relevant requirements under the Listing Rules is set out in the section headed "Statutory and General Information — A. Further Information About The Company And Our Subsidiaries — 7. Repurchases of Shares by the Company" in Appendix IV to this document.

This general mandate to repurchase Shares will expire at the earliest of:

(a) the conclusion of our next annual general meeting;

(b) the expiration of the period within which we are required by any applicable laws or the Articles to hold our next annual general meeting; or

(c) when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

For further details of this general mandate, please refer to the section headed "Statutory and General Information — A. Further Information About The Company And Our Subsidiaries — 3. Written resolutions of all our Shareholders passed on [●]" in Appendix IV to this document.

So far as our Directors are aware, immediately following the completion of the [**REDACTED**] and the [**REDACTED**] (assuming that the [**REDACTED**] and options which may be granted under the Share Option Scheme are not exercised), the following persons will have an interest or a short position in the Shares or underlying shares which will be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

		Shares held immediately as of the submission of the application proof of our Company and prior to the [REDACTED] and the [REDACTED][(1)]		**Shares held immediately following the completion of the [REDACTED] and the [REDACTED] (assuming the [REDACTED] and options which may be granted under the Share Option Scheme are not exercised)**[(1)(5)]	
Name of shareholder	**Nature of interest**	**Number**	**Percentage**	**Number**	**Percentage**
Mr. Dong[(2) (4)]	Interest in a controlled corporation/interest of concert parties	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Ms. Qian[(3) (4)]	Interest in a controlled corporation/interest of concert parties	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Dai Wei[(2) (4)]	Beneficial interest/ interest of concert parties	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Fang Yuan[(3) (4)]	Beneficial interest/ interest of concert parties	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

Notes:

(1) The letter "L" denotes a long position (as defined under Part XV of the SFO) in such Shares.

(2) Mr. Dong directly holds the entire share capital of Dai Wei and is deemed to be interested in the Shares held by Dai Wei.

(3) Ms. Qian directly holds the entire share capital of Fang Yuan and is deemed to be interested in the Shares held by Fang Yuan.

(4) Pursuant to the Concert Parties Arrangement, Mr. Dong and Ms. Qian confirmed that they are parties acting in concert in relation to the exercise of their voting rights at the meetings of the shareholders and the board of directors of the members of our Group. They have also further undertaken that during the period when they remain interested in, directly or indirectly, the Shares, they will continue to act in accordance with the Concert Parties Arrangement. As such, Mr. Dong and Ms. Qian, together with their respective holding companies (being Dai Wei and Fang Yuan), are all deemed to be interested in the total Shares held by Dai Wei and Fang Yuan.

(5) The calculation is based on the total number of [**REDACTED**] *Shares in issue immediately following the completion of the* [**REDACTED**] *and the* [**REDACTED**] *(assuming the* [**REDACTED**] *and options which may be granted under the Share Option Scheme are not exercised).*

Save as disclosed above and in the section headed "Statutory and General Information — C. Further Information About Our Directors And Substantial Shareholders" in Appendix IV to this document, our Directors are not aware of any person who will, immediately following the completion of the [**REDACTED**] and the [**REDACTED**] (assuming that the [**REDACTED**] and options which may be granted under the Share Option Scheme are not exercised), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company. Our Directors are not aware of any arrangements which may at a subsequent date result in a change of control of the Company.

[**REDACTED**]

[**REDACTED**]

HONG KONG [REDACTED]

[REDACTED]

[**REDACTED**]

Grounds for Termination

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

Undertakings to the Stock Exchange pursuant to the Listing Rules

(A) Undertakings by us

[**REDACTED**]

(B) Undertakings by the Controlling Shareholders

[**REDACTED**]

***Undertakings pursuant to the* [REDACTED]**

(A) Undertakings by us

[**REDACTED**]

(B) Undertakings by the Controlling Shareholders

[**REDACTED**]

[**REDACTED**]

Indemnity

[**REDACTED**]

The [**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**] **Interests in the Company**

Save as disclosed in this document and save for its obligations under the [**REDACTED**], none of the [**REDACTED**] has any shareholding interests in the Company or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

Following the completion of the [**REDACTED**], the [**REDACTED**] and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the [**REDACTED**].

Other Services to the Company

[**REDACTED**]

[**REDACTED**] **and** [**REDACTED**]

Details of the arrangements relating to the [**REDACTED**] and [**REDACTED**] are set forth in the sections headed "Structure of the [**REDACTED**] — The [**REDACTED**] — [**REDACTED**]" and "Structure of the [**REDACTED**] — The [**REDACTED**] — [**REDACTED**]".

Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

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[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

The following is the text of a report received from the company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this document.

[Date]

The Directors
Yadea Group Holdings Ltd.
China Securities (International) Corporate Finance Company Limited

Dear Sirs,

We set out below our report on the financial information of Yadea Group Holdings Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 December 2013, 2014 and 2015 (the "Relevant Periods"), and the consolidated statements of financial position of the Group as at 31 December 2013, 2014 and 2015 and the statements of financial position of the Company as at 31 December 2014 and 2015, together with the notes thereto (the "Financial Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the Document of the Company dated [Date] (the "Document") in connection with the [**REDACTED**] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 17 July 2014. Pursuant to a group reorganization (the "Reorganization") as set out in note 2.1 of Section II below, which was completed on 9 December 2014, the Company became the holding company of the other subsidiaries comprising the Group.

As at the date of this report, no statutory financial statements have been prepared for the Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated financial statements of the Group (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 December 2013, 2014 and 2015 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors' responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion on the Financial Information, and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the financial position of the Group as at 31 December 2013, 2014 and 2015 and of the Company as at 31 December 2014 and 2015 and of the consolidated financial performance and cash flows of the Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

The following is the Financial Information of the Group for the Relevant Periods prepared on the basis set out in note 2.1 of Section II:

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Section II Notes	Year ended 31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
REVENUE	5(a)	5,059,200	5,824,142	6,429,187
Cost of sales	6(a)	(4,404,654)	(4,855,684)	(5,211,994)
Gross profit		654,546	968,458	1,217,193
Other income and gains, net	5(b)	27,184	81,280	85,770
Selling and distribution expenses		(275,792)	(349,390)	(453,544)
Administrative expenses		(192,234)	(394,616)	(358,528)
Finance costs	7	(427)	(251)	(24)
Share of profits and losses of an associate		12,178	1,222	–
PROFIT BEFORE TAX	6	225,455	306,703	490,867
Income tax expense	10	(51,382)	(83,239)	(115,400)
PROFIT FOR THE YEAR		174,073	223,464	375,467
Profit attributable to:				
Owners of the parent	11	174,073	223,464	375,467
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:				
Basic and diluted	12	N/A	N/A	N/A

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Section II Notes	Year ended 31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
PROFIT FOR THE YEAR		174,073	223,464	375,467
OTHER COMPREHENSIVE INCOME/(LOSS)				
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations		—	(63)	989
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		—	(63)	989
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		—	(63)	989
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		174,073	223,401	376,456
Attributable to:				
Owners of the parent		174,073	223,401	376,456

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Section II Notes	31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	447,447	584,301	679,709
Prepaid land lease payments	15	184,709	225,845	220,612
Intangible assets	16	11,262	12,408	14,162
Investment in an associate	17	139,081	—	—
Available-for-sale investments	18	75,800	—	8,223
Prepayments	21	4,008	3,041	84,600
Deferred tax assets	28	13,963	13,768	18,202
Total non-current assets		876,270	839,363	1,025,508
CURRENT ASSETS				
Inventories	19	361,163	159,621	141,491
Trade and bills receivables	20	55,571	111,924	183,225
Prepayments, deposits and other receivables	21	119,529	90,680	212,097
Due from related parties	35(c)	40,000	—	—
Financial assets at fair value through profit or loss	22	345,600	555,000	861,700
Pledged bank deposits	23	504,384	659,401	779,056
Cash and cash equivalents	24	283,087	501,322	786,691
Total current assets		1,709,334	2,077,948	2,964,260
CURRENT LIABILITIES				
Trade and bills payables	25	1,614,800	2,106,220	2,880,431
Other payables and accruals	26	190,215	265,448	256,740
Interest-bearing bank borrowings	27	10,000	—	12,997
Due to a related party	35(d)	49,000	—	—
Due to the Controlling Shareholders	35(e)	73,474	—	—
Tax payable		20,866	29,070	35,603
Total current liabilities		1,958,355	2,400,738	3,185,771

	Section II Notes	31 December 2013	2014	2015
		RMB'000	RMB'000	RMB'000
NET CURRENT LIABILITIES		(249,021)	(322,790)	(221,511)
TOTAL ASSETS LESS CURRENT LIABILITIES		627,249	516,573	803,997
NON-CURRENT LIABILITIES				
Other payables	26	—	—	22,160
NET ASSETS		627,249	516,573	781,837
EQUITY				
Equity attributable to owners of the parent				
Share capital	29	—	135	135
Reserves	31	627,249	516,438	781,702
Total equity		627,249	516,573	781,837

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Attributable to owners of the parent							
	Section II Notes	Share capital	Merger reserve	Share premium account	Statutory reserve	Exchange fluctuation reserve	Share award reserve	Retained profits	Total
		RMB'000 Note 29	RMB'000* Note 31(i)	RMB'000* Note 31(ii)	RMB'000* Note 31(iii)	RMB'000* Note 31(iv)	RMB'000*	RMB'000*	RMB'000
At 1 January 2013		—	292,975	—	9,906	—	—	150,295	453,176
Profit and total comprehensive income for the year		—	—	—	—	—	—	174,073	174,073
Transfer from retained profits		—	—	—	13,656	—	—	(13,656)	—
At 31 December 2013 and 1 January 2014		—	292,975	—	23,562	—	—	310,712	627,249
Profit for the year		—	—	—	—	—	—	223,464	223,464
Exchange differences on translation of foreign operations		—	—	—	—	(63)	—	—	(63)
Total comprehensive income for the year		—	—	—	—	(63)	—	223,464	223,401
Distribution to the Controlling Shareholders	35(b)(v)	—	(100,000)	—	—	—	—	(117,103)	(217,103)
Capital injection from shareholders of the Company	29	135	—	121,316	—	—	—	—	121,451
Acquisition of equity interests in the subsidiaries by the Group from the Controlling Shareholders		—	(313,999)	—	—	—	—	—	(313,999)
Equity-settled share award expense	30	—	—	—	—	—	75,574	—	75,574
Transfer from retained profits		—	—	—	14,085	—	—	(14,085)	—
At 31 December 2014 and 1 January 2015		135	(121,024)	121,316	37,647	(63)	75,574	402,988	516,573
Profit for the year		—	—	—	—	—	—	375,467	375,467
Exchange differences on translation of foreign operations		—	—	—	—	989	—	—	989
Total comprehensive income for the year		—	—	—	—	989	—	375,467	376,456
Dividends paid to the shareholders of the Company	13	—	—	(111,192)	—	—	—	—	(111,192)
Transfer from retained profits		—	—	—	28,065	—	—	(28,065)	—
At 31 December 2015		135	(121,024)	10,124	65,712	926	75,574	750,390	781,837

* These reserve accounts comprise the consolidated reserves of RMB627,249,000, RMB516,438,000 and RMB781,702,000 in the consolidated statements of financial position as at 31 December 2013, 2014 and 2015, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Section II Notes	Year ended 31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
Operating activities				
Profit before tax		225,455	306,703	490,867
Adjustments for:				
Finance costs	7	427	251	24
Share of profits and losses of an associate		(12,178)	(1,222)	—
Bank interest income	5(b)	(7,031)	(16,820)	(19,180)
Dividend income from available-for-sale investments	5(b)	(4,344)	(4,400)	—
Net (gain)/loss on disposal of items of property, plant and equipment	5(b),6(c)	2,339	198	(988)
Depreciation of items of property, plant and equipment	6(c)	29,731	34,766	53,054
Amortization of prepaid land lease payments	6(c)	2,941	3,741	4,550
Amortization of intangible assets	6(c)	679	1,499	2,207
Reversal of provision for impairment of trade receivables	6(c)	—	(1,141)	(997)
Write-down of inventories to net realizable value	6(c)	289	31	—
Gains from disposal of available-for-sale investments	5(b)	—	(3,738)	—
Equity-settled share award expense	6(b)	—	75,574	—
Gains from financial assets at fair value through profit or loss	5(b)	(10,704)	(23,177)	(42,651)
		227,604	372,265	486,886
Increase in pledged bank deposits		(374,817)	(155,017)	(119,655)
(Increase)/decrease in trade and bills receivables		18,314	(55,212)	(70,304)
(Increase)/decrease in prepayments, deposits and other receivables		(31,798)	28,849	(74,345)
Decrease in inventories		34,896	201,511	18,130
Increase in trade and bills payables		533,601	491,420	774,211
Increase in other payables and accruals		62,166	52,672	8,843
Cash generated from operations		469,966	936,488	1,023,766
Income tax paid		(25,889)	(74,840)	(113,301)
Net cash flows generated from operating activities		444,077	861,648	910,465

	Section II Notes	Year ended 31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
Investing activities				
Interest received from bank deposits		7,031	16,820	19,180
Dividend income from available-for-sale investments		4,344	4,400	—
Dividends received from an associate		30,000	—	—
Purchases of items of property, plant and equipment		(148,203)	(150,794)	(149,588)
Net additions to prepaid decoration expenses		—	—	(116,608)
Proceeds from disposal of items of property, plant and equipment		753	3,470	2,972
Additions to prepaid land lease payments		(29,081)	(45,843)	(2,634)
Additions to intangible assets		(10,124)	(2,645)	(8,916)
Redemption of wealth management products included in the financial assets at fair value through profit or loss		6,085,484	8,265,769	9,492,051
Purchase of wealth management products included in the financial assets at fair value through profit or loss		(6,283,550)	(8,451,992)	(9,756,100)
Advance to a related party		(40,000)	—	—
Repayment of an advance to a related party		25,000	15,000	—
Cash received from capital reduction of an associate		25,000	25,000	—
Proceeds from disposal of available-for-sale investments		—	64,738	—
Purchase of available-for-sale investments		—	—	(7,841)
Net cash flows used in investing activities		(333,346)	(256,077)	(527,484)

	Section II Notes	Year ended 31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
Financing activities				
Proceeds from bank loans		10,000	—	12,997
Repayment of bank loans		—	(10,000)	—
Repayment of advance/(advance) to Controlling Shareholders		(6,083)	7,061	—
Acquisition of equity interests of the subsidiaries by the Group from the Controlling Shareholders		—	(394,534)	—
Advances from a related party		49,000	—	—
Repayment of advances from a related party		—	(49,000)	—
Distribution to the Controlling Shareholders	35(b)(v)	—	(62,000)	—
Capital injection from shareholders of the Company	29	—	121,451	—
Interest paid		(427)	(251)	(24)
Dividends paid to the shareholder of the Company	13	—	—	(111,192)
Net cash flows (used in)/generated from financing activities		52,490	(387,273)	(98,219)
Net increase in cash and cash equivalents		163,221	218,298	284,762
Cash and cash equivalents at beginning of year		119,866	283,087	501,322
Effect of foreign exchange rate changes		—	(63)	607
Cash and cash equivalents at end of year		283,087	501,322	786,691
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	24	283,087	501,322	786,691
Cash and cash equivalents as stated in the consolidated statements of financial position and the consolidated statements of cash flows		283,087	501,322	786,691

STATEMENTS OF FINANCIAL POSITION

	Section II Notes	31 December 2014	31 December 2015
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	36	75,574	75,574
Available-for-sale investment	18	—	8,223
Total non-current assets		75,574	83,797
CURRENT ASSETS			
Due from a subsidiary		1,227	1,218
Prepayments		—	816
Cash and cash equivalents	24	122,161	12,731
Total current assets		123,388	14,765
CURRENT LIABILITIES			
Due to a subsidiary		2,000	2,000
Interest-bearing bank borrowings	27	—	12,997
Total current liabilities		2,000	14,997
NET CURRENT (LIABILITIES)/ASSETS		121,388	(232)
TOTAL ASSETS LESS CURRENT LIABILITIES		196,962	83,565
NET ASSETS		196,962	83,565
EQUITY			
Share capital	29	135	135
Reserves	31	196,827	83,430
Total equity		196,962	83,565

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were principally engaged in the development, manufacture and sale of electric vehicles and related accessories ("Listing Business") in the People's Republic of China (the "PRC").

Before the formation of the Group, the Listing Business was carried out by the subsidiaries now comprising the Group, all of which were collectively controlled by Mr. Jinggui Dong ("Mr. Dong") and Ms. Jinghong Qian ("Ms. Qian") (hereinafter collectively referred to as the "Controlling Shareholders").

The Company and its subsidiaries now comprising the Group underwent the Reorganization as set out in the paragraph headed "Reorganization" in the section headed "History, Development and Reorganization" in the Document.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong). Particulars of the subsidiaries now comprising the Group are set out below:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Yadea Group Management Holdings Limited (i)	British Virgin Islands 24 July 2014	US$100	100%	—	Investment holding
Yadea HK Holdings Limited (ii)	Hong Kong 5 August 2014	HK$100	—	100%	Investment holding
無錫雅迪諮詢有限公司 (Wuxi Yadea Consulting Co., Ltd.) (ii)	Wuxi, the PRC 30 June 2014	RMB1,000,000	—	100%	Investment holding
江蘇雅迪科技發展有限公司 (Jiangsu Yadea Technology Development Co., Ltd.) ("Jiangsu Yadea") (iii)	Wuxi, the PRC 20 June 2001	RMB150,000,000	—	100%	Development, manufacture and sale of electric vehicles and accessories
浙江雅迪機車有限公司 (Zhejiang Yadea Motorcycle Co., Ltd.) (iv)	Ningbo, the PRC 28 September 2002	RMB100,000,000	—	100%	Development, manufacture and sale of electric vehicles and accessories
無錫雅迪進出口有限公司 (Wuxi Yadea Import and Export Co., Ltd.) (v)	Wuxi, the PRC 5 April 2007	RMB510,000	—	100%	Export of electric vehicles and accessories
天津雅迪偉業車業有限公司 (Tianjin Yadea Weiye Vehicle Co., Ltd.) ("Tianjin Weiye") (vi)	Tianjin, the PRC 25 August 2009	RMB500,000	—	100%	Manufacture and sale of accessories

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
雅迪科技集團有限公司 (Yadea Technology Group Co., Ltd.) (iii)	Wuxi, the PRC 17 December 2010	RMB100,000,000	—	100%	Investment holding and manufacture and sale of electric vehicles and accessories
天津雅迪實業有限公司 (Tianjin Yadea Industry Co., Ltd.) ("Tianjin Industry") (vi)	Tianjin, the PRC 25 January 2011	RMB50,000,000	—	100%	Development, manufacture and sale of electric vehicles and accessories
廣東雅迪科技發展有限公司 (Guangdong Yadea Technology Development Co., Ltd.) (vii)	Dongguan, the PRC 14 March 2011	RMB10,000,000	—	100%	Development, manufacture and sale of electric vehicles and accessories
雅迪科技集團銷售有限公司 (Yadea Technology Group Sales Co., Ltd.) ("Yadea Sales") (viii)	Wuxi, the PRC 7 February 2014	RMB50,000,000	—	100%	Sale of electric vehicles and accessories
江蘇新迪科技發展有限公司 (Jiangsu Xindi Technology Development Co., Ltd.) (ii) .	Wuxi, the PRC 28 April 2014	RMB70,000,000	—	100%	Development, manufacture and sale of electric vehicles and accessories
上海雅迪投資有限公司 (Shanghai Yadea Investment Co., Ltd.) (ix)	Shanghai, the PRC 15 May 2015	RMB10,000,000	—	100%	Investment holding
廣東雅迪機車有限公司 (Guangdong Yadea Motorcycle Co., Ltd.) (ix) . .	Qingyuan, the PRC 15 July 2015	RMB10,000,000	—	100%	Development, manufacture and sale of electric vehicles and accessories

Notes:

(i) No audited financial statements have been prepared for this entity since its incorporation as this entity was not subject to any statutory audit requirements under the relevant rules and regulation in its jurisdiction of incorporation.

(ii) No statutory financial statements of these entities have been prepared since their establishment as there is no statutory requirement from the local government to prepare statutory financial statements for these entities.

(iii) The statutory financial statements of these entities for the years ended 31 December 2013 and 2014 prepared under PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by Wuxi Liangxi Certified Public Accountants Co., Ltd. (無錫梁溪會計師事務所有限公司). The statutory financial statements of these entities for the year ended 31 December 2015 have not been audited by the date of this report.

(iv) The statutory financial statements of this entity for the years ended 31 December 2013 and 2014 prepared under PRC GAAP were audited by Cixi Yongjing Certified Public Accountants Co., Ltd. (慈溪永敬會計師事務所有限公司) and Ningbo Yongjing Certified Public Accountants Co., Ltd. (寧波永敬會計師事務所有限公司), respectively. The statutory financial statements of this entity for the year ended 31 December 2015 have not been audited by the date of this report.

(v) No statutory financial statements for the year ended 31 December 2013 had been prepared for this subsidiary as this subsidiary was not required by the local government to prepare statutory financial statements. The statutory financial statements of the entity for the year ended 31 December 2014 prepared under PRC GAAP were audited by Wuxi Liangxi Certified Public Accountants Co., Ltd. (無錫梁溪會計師事務所有限公司). The statutory financial statements of this entity for the year ended 31 December 2015 have not been audited by the date of this report.

(vi) The statutory financial statements of these entities for the years ended 31 December 2013 and 2014 prepared under PRC GAAP were audited by Tianjin Zhonghengxin Certified Public Accountants Co., Ltd. (天津中恒信會計師事務所有限責任公司) and Tianjin Anheng Certified Public Accountants Co., Ltd. (天津安恒會計師事務所有限責任公司), respectively. The statutory financial statements of these entities for the year ended 31 December 2015 have not been audited by the date of this report.

(vii) The statutory financial statements of this entity for the years ended 31 December 2013 and 2014 prepared under PRC GAAP were audited by Dongguan Taihe Certified Public Accountants (東莞市泰合會計師事務所(普通合夥)). The statutory financial statements of this entity for the year ended 31 December 2015 have not been audited by the date of this report.

(viii) The statutory financial statements of this entity for the year ended 31 December 2014 prepared under PRC GAAP were audited by Wuxi Liangxi Certified Public Accountants Co., Ltd. (無錫梁溪會計師事務所有限公司). The statutory financial statements of this entity for the year ended 31 December 2015 have not been audited by the date of this report.

(ix) No audited financial statements have been prepared for these companies as these companies have not yet commenced business operation.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganization as more fully explained in the paragraph headed "Reorganization" in the section headed "History, Development and Reorganization" in the Document, the Company became the holding company of the companies now comprising the Group on 9 December 2014. The companies now comprising the Group were under the common control of the Controlling Shareholders before and after the Reorganization. Accordingly, for the purpose of this report, the Financial Information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Relevant Periods.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2013, 2014 and 2015 have been prepared to present the assets and liabilities of the subsidiaries using the existing book values from the Controlling Shareholders' perspective. No adjustments are made to reflect the fair values, or recognize any new assets or liabilities as a result of the Reorganization.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong.

The Financial Information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.3 NET CURRENT LIABILITIES

The Group had net current liabilities of RMB249,021,000, RMB322,790,000 and RMB221,511,000 as at 31 December 2013, 2014 and 2015, respectively. The Directors are of the opinion that, based on a detailed review of the working capital forecast of the Group and the fact that the Group did not encounter difficulty in renewal of banking facilities upon maturity and subsequent to 31

December 2015 and up to the date of this report, RMB447 million facilities with one year term was renewed, the Group will have the necessary liquid funds to finance its working capital and to meet its capital expenditure requirements. Accordingly, the Directors are of the opinion that it is appropriate to prepare the Financial Information on a going concern basis. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, and to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the Financial Information.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in this Financial Information.

HKFRS 9	*Financial Instruments*[3]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[4]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortization*[2]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[2]
Amendments to HKAS 1	*Disclosure Initiative*[2]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[2]

[1] *No mandatory effective date yet determined*
[2] *Effective for annual periods beginning on or after 1 January 2016*
[3] *Effective for annual periods beginning on or after 1 January 2018*
[4] *Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group*

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application, certain of which may be relevant to the Group's operation and may result in changes in the Group's accounting policies, and changes in presentation and measurement of certain items of the Group's financial information.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in its associate is stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of the associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealized losses provide evidence of an impairment of the asset transferred.

Fair value measurement

The Group measures its financial assets at fair value through profit or loss at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets and inventories), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

  (i) the entity and the Group are members of the same Group;

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

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

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

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the 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); and

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.75%
Plant and machinery	9.50% to 19.00%
Motor vehicles	9.50% to 23.75%
Office equipment	19.00% to 31.67%
Other equipment	9.50% to 31.67%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery, office equipment and other equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, capitalized operating lease on land and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software is stated at cost less any impairment losses and amortized on the straight-line basis over its estimated useful life of three to ten years.

Research and development costs

All research costs are charged to the statements of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognized initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognized in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognized in the statement of profit or loss in finance costs for loans and in administrative expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the

available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognized in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of profit or loss, is removed from other comprehensive income and recognized in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss — is removed from other comprehensive income and recognized in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, interest-bearing bank borrowings and amounts due to the Controlling Shareholders and related parties.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statements of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and is released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold, and for the non-cash sales incentives provided to customers which are directly related to sales transactions, they would be netted off against revenue;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholder's right to receive payment has been established.

Share-based payments

The Group granted ordinary shares to employees for the purpose of providing incentives and rewards to eligible participants for their contributions to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. Further details of the fair value are given in note 30 to the Financial Information.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

The Financial Information is presented in RMB, which is the Company's presentation currency. The functional currency of the Company is the Hong Kong dollar which is the currency of the primary environment in which the Company operates. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in the PRC, the Company adopts RMB as the presentation currency of the Group. Each entity in the Group determines

its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change at fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and certain overseas established subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and overseas established subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas established subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets were RMB13,963,000, RMB13,768,000 and RMB18,202,000 as at 31 December 2013, 2014 and 2015, respectively (note 28).

Current income tax

Judgement is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax in the periods in which the differences arise.

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of trade receivables

The provision policy for impairment of trade receivables of the Group is based on ongoing assessment of the recoverability and the aged analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realization of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. The net carrying values of trade receivables were RMB36,577,000, RMB102,800,000 and RMB179,847,000 as at 31 December 2013, 2014 and 2015, respectively.

Write-down of inventories to net realizable value

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes a provision for slow-moving inventory items. Management estimates the net realizable value for such inventories based primarily on the latest invoice prices and current market conditions. Write-down of inventories to net realizable value is made based on the estimated net realizable value of inventories. The assessment of the write-down amount requires management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying values of inventories and write-down/write-back of inventories in the period in which such estimate has been changed. The net carrying values of inventories were RMB361,163,000, RMB159,621,000 and RMB141,491,000 as at 31 December 2013, 2014 and 2015, respectively.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and the related depreciation charge for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods. The net carrying values of property, plant and equipment were RMB447,447,000, RMB584,301,000 and RMB679,709,000 as at 31 December 2013, 2014 and 2015, respectively.

Fair value of wealth management products

The wealth management products included in the financial assets at fair value through profit or loss have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The net carrying values of wealth management products were RMB345,600,000, RMB555,000,000 and RMB861,700,000 as at 31 December 2013, 2014 and 2015, respectively.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organized into business units based on their products and services and the Group has only one reportable operating segment which is engaged in the development, manufacture and sale of electric vehicles and related accessories.

No operating segments have been aggregated to form the above reportable operating segment.

Geographical information

Since over 90% of the Group's revenue and operating profit were generated from the sale of electric vehicles in Mainland China and over 90% of the Group's identifiable assets and liabilities were located in Mainland China, no geographical information is presented in accordance with HKFRS 8 *Operating Segments*.

Information about a major customer

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue for the Relevant Periods, no major customer information is presented in accordance with HKFRS 8 *Operating Segments*.

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value of goods sold, after allowances for rebate and trade discounts during the Relevant Periods.

An analysis of revenue, other income and gains, net is as follows:

(a) Revenue:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Sale of goods	5,059,200	5,824,142	6,429,187

(b) Other income and gains, net:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Bank interest income	7,031	16,820	19,180
Government grants*	6,372	26,478	14,138
Dividend income from available-for-sale investments	4,344	4,400	—
Gains from financial assets at fair value through profit or loss	10,704	23,177	42,651
Gain on disposal of available-for-sale investments	—	3,738	—
Net gain/(loss) on disposal of items of property, plant and equipment	(2,339)	(198)	988
Others	1,072	6,865	8,813
	27,184	81,280	85,770

* *Government grants include various subsidies received by the Group from relevant government bodies in connection with enterprise expansion and promotion of high efficiency and energy saving motors. There are no unfulfilled conditions or contingencies relating to these grants.*

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived after charging/(crediting):

		Year ended 31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
(a)	**Cost of sales:**			
	Cost of inventories sold	4,404,654	4,855,684	5,211,994
(b)	**Employee benefit expenses (including directors' and chief executive's remuneration *(note 8)*):**			
	Wages and salaries	149,183	228,740	265,647
	Equity-settled share award expense	—	75,574	—
	Pension scheme contributions (defined contribution scheme), social welfare and other welfare	23,670	39,893	49,717
		172,853	344,207	315,364
(c)	**Other items:**			
	Depreciation of items of property, plant and equipment 14	29,731	34,766	53,054
	Amortization of prepaid land lease payments 15	2,941	3,741	4,550
	Amortization of intangible assets 16	679	1,499	2,207
	Advertisement and business promotion expenses	233,778	240,879	297,265
	Auditors' remuneration	339	439	439
	Research and development costs*	83,342	133,812	133,679
	Logistics expenses	17,916	42,595	67,241
	Operating lease expenses	4,541	6,045	7,324
	Net loss/(gain) on disposal of items of property, plant and equipment	2,339	198	(988)
	Reversal of provision for impairment of trade receivables 20	—	(1,141)	(997)
	Write-down of inventories to net realizable value	289	31	—

* *Research and development costs are included in "administrative expenses" in the consolidated statements of profit or loss. Research and development costs included wages and salaries amounting to RMB5,032,000, RMB19,332,000 and RMB20,810,000 for the years ended 31 December 2013, 2014 and 2015, respectively, which are also included in employee benefit expenses disclosed in note 6(b) above.*

7. FINANCE COSTS

Group

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Interest on bank loans	427	251	24

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Mr. Jinggui Dong and Ms. Jinghong Qian were appointed as the Company's executive directors on 17 July 2014. Mr. Yeming Liu, Mr. Rui Shi and Mr. Yu Shen were appointed as the Company's executive directors on 10 December 2014. Mr. Yeming Liu is the chief executive of the Company.

Mr. Xiang Fan was appointed as the Company's non-executive director on 10 December 2014. Mr. Biguang Wu was appointed as the Company's independent non-executive director on 10 December 2014. Mr. Zongwei Li was appointed as the Company's independent non-executive director on 18 January 2015. Mr. Naisheng Yao was appointed as the Company's independent non-executive director on 28 August 2015.

Certain of the directors received remuneration from the subsidiaries now comprising the Group for the appointment as directors of these subsidiaries. These directors' and chief executive's remuneration during the Relevant Periods, disclosed pursuant to the Listing Rules is as follows:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Fees	—	—	—
Other emoluments:			
Salaries, allowances and benefits in kind	470	1,412	2,572
Equity-settled share award expense	—	25,695	—
Pension scheme contributions and social welfare	29	45	68
	499	27,152	2,640

Executive directors and the chief executive

	Year ended 31 December 2013				
	Fees	Salaries, allowances and benefits in kind	Equity-settled share award expense	Pension scheme contributions and social welfare	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Jinggui Dong	—	195	—	10	205
Ms. Jinghong Qian	—	153	—	9	162
Mr. Yeming Liu	—	37	—	—	37
Mr. Rui Shi	—	—	—	—	—
Mr. Yu Shen	—	85	—	10	95
	—	470	—	29	499

	Year ended 31 December 2014				
	Fees	Salaries, allowances and benefits in kind	Equity-settled share award expense	Pension scheme contributions and social welfare	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Jinggui Dong	—	360	—	12	372
Ms. Jinghong Qian	—	120	—	12	132
Mr. Yeming Liu	—	445	25,695	3	26,143
Mr. Rui Shi	—	298	—	6	304
Mr. Yu Shen	—	189	—	12	201
	—	1,412	25,695	45	27,152

	Year ended 31 December 2015				
	Fees	Salaries, allowances and benefits in kind	Equity-settled share award expense	Pension scheme contributions and social welfare	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Jinggui Dong	—	441	—	14	455
Ms. Jinghong Qian	—	281	—	14	295
Mr. Yeming Liu	—	1,050	—	14	1,064
Mr. Rui Shi	—	400	—	12	412
Mr. Yu Shen	—	400	—	14	414
	—	2,572	—	68	2,640

In January 2014, Mr. Yeming Liu was granted share awards in respect of his service to the Group, further details of which are included in note 30 to the Financial Information. The fair value of these awards, which has been recognized in the statements of profit or loss, was determined at the grant date and modification date and the amount included in the consolidated financial statements for the year ended 31 December 2014 is included in the above directors' remuneration disclosure.

There were no emoluments payable to the independent non-executive directors and non-executive director during the Relevant Periods.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group during the Relevant Periods included two, one and two executive directors, respectively, details of their emoluments are set out in note 8. The emoluments for the Relevant Periods of the remaining three, four and three highest paid individuals who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	444	1,092	1,580
Equity-settled share award expense	—	43,077	—
Pension scheme contributions and social welfare	20	38	35
	464	44,207	1,615

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December		
	2013	2014	2015
Nil to HK$1,000,000	3	—	3
HK$6,500,001 to HK$7,000,000	—	1	—
HK$7,000,001 to HK$7,500,000	—	1	—
HK$12,500,001 to HK$13,000,000	—	1	—
HK$29,000,001 to HK$29,500,000	—	1	—
	3	4	3

In January 2014, share awards were granted to certain key management personnel including four non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in note 30 to the Financial Information. The fair value of these awards, which has been recognized in the statements of profit or loss, was determined at the grant date and modification date and the amount included in the consolidated financial statements for the year ended 31 December 2014 is included in the above non-director and non-chief executive highest paid employees' remuneration disclosure.

10. INCOME TAX EXPENSE

Tax on the consolidated statements of profit or loss represents:

Group

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Current — Mainland China Corporate income tax for the year	40,063	83,044	119,834
Deferred tax *(note 28)*	11,319	195	(4,434)
Total tax charge for the year	51,382	83,239	115,400

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Subsidiaries incorporated in Hong Kong were subject to income tax at the rate of 16.5% during the Relevant Periods. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the Relevant Periods.

In accordance with the Corporate Income Tax Law of the People's Republic of China, New High Technology Enterprises were subject to income tax at a tax rate of 15%. Jiangsu Yadea was recognized as a New High Technology Enterprise in May 2012 in accordance with the applicable enterprise income tax law of the PRC and was subject to income tax at a tax rate of 15% for the year ended 31 December 2013. Tianjin Industry was recognized as a New High Technology Enterprise in December 2013. For the years ended 31 December 2014 and 2015, the applicable tax rate for Tianjin Industry was preferential rate of 15%.

Other subsidiaries established in the PRC were subject to the income tax rate of 25% during the Relevant Periods.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Profit before tax	225,455	306,703	490,867
Tax at the statutory tax rate (25%)	56,364	76,676	122,717
Profits attributable to an associate *(note (a))*	(3,044)	(306)	—
Effect of tax concessions obtained	(2,506)	(10,296)	(9,473)
Expenses not deductible for tax	1,616	22,615	3,046
Income not subject to tax	(1,086)	(1,100)	(50)
Additional deduction for research and development expense	—	(4,701)	—
Adjustment in respect of current tax of previous periods	—	—	(846)
Tax losses not recognized during the year	38	351	6
Tax charge at the Group's effective rate	51,382	83,239	115,400

(a) The share of tax attributable to an associate amounting to RMB1,970,000, RMB743,000 and nil for the years ended 31 December 2013, 2014 and 2015, respectively, is included in "Share of profits and losses of an associate" in the consolidated statements of profit or loss.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the Relevant Periods was generated by the subsidiaries now comprising the Group and included a loss of RMB3,256,000 for the year ended 31 December 2015, which has been dealt with in the financial statements of the Company (note 31).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization and the preparation of the results of the Group for the Relevant Periods on a merger basis disclosed in note 2.1 above.

13. DIVIDENDS

On 29 January 2015, a special one-time cash dividend in the amount of HK$154,000,000 was declared by the Company to its shareholders and such dividend was paid on 30 January 2015 (except for an amount of approximately HK$13,600,000 which was unpaid as one of the shareholders waived its right to receive the dividend declared on 29 January 2015).

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Motor vehicles	Office equipment	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2013							
At 1 January 2013:							
Cost	229,403	35,832	39,744	16,001	5,431	91,328	417,739
Accumulated depreciation	(43,535)	(12,487)	(20,271)	(7,214)	(3,107)	—	(86,614)
Net carrying amount	185,868	23,345	19,473	8,787	2,324	91,328	331,125
At 1 January 2013, net of accumulated depreciation	185,868	23,345	19,473	8,787	2,324	91,328	331,125
Additions	456	6,418	11,561	5,600	3,439	121,671	149,145
Disposals	—	(1,404)	(509)	(1,151)	(28)	—	(3,092)
Depreciation provided for the year *(note 6)*	(12,248)	(4,157)	(8,533)	(3,985)	(808)	—	(29,731)
Transfers	20,633	851	—	—	—	(21,484)	—
At 31 December 2013, net of accumulated depreciation	194,709	25,053	21,992	9,251	4,927	191,515	447,447
At 31 December 2013:							
Cost	250,492	39,406	48,205	19,421	8,839	191,515	557,878
Accumulated depreciation	(55,783)	(14,353)	(26,213)	(10,170)	(3,912)	—	(110,431)
Net carrying amount	194,709	25,053	21,992	9,251	4,927	191,515	447,447
31 December 2014							
At 1 January 2014:							
Cost	250,492	39,406	48,205	19,421	8,839	191,515	557,878
Accumulated depreciation	(55,783)	(14,353)	(26,213)	(10,170)	(3,912)	—	(110,431)
Net carrying amount	194,709	25,053	21,992	9,251	4,927	191,515	447,447
At 1 January 2014, net of accumulated depreciation	194,709	25,053	21,992	9,251	4,927	191,515	447,447
Additions	23,580	5,619	3,760	6,166	2,601	133,562	175,288
Disposals	—	(3,565)	(61)	(14)	(28)	—	(3,668)
Depreciation provided for the year *(note 6)*	(15,552)	(4,981)	(7,070)	(5,259)	(1,904)	—	(34,766)
Transfers	207,411	9,748	—	4,656	4,534	(226,349)	—
At 31 December 2014, net of accumulated depreciation	410,148	31,874	18,621	14,800	10,130	98,728	584,301

	Buildings	Plant and machinery	Motor vehicles	Office equipment	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2014:							
Cost	481,483	51,098	49,378	30,104	15,772	98,728	726,563
Accumulated depreciation	(71,335)	(19,224)	(30,757)	(15,304)	(5,642)	—	(142,262)
Net carrying amount	410,148	31,874	18,621	14,800	10,130	98,728	584,301
31 December 2015							
At 1 January 2015:							
Cost	481,483	51,098	49,378	30,104	15,772	98,728	726,563
Accumulated depreciation	(71,335)	(19,224)	(30,757)	(15,304)	(5,642)	—	(142,262)
Net carrying amount	410,148	31,874	18,621	14,800	10,130	98,728	584,301
At 1 January 2015, net of accumulated depreciation	410,148	31,874	18,621	14,800	10,130	98,728	584,301
Additions	752	25,082	4,005	11,131	3,572	105,904	150,446
Disposals	—	(170)	(1,814)	—	—	—	(1,984)
Depreciation provided for the year *(note 6)*	(26,526)	(8,503)	(7,106)	(8,302)	(2,617)	—	(53,054)
Transfers	107,482	55,318	—	3,025	927	(166,752)	—
At 31 December 2015, net of accumulated depreciation	491,856	103,601	13,706	20,654	12,012	37,880	679,709
At 31 December 2015:							
Cost	589,717	131,284	43,702	44,260	20,271	37,880	867,114
Accumulated depreciation	(97,861)	(27,683)	(29,996)	(23,606)	(8,259)	—	(187,405)
Net carrying amount	491,856	103,601	13,706	20,654	12,012	37,880	679,709

As at 31 December 2013, 2014 and 2015, the application for the property ownership certificates for certain buildings with an aggregate net book value of approximately RMB61,339,000, RMB251,537,000 and RMB226,165,000, was still in process. In the opinion of the Directors, there is no legal barrier or otherwise for the Group to obtain the relevant title ownership certificates for these buildings from the relevant PRC authority.

As at 31 December 2013, 2014 and 2015, certain of the Group's buildings and construction in progress with aggregate net carrying amounts of RMB243,875,000, RMB341,880,000 and RMB416,463,000, respectively, were pledged to secure the Group's bills payable.

15. PREPAID LAND LEASE PAYMENTS

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Carrying amount at the beginning of year	168,093	184,709	225,845
Additions	20,581	45,843	—
Amortization provided during the year	(2,941)	(3,741)	(4,550)
Amortization capitalized	(1,024)	(966)	(683)
Carrying amount at end of year	184,709	225,845	220,612

The carrying amount of the Group's prepaid land lease payments represents land use rights situated in Mainland China. The remaining lease terms of the land use rights of the Group range from 37 to 47 years.

Certain of the Group's prepaid land lease payments with aggregate net book values of approximately RMB164,310,000, RMB180,517,000 and RMB220,612,000 as at 31 December 2013, 2014 and 2015, respectively, were pledged to secure the Group's bills payable.

16. INTANGIBLE ASSETS

Group

	Software
	RMB'000
31 December 2013	
Cost at 1 January 2013, net of accumulated amortization	1,817
Additions	10,124
Amortization provided during the year *(note 6)*	(679)
At 31 December 2013	11,262
At 31 December 2013:	
Cost	12,776
Accumulated amortization	(1,514)
Net carrying amount	11,262
31 December 2014	
Cost at 1 January 2014, net of accumulated amortization	11,262
Additions	2,645
Amortization provided during the year *(note 6)*	(1,499)
At 31 December 2014	12,408
At 31 December 2014:	
Cost	15,421
Accumulated amortization	(3,013)
Net carrying amount	12,408
31 December 2015	
Cost at 1 January 2015, net of accumulated amortization	12,408
Additions	3,961
Amortization provided during the year *(note 6)*	(2,207)
At 31 December 2015	14,162
At 31 December 2015:	
Cost	19,382
Accumulated amortization	(5,220)
Net carrying amount	14,162

17. INVESTMENT IN AN ASSOCIATE

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Share of net assets	139,081	—	—

Wuxi Xishan District Da Zhong Nong Cun Micro-credit Co. Ltd. ("Wuxi Micro-credit") is an associate of the Group and is considered to be a related party of the Group.

Particulars of the associate are as follows:

Name	Place and date of incorporation	Nominal value of registered capital	Percentage of ownership interest attributable to the Group	Principal activities
		RMB'000		
Wuxi Micro-credit . .	Wuxi, the PRC, 20 January 2010	200,000	50%	Providing loans and financial guarantee services

The following table illustrates the summarised financial information of Wuxi Micro-credit adjusted for any differences in accounting policies and reconciled to the carrying amounts in the consolidated financial statements:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Current assets	328,482	—	—
Non-current assets	53	—	—
Current liabilities	(50,373)	—	—
		—	—
Net assets	278,162	—	—
Reconciliation to the Group's interest in the associate:			
Proportion of the Group's ownership	50%	—	—
Group's share of net assets of the associate	139,081	—	—
Carrying amount of the investment	139,081	—	—

	Year ended 31 December		
	2013	2014*	2015
	RMB'000	RMB'000	RMB'000
Revenue	40,181	7,024	—
Profit and total comprehensive income for the year	24,356	2,444	—
Dividend received	30,000	—	—

* *On 30 June 2014, Jiangsu Yadea was demerged into Jiangsu Yadea and Jiangsu Yadea Investment Co., Ltd. (the "Demerger"). As a result of the Demerger, the investment in Wuxi Micro-credit was transferred to Jiangsu Yadea Investment Co., Ltd. (Jiangsu Yadea Investment). The financial information of Wuxi Micro-credit for the year ended 31 December 2014, represented the revenue, profit and total comprehensive income of Wuxi Micro-credit for the six months ended 30 June 2014. Details about the Demerger are included in note 35(b)(v) to the Financial Information.*

18. AVAILABLE-FOR-SALE INVESTMENTS

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Unlisted equity investments, at cost	75,800	—	8,223

The unlisted equity investments were stated at cost less impairment because the investments did not have a quoted market price in an active market and, in the opinion of the Directors, the fair value estimate cannot be measured reliably. The investments amounting to RMB75,800,000 as as at 31 December 2013 were transferred to Jiangsu Yadea Investment as a result of the Demerger as further detailed in note 35(b)(v) to the Financial Information.

Company

	As at 31 December
	2015
	RMB'000
Unlisted equity investments, at cost	8,223

19. INVENTORIES

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Raw materials	291,252	120,424	101,301
Finished goods	69,911	39,197	40,190
	361,163	159,621	141,491

20. TRADE AND BILLS RECEIVABLES

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Trade receivables	40,667	105,749	181,799
Impairment	(4,090)	(2,949)	(1,952)
	36,577	102,800	179,847
Bills receivable	18,994	9,124	3,378
	55,571	111,924	183,225

Full payment is typically required from customers of the Group before delivery of goods, except for certain customers in respect of specialty vehicle sales and credit sales. The credit terms generally vary from 15 days to six months from the date of billing. The Group seeks to maintain strict control over its outstanding receivables, and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. The Group's bills receivable were all aged within six months and neither past due nor impaired.

As at 31 December 2013, 2014 and 2015, the Group had endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognized Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB484,865,000, RMB320,041,000 and RMB104,327,000, respectively. The Derecognized Bills had a maturity of one to six months at the end of each of the Relevant Periods. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognized Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred

substantially all risks and rewards relating to the Derecognized Bills. Accordingly, it has derecognized the full carrying amounts of the Derecognized Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognized Bills and the undiscounted cash flows to repurchase these Derecognized Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognized Bills are not significant.

During the Relevant Periods, the Group has not recognized any gain or loss on the date of transfer of the Derecognized Bills. No gains or losses were recognized from the Continuing Involvement, both during the Relevant Periods or cumulatively. The endorsement has been made evenly throughout the Relevant Periods.

The aged analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date and net of impairment allowances, is as follows:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Within 6 months	25,157	101,121	177,456
More than 6 months but less than a year	2,265	318	—
Over 1 year	9,155	1,361	2,391
	36,577	102,800	179,847

The movements in impairment of trade receivables are as below:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
At beginning of year	4,090	4,090	2,949
Impairment losses reversed *(note 6)*	—	(1,141)	(997)
At end of year	4,090	2,949	1,952

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Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB4,090,000, RMB2,949,000 and RMB1,952,000 with carrying amounts before provision of RMB4,090,000, RMB2,949,000 and RMB1,952,000 as at 31 December 2013, 2014 and 2015, respectively.

The individually impaired trade receivables relate to customers that no longer have transactions with the Group and none of the receivables is expected to be recovered.

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	36,577	102,800	178,333
Past due but not impaired	–	–	1,514
	36,577	102,800	179,847

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

Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Non-current assets			
Prepayment for acquisition of items of property, plant and equipment	4,008	3,041	7,475
Prepaid decoration expenses *(iii)*	—	—	72,170
Prepayment for purchase of intangible assets	—	—	4,955
	4,008	3,041	84,600

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Current assets			
Prepayments to suppliers *(i)*	43,733	38,753	83,949
Prepayments for advertising	46,383	24,074	44,406
Deposits	15,440	15,195	20,508
VAT recoverable *(ii)*	4,638	5,959	5,202
Prepaid decoration expenses *(iii)*	—	—	44,438
Prepayments related to the [**REDACTED**] of the Company's shares	550	2,089	7,794
Others	8,785	4,610	5,800
	119,529	90,680	212,097

(i) Included in the prepayments to suppliers are prepayments to the Group's related parties of nil, nil and RMB12,193,000 as at 31 December 2013, 2014 and 2015, respectively. Details of the Group's prepayment balances with its related parties as at 31 December 2015 are disclosed in note 35(c).

(ii) Revenue from the Group's sales of electric vehicles is subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable on sales. The VAT recoverable is the net difference between output and deductible input VAT. The applicable tax rate for domestic sales of the Group is 17%.

(iii) To enhance the customer experience and increase sales, the Group invested in the distributor point of sales overhaul campaign by providing non-cash incentives in the form of decoration materials to the distributors. The non-cash incentives which are provided as part of current or future sales transactions, are initially capitalized as prepaid decoration expenses, and are subsequently amortized and deducted against revenue over the applicable periods in which the sales are related.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Wealth management products, at fair value	345,600	555,000	861,700

The wealth management products were issued by banks with variable interest rates, redeemable on demand or with maturity within 180 days in the PRC. As at 31 December 2013, 2014 and 2015, the Group invested in principal-protected variable income investment products of RMB32,000,000, RMB144,000,000 and RMB820,904,000 and non-principal-protected variable income investment products of RMB313,600,000, RMB411,000,000 and RMB40,796,000. As at 31 December 2013, 2014 and 2015, certain of the Group's wealth management products with carrying amounts of RMB20,000,000, RMB74,000,000 and RMB656,347,000 were pledged as security for the Group's bills payable.

23. PLEDGED BANK DEPOSITS

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Deposits pledged with banks for bills payable and short term bank loans	504,384	659,401	779,056

Pledged bank deposits earn interest at interest rates stipulated by the respective financial institutions. The pledged bank deposits are deposited with creditworthy banks with no recent history of default.

24. CASH AND CASH EQUIVALENTS

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Cash and bank balances	283,087	501,322	786,691

As at 31 December 2013, 2014 and 2015, the Group's cash and bank balances denominated in currencies other than RMB amounted to RMB490,000, RMB123,709,000 and RMB13,846,000, respectively. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Company

	As at 31 December	
	2014	2015
	RMB'000	RMB'000
Cash and bank balances	122,161	12,731

The cash and bank balances of the Company are denominated in HK$ and US$.

25. TRADE AND BILLS PAYABLES

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Trade payables	701,951	794,727	940,537
Bills payable	912,849	1,311,493	1,939,894
	1,614,800	2,106,220	2,880,431

An aged analysis of the trade and bills payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Within 3 months	1,073,352	1,276,040	1,651,079
3 to 6 months	523,996	782,269	1,180,176
6 to 12 months	14,452	30,691	21,905
12 to 24 months	2,511	16,230	23,930
Over 24 months	489	990	3,341
	1,614,800	2,106,220	2,880,431

Included in the trade and bills payables are trade payables to the Group's related parties of RMB93,269,000, RMB59,225,000 and RMB6,480,000 as at 31 December 2013, 2014 and 2015, respectively, and bills payable to the Group's related parties of RMB79,799,000, RMB87,749,000 and RMB139,190,000 as at 31 December 2013, 2014 and 2015, respectively. Details of the Group's trade payables and bills payable balances with its related parties as at the end of each of the Relevant Periods are disclosed in note 35(d).

Certain of the Group's bank facilities for issuance of bills payable amounted to RMB325,000,000 and RMB395,000,000 were guaranteed by the Controlling Shareholders as at 31 December 2013 and 2014, respectively, among which, bank facilities of RMB230,182,000 and RMB302,758,000 had been utilized as at 31 December 2013 and 2014, respectively.

Certain of the Group's bank facilities for issuance of bills payable amounted to RMB200,000,000 were guaranteed by Mr. Jiazhong Wang, the key management personnel of the Group, and the Controlling Shareholders as at 31 December 2013 and 2014, among which, bank facilities of nil and RMB28,751,000 had been utilized as at 31 December 2013 and 2014, respectively.

All the guarantees provided by the Controlling Shareholders and Mr. Jiazhong Wang have been matured or released as of this report date.

Trade payables are non-interest-bearing and have an average credit term of 15 to 90 days.

26. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Current liabilities			
Payables for purchase of items of property, plant and equipment	28,128	50,689	55,298
Advances from customers	79,360	81,896	40,830
Staff payroll and welfare payables	38,907	59,018	49,841
Sales rebate	20,333	19,736	22,667
Deferred revenue	5,052	7,831	10,138
Other tax payable	13,223	34,103	62,491
Others	5,212	12,175	15,475
	190,215	265,448	256,740

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Non-current liabilities			
Deferred government subsidy	—	—	22,160

27. INTEREST-BEARING BANK BORROWINGS

Group

	As at 31 December					
	2013		2014		2015	
	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000
Current						
Bank loans						
— guaranteed *(note (a))*	6.95	10,000	—	—	—	—
— secured *(note (b))*	—	—	—	—	1.91	12,997
		10,000		—		12,997

Company

	As at 31 December			
	2014		2015	
	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000
Current				
Bank loans				
— secured *(note (b))*	—	—	1.91	12,997

(a) The Group's bank loans which amounted to RMB10,000,000 were denominated in RMB and guaranteed by the Controlling Shareholders as at 31 December 2013 and fully repaid in 2014.

(b) The Company's bank loans which amounted to RMB12,997,000 were denominated in US$ and secured by the pledge of certain of the Group's pledged bank deposits as at 31 December 2015 and will be matured in 2016.

28. **DEFERRED TAX**

Deferred tax assets

The movements in deferred tax assets during the Relevant Periods are as follows:

Group

	Losses available for offsetting against future taxable profits	Accruals	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	14,190	9,730	1,362	25,282
Deferred tax (charged)/credited to the statement of profit or loss during the year *(note 10)*	(13,137)	1,639	179	(11,319)
At 31 December 2013 and at 1 January 2014	1,053	11,369	1,541	13,963
Deferred tax (charged)/credited to the statement of profit or loss during the year *(note 10)*	(1,053)	658	200	(195)
At 31 December 2014 and at 1 January 2015	—	12,027	1,741	13,768
Deferred tax (charged)/credited to the statement of profit or loss during the year *(note 10)*	759	4,929	(1,254)	4,434
At 31 December 2015	759	16,956	487	18,202

The Group had unused tax losses available for offsetting against future profits arisen in subsidiaries in Mainland China of RMB1,883,000, RMB3,288,000 and RMB1,390,000 as at 31 December 2013, 2014 and 2015, respectively, that will expire in one to five years and the deferred tax assets have not been recognized in respect of these losses as they have arisen in those subsidiaries that have been loss-making for some time and it is not considered probably that taxable profits will be available against which the tax losses can be utilized.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The withholding tax rate for the Group is 10%. As at the end of each of the Relevant Periods, no deferred tax liability has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings to foreign entities in the foreseeable future after their assessment based on factors which included the dividend policy, the level of working capital required for the Group's operation and the expansion of the Group's operation in Mainland China. The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totalled approximately RMB197,096,000, RMB266,402,000 and RMB624,916,000 as at 31 December 2013, 2014 and 2015.

29. SHARE CAPITAL

	As at 31 December	
	2014	2015
Authorised:		
4,807,000,000 ordinary shares and 193,000,000 Series A preferred shares of US$0.00001 each (US$'000) (31 December 2014: 48,070 ordinary shares and 1,930 Series A preferred shares of US$1.00 each (US$'000))	50	50
Issued and fully paid:		
2,000,000,000 ordinary shares of US$0.00001 each (US$'000) (31 December 2014: 20,000 ordinary shares of US$1.00 each (US$'000))	20	20
193,000,000 Series A preferred shares of US$0.00001 each (US$'000) (31 December 2014: 1,930 Series A preferred shares of US$1.00 each (US$'000))	2	2
Total issued and fully paid shares (US$'000)	22	22
Equivalent to RMB'000	135	135

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 17 July 2014 with initial authorised share capital of US$50,000 divided into 50,000 ordinary shares of a par value of US$1.00 each. On the date of incorporation, 1 ordinary share of US$1.00 was allotted and issued by the Company to an independent third party at par, and was then transferred to Ming Sheng Company Limited, a company controlled by Mr. Mingyou Chen, at par on 21 July 2014.

On 21 July 2014, 340, 299, 130, 70, 70, 46 and 44 ordinary shares were issued and allotted to Ke Ding International Company Limited, Ming Sheng Company Limited, Ding Shun Qi Company Limited, Zhi Cheng Company Limited, Ding Chen Company Limited, Jin Hui Company Limited and Ling Yun Company Limited (companies controlled by the Senior Management), respectively, by the Company at par.

On 22 July 2014, 13,300 and 5,700 ordinary shares were issued and allotted to Dai Wei Investment Company Limited and Fang Yuan Investment Company Limited (companies controlled by the Controlling Shareholders), respectively, by the Company at par.

On 10 December 2014, 1,930 out of 50,000 ordinary shares with a nominal value of US$1.00 each in the authorized share capital of our Company were re-designated and reclassified as Series A preferred shares and 1,930 Series A preferred shares were issued to Kuanjie (Cayman) Investment Center LP (previously known as Broad Street (Cayman) Investment Center LP) by the Company at a consideration equivalent to RMB125,000,000, before netting of transaction costs.

On 28 August 2015, the Company sub-divided the authorised shares from 48,070 ordinary shares and 1,930 Series A preferred shares of a par value of US$1.00 each to 4,807,000,000 ordinary shares and 193,000,000 Series A preferred shares of a par value of US$0.00001 each.

30. SHARE-BASED PAYMENTS

On 6 January 2014, 5% equity interests of the Group was granted to certain key management personnel (the "Senior Management") to reward their outstanding services and contributions provided to the Group over the years.

On 1 September 2014, the percentage of equity interest granted to the Senior Management was modified from 5% to 4.2%.

The shares granted were vested upon grant and the Group recognized a total share award expense of RMB75,574,000 for the year ended 31 December 2014.

The fair value of the shares granted is measured at the grant date and modification date using the income approach (discounted cash flow method, in particular) as the primary approach by using cash flow projections based on financial budgets covering an eight-year period approved by the senior management. The discount rate applied to cash flow projections is 14.53%. The cash flows beyond eight-year period are extrapolated using a growth rate of 3%.

31. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity of the Financial Information.

(i) Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company. The additions during the Relevant Periods represent the injections of additional paid-in capital by the equity holders of the subsidiaries to the respective companies. The deductions during the Relevant Periods represent the acquisitions of paid-in capital of the subsidiaries by the Group from the Controlling Shareholders which is accounted for as a distribution to the Controlling Shareholders.

(ii) Share premium account

Share premium account represented the amount paid by shareholders for capital injection in excess of nominal value.

(iii) Statutory reserve

In accordance with the PRC regulations and the articles of association of the companies of the Group, before distributing the net profit of each year, companies of the Group registered in the PRC are required to set aside 10% of their statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of this reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory surplus reserve fund is non-distributable except in the event of liquidation. Subject to certain restrictions set out in the relevant PRC regulations, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital.

(iv) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China.

Company

	Share premium account*	Exchange fluctuation reserve	Share award reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 17 July 2014 (date of incorporation)	—	—	—	—	—
Total comprehensive loss for the period	—	(63)	—	—	(63)
Equity-settled share award expense *(note 30)*	—	—	75,574	—	75,574
Capital injection from the shareholders of the Company *(note 29)*	121,316	—	—	—	121,316
At 31 December 2014	121,316	(63)	75,574	—	196,827
Total comprehensive loss for the year	—	1,051	—	(3,256)	(2,205)
Dividends paid to the shareholders of the Company *(note 13)*	(111,192)	—	—	—	(111,192)
At 31 December 2015	10,124	988	75,574	(3,256)	83,430

* *Share premium account represented the amount Kuanjie (Cayman) Investment Center LP subscribed for issued capital in excess of the nominal value.*

32. CONTINGENT LIABILITIES

As at 31 December 2013, 2014 and 2015, neither the Group nor the Company had any significant contingent liabilities.

33. PLEDGE OF ASSETS

Details of the Group's assets, which are pledged to secure bank loans, bank facilities and bills payable of the Group, are included in notes 14, 15, 22 and 23 to the Financial Information.

34. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments as at the end of each of the Relevant Periods:

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for: Property, plant and equipment	101,289	29,997	5,516

(b) Operating lease commitments

The Group leases certain of its plant and office buildings under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to seventeen years.

At the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating lease payables as follows:

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Within one year	3,513	4,282	8,364
In the second to fifth years, inclusive	7,359	9,333	13,027
After five years	9,533	8,433	7,333
	20,405	22,048	28,724

35. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

(a) Particulars of the related parties which entered into material transactions with the Group:

Name	Relationship	Referred to as
Mr. Jinggui Dong	Controlling Shareholder	Mr. Jinggui Dong
Ms. Jinghong Qian	Controlling Shareholder	Ms. Jinghong Qian
Dongguan Hanrun Vehicle Fittings Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Dongguan Hanrun
Ningbo Suogao Shock Absorber Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Ningbo Suogao
Wuxi Daen Vehicle Industry Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Wuxi Daen
Wuxi Xingwei Vehicle Fittings Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Wuxi Xingwei
Ningbo Quanmei Vehicle Frame Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Ningbo Quanmei
Wuxi Yakang Packaging Products Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Wuxi Yakang
Wuxi Colorful Metal Coating Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Wuxi Colorful
Tianjin Xingwei Electric Parts Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Tianjin Xingwei
Tianjin Xingmao Electric Parts Co., Ltd.	Controlled by close family members of the Controlling Shareholders	Tianjin Xingmao
Jiangsu Hengya Electric Vehicle Manufacturing Co., Ltd.	Controlled by the Controlling Shareholders	Jiangsu Hengya
Jiangsu Yadea Investment Co., Ltd.	Controlled by the Controlling Shareholders	Jiangsu Yadea Investment
Wuxi Baosheng Xiangmei Real Estate Development Co., Ltd.	Controlling Shareholders have significant influence	Wuxi Xiangmei
Jiangsu Tianmei Architectural Decoration Development Co., Ltd.	Controlling Shareholders have significant influence	Jiangsu Tianmei
Wuxi Xishan District Da Zhong Nong Cun Micro-credit Co., Ltd.	Associate of the Group before the Demerger and associate of Jiangsu Yadea Investment after the Demerger	Wuxi Micro-credit

(b) Transactions with related parties:

Save as disclosed in notes 21, 25 and 27, other significant related party transactions are set out below:

Group

i) Purchases of products:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Wuxi Xingwei	269,157	252,223	181,661
Tianjin Xingwei	64,520	54,888	46,448
Tianjin Xingmao	2,006	8,373	3,244
Ningbo Suogao	63,959	69,525	43,327
Wuxi Daen	42,525	58,757	37,729
Dongguan Hanrun	29,370	29,015	18,400
Wuxi Colorful	14,822	15,418	12,507
Wuxi Yakang	7,865	15,128	10,218
Ningbo Quanmei	294	8,453	—
	494,518	511,780	353,534

The purchases of products were made on terms agreed between the parties.

ii) Purchases of items of property, plant and equipment:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Jiangsu Tianmei	4,510	—	—

iii) Other transactions with related parties:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Advances to a related party:			
Wuxi Xiangmei	40,000	—	—
Repayment of an advance to a related party:			
Wuxi Xiangmei	25,000	15,000	—
Advances from a related party:			
Jiangsu Hengya	49,000	—	—
Repayment of advances from a related party:			
Jiangsu Hengya	—	49,000	—

iv) Transactions with the Controlling Shareholders

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Repayment of advance to the Controlling Shareholders	—	7,061	—
Advance to the Controlling Shareholders	6,083	—	—

v) On 30 June 2014, Jiangsu Yadea was demerged into Jiangsu Yadea and Jiangsu Yadea Investment. Pursuant to the Demerger, Jiangsu Yadea distributed net assets totalling RMB217,103,000 including cash and cash equivalents of RMB62,000,000, investment in an associate of RMB140,303,000 and available-for-sale investments of RMB14,800,000, to Jiangsu Yadea Investment on 30 June 2014. Further details are set out in the paragraph "Onshore Reorganization" in the section headed "History, Development and Reorganization" in the Document.

(c) Due from related parties:

Group

Trade related

	As at 31 December 2015
	RMB'000
Wuxi Xingwei	9,308
Ningbo Suogao	643
Tianjin Xingwei	1,218
Wuxi Colorful	1,024
	12,193

Non-trade related

	As at 31 December 2013
	RMB'000
Wuxi Xiangmei	15,000
Wuxi Micro-credit	25,000
	40,000

All amounts due from the related parties were unsecured and non-interest-bearing and had no fixed repayment terms. The balances as at 31 December 2013 were fully settled during the year ended 31 December 2014.

(d) Due to related parties (other than the Controlling Shareholders):

Group

Trade related

Trade payables

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Wuxi Xingwei	49,575	12,704	—
Ningbo Suogao	15,101	8,682	—
Wuxi Daen	7,870	11,889	2,505
Tianjin Xingwei	6,225	4,328	—
Tianjin Xingmao	1,407	4,226	2,645
Wuxi Colorful	5,939	5,197	—
Wuxi Yakang	3,252	7,253	4
Ningbo Quanmei	1,493	2,455	121
Dongguan Hanrun	937	2,311	295
Jiangsu Tianmei	1,470	180	910
	93,269	59,225	6,480

Bills payable

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Wuxi Xingwei	55,669	54,239	84,830
Ningbo Suogao	17,220	17,680	10,750
Wuxi Daen	6,430	12,740	7,630
Tianjin Xingwei	—	2,650	26,880
Wuxi Colorful	—	—	6,150
Wuxi Yakang	—	—	2,950
Ningbo Quanmei	480	440	—
	79,799	87,749	139,190

Non-trade related

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Jiangsu Hengya	49,000	—	—

All amounts due to related parties were unsecured and non-interest-bearing and to be settled in accordance with the agreed credit terms or were payable on demand.

(e) Due to the Controlling Shareholders:

Group

Non-trade related

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Mr. Jinggui Dong and Ms. Jinghong Qian	73,474	—	—

Balances with the Controlling Shareholders were unsecured and non-interest-bearing and have been fully settled during the year ended 31 December 2014.

(f) Compensation of key management personnel of the Group:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Salaries	564	2,613	4,180
Equity-settled share award expense	—	72,098	—
Pension scheme contributions and social welfare	39	69	109
	603	74,780	4,289

Further details of directors' and the chief executive's emoluments are included in note 8 to the Financial Information.

The related party transactions in respect of item (b) above constitute connected transactions and in respect of item (b) (i) above, except for the transactions with Tianjing Xingmao, Ningbo Quanmei and Wuxi Yakang, also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

36. INVESTMENTS IN SUBSIDIARIES

Company

	As at 31 December	
	2014	2015
	RMB'000	RMB'000
Capital contribution in respect of employee share-based payment	75,574	75,574

Particulars of the subsidiaries are disclosed in note 1 to the Financial Information.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Group

As at 31 December 2013

Financial assets

	Financial assets at fair value through profit or loss	Available-for-sale investments	Loans and receivables	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale investments	—	75,800	—	75,800
Trade and bills receivables	—	—	55,571	55,571
Financial assets included in prepayments, deposits and other receivables	—	—	24,225	24,225
Due from related parties	—	—	40,000	40,000
Financial assets at fair value through profit or loss	345,600	—	—	345,600
Pledged bank deposits	—	—	504,384	504,384
Cash and cash equivalents	—	—	283,087	283,087
	345,600	75,800	907,267	1,328,667

Financial liabilities

	Financial liabilities at amortized cost
	RMB'000
Trade and bills payables	1,614,800
Financial liabilities included in other payables and accruals	53,673
Interest-bearing bank borrowings	10,000
Due to the Controlling Shareholders	73,474
Due to a related party	49,000
	1,800,947

As at 31 December 2014

Financial assets

	Financial assets at fair value through profit or loss	Loans and receivables	Total
	RMB'000	RMB'000	RMB'000
Trade and bills receivables	—	111,924	111,924
Financial assets included in prepayments, deposits and other receivables	—	19,805	19,805
Financial assets at fair value through profit or loss	555,000	—	555,000
Pledged bank deposits	—	659,401	659,401
Cash and cash equivalents	—	501,322	501,322
	555,000	1,292,452	1,847,452

Financial liabilities

	Financial liabilities at amortized cost
	RMB'000
Trade and bills payables	2,106,220
Financial liabilities included in other payables and accruals	82,600
	2,188,820

As at 31 December 2015

Financial assets

	Financial assets at fair value through profit or loss	Available-for-sale investments	Loans and receivables	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale investments	—	8,223	—	8,223
Trade and bills receivables	—	—	183,225	183,225
Financial assets included in prepayments, deposits and other receivables	—	—	26,308	26,308
Financial assets at fair value through profit or loss	861,700	—	—	861,700
Pledged bank deposits	—	—	779,056	779,056
Cash and cash equivalents	—	—	786,691	786,691
	861,700	8,223	1,775,280	2,645,203

Financial liability

	Financial liability at amortized cost
	RMB'000
Trade and bills payables	2,880,431
Financial liabilities included in other payables and accruals	93,440
Interest-bearing bank borrowings	12,997
	2,986,868

Company

As at 31 December 2015

Financial assets

	Available-for-sale investment	Loans and receivables	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale investment	8,223	—	8,223
Due from a subsidiary	—	1,218	1,218
Cash and cash equivalents	—	12,731	12,731
	8,223	13,949	22,172

Financial liabilities

	Financial liabilities at amortized cost
	RMB'000
Due to a subsidiary	2,000
Interest-bearing bank borrowings	12,997
	14,997

As at 31 December 2014

Financial assets

	Loans and receivables
	RMB'000
Due from a subsidiary	1,227
Cash and cash equivalents	122,161
	123,388

Financial liability

	Financial liability at amortized cost
	RMB'000
Due to a subsidiary	2,000

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Group

	Carrying amounts		
	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Financial assets at fair value through profit or loss:			
Wealth management products	345,600	555,000	861,700

	Fair values		
	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Financial assets at fair value through profit or loss:			
Wealth management products	345,600	555,000	861,700

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, amounts due from related parties and financial liabilities included in other payables and accruals, trade and bills payables, an amount due to a related party, amounts due to the Controlling Shareholders and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At each reporting date, the manager reports directly to the chief financial officer. At each reporting date, the finance department analyzes the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of wealth management products included in the financial assets at fair value through profit or loss have been estimated using a discounted cash flow valuation model based on assumptions that are supported by observable market prices or rates. The valuation requires the Directors to make estimates about the expected future cash flows from future proceeds when the investments mature. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statements of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of each of the Relevant Periods.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial assets at fair value through profit or loss:

Group

	Fair value measurement as at 31 December 2013			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Recurring fair value measurement for:				
Financial assets at fair value through profit or loss:				
Wealth management products	—	345,600	—	345,600

	Fair value measurement as at 31 December 2014			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Recurring fair value measurement for:				
Financial assets at fair value through profit or loss:				
Wealth management products	—	555,000	—	555,000

	Fair value measurement as at 31 December 2015			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement for:				
Financial assets at fair value through profit or loss:				
Wealth management products	—	861,700	—	861,700

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits and the wealth management products included in the financial assets at fair value through profit or loss. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below.

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales denominated in US$ by operating units whose functional currency is RMB. Approximately 2%, 3% and 2% of the Group's sales during the Relevant Periods, respectively, were denominated in US$ undertaken by these operating units.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the retranslated value of monetary assets:

Group

	Increase/ (decrease) in the US$ exchange rate	Increase/ (decrease) in profit before tax
	%	RMB'000
31 December 2013		
If RMB weakens against US$	(5)	49
If RMB strengthens against US$	5	(49)
31 December 2014		
If RMB weakens against US$	(5)	535
If RMB strengthens against US$	5	(535)
31 December 2015		
If RMB weakens against US$	(5)	247
If RMB strengthens against US$	5	(247)

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of bank balances, amounts due from related parties, and trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at the end of each of the Relevant Periods, all pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

Group

	As at 31 December 2013				
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	—	—	10,257	—	10,257
Trade and bills payables	33,449	1,127,022	454,329	—	1,614,800
Financial liabilities included in other payables and accruals	22,430	4,825	26,418	—	53,673
Due to the Controlling Shareholders	73,474	—	—	—	73,474
Due to a related party	49,000	—	—	—	49,000
	178,353	1,131,847	491,004	—	1,801,204

	As at 31 December 2014				
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	146,132	1,332,643	627,445	—	2,106,220
Financial liabilities included in other payables and accruals	23,957	13,585	45,058	—	82,600
	170,089	1,346,228	672,503	—	2,188,820

	As at 31 December 2015				
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	—	65	13,183	—	13,248
Trade and bills payables	187,708	1,794,473	898,250	—	2,880,431
Financial liabilities included in other payables and accruals	46,936	13,039	33,465	—	93,440
	234,644	1,807,577	944,898	—	2,987,119

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank borrowings, trade and bills payables, financial liabilities included in other payables and accruals, amounts due to the Controlling Shareholders, an amount due to a related party, less cash and cash equivalents and pledged bank deposits. Capital includes equity attributable to owners of the patent. The gearing ratios as at the end of each of the Relevant Periods were as follows:

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Trade and bills payables	1,614,800	2,106,220	2,880,431
Financial liabilities included in other payables and accruals	53,673	82,600	93,440
Interest-bearing bank borrowings	10,000	—	12,997
Due to the Controlling Shareholders	73,474	—	—
Due to a related party	49,000	—	—
Less: Cash and cash equivalents	(283,087)	(501,322)	(786,691)
Pledged bank deposits	(504,384)	(659,401)	(779,056)
Net debt	1,013,476	1,028,097	1,421,121
Equity attributable to owners of the parent	627,249	516,573	781,837
Capital and net debt	1,640,725	1,544,670	2,202,958
Gearing ratio	62%	67%	65%

40. EVENTS AFTER THE RELEVANT PERIODS

There is no material subsequent event undertaken by the Company or by the Group subsequent to 31 December 2015.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2015.

Yours faithfully
ERNST & YOUNG
Certified Public Accountants
Hong Kong

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this document, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this document and the Accountants' Report set out in Appendix I to this document.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF OUR GROUP

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is prepared to show the effect on the consolidated net tangible assets of our Group as of 31 December 2015 as if the [**REDACTED**] had occurred on 31 December 2015 and is based on the consolidated net tangible assets of our Group as of 31 December 2015 attributable to the owners of our Company derived from the Accountants' Report as set out in Appendix I to this document and adjusted as described below.

The unaudited pro forma statement of adjusted consolidated net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group as of 31 December 2015 or any subsequent dates.

	Consolidated net tangible assets of our Group attributable to the owners of our Company as of 31 December 2015	**Estimated net proceeds from the [REDACTED]**	**Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**
	RMB'000	**RMB'000**	**RMB'000**	**RMB**	**HK$**
	(Note 1)	**(Note 2)**		**(Note 3)**	**(Note 4)**
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

Notes:

(1) The consolidated net tangible assets of our Group attributable to owners of our Company as of 31 December 2015, was determined as follow:

	RMB'000
Consolidated net assets of our Group as set out in Appendix I	*781,837*
Less: Intangible assets as set out in Appendix I	*14,162*
Consolidated net tangible assets attributable to owners of our Company	*767,675*

(2) The estimated net proceeds from the [**REDACTED**] *are based on the indicative* [**REDACTED**] *of HK$*[**REDACTED**] *and HK$*[**REDACTED**]*, respectively, after deduction of the* [**REDACTED**] *fees and other related expenses payable by our Company and* [**REDACTED**] *Shares are in issue assuming that the* [**REDACTED**] *has been completed on 31 December 2015, taking no account of any Shares which may be issued upon the exercise of the* [**REDACTED**].

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that [**REDACTED**] *Shares expected to be in issue immediately following completion of the* [**REDACTED**] *and without taking into account any Shares which may be issued upon exercise of the* [**REDACTED**].

(4) The unaudited pro forma adjusted consolidated net tangible assets per share is converted into Hong Kong dollars at an exchange rate of RMB1.00 to HK$1.1890.

(5) No adjustment has been made to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2015.

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of the Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on July 17, 2014 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "**Memorandum"**) and the Amended and Restated Articles of Association (the "**Articles"**).

1. MEMORANDUM OF ASSOCIATION

1.1 The Memorandum provides, inter alia, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

1.2 By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on ***[Date]***. The following is a summary of certain provisions of the Articles:

2.1 Shares

2.1.1 Classes of shares

The share capital of the Company consists of ordinary shares.

2.1.2 Share certificates

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and

where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words "restricted voting" or "limited voting" or "non-voting" or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

2.2 Directors

2.2.1 Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

2.2.2 Power to dispose of the assets of the Company or any subsidiary

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things

which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

2.2.3 Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

2.2.4 Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors and their close associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

2.2.5 Disclosure of interest in contracts with the Company or with any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or

the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his close associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

(a) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(b) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(c) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(d) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his close associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or

(e) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

2.2.6 Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of

the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

2.2.7 Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number

nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

(a) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;

(b) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;

(c) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;

(d) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(e) if he is prohibited from being a director by law;

(f) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;

(g) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or

(h) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

2.2.8 Borrowing powers

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarized above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

2.2.9 Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

2.2.10 Proceedings of the Board

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alterations to the constitutional documents

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

2.4 Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Cayman Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

2.6 Special resolution — majority required

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or

by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

2.7 Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

2.7.1 the chairman of the meeting; or

2.7.2 at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

2.7.3 any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

2.7.4 a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

2.8 Annual general meetings

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

2.9 Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

2.10 Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

2.10.1 in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

2.10.2 in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(a) the declaration and sanctioning of dividends;

(b) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(c) the election of Directors in place of those retiring;

(d) the appointment of auditors;

(e) the fixing of the remuneration of the Directors and of the auditors;

(f) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and

(g) the granting of any mandate or authority to the Board to repurchase securities in the Company.

2.11 Transfer of shares

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered,

in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

2.12 Power of the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

2.13 Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

2.14 Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

2.14.1 all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and

2.14.2 all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

(a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 % per annum, as the Board may decide, but a payment in advance of a call

shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

2.16 Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or

persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

2.17 Inspection of corporate records

Members of the Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is [**REDACTED**] on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

2.20 Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

2.20.1 if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

2.20.2 if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

2.21 Untraceable members

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

2.21.1 all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;

2.21.2 upon the expiry of the 12 years and 3 months period (being the 3 months' notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and

2.21.3 the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

2.22 Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on July 17, 2014 subject to the Cayman Companies Law. Certain provisions of the Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

3.1 Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

3.2 Share capital

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate

amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

3.2.1 paying distributions or dividends to members;

3.2.2 paying up unissued shares of the company to be issued to members as fully paid bonus shares;

3.2.3 any manner provided in section 37 of the Cayman Companies Law;

3.2.4 writing-off the preliminary expenses of the company; and

3.2.5 writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Cayman Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

3.3 Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

3.4 Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for

the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorized by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Under Section 37A(1) the Cayman Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

3.5 Dividends and distributions

With the exception of sections 34 and 37A(7) of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2.14 of this Appendix for further details). Section 37A(7)(c) of the Cayman Companies Law provides that for so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

3.6 Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of Foss v. Harbottle and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

3.6.1 an act which is *ultra vires* the company or illegal;

3.6.2 an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and

3.6.3 an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

3.7 Disposal of assets

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

3.8 Accounting and auditing requirements

Section 59 of the Cayman Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Cayman Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If the Company keeps its books of account at any place other than at its registered office or at any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

3.9 Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

3.10 Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

3.10.1 that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

3.10.2 in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(a) on or in respect of the shares, debentures or other obligations of the Company; or

(b) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of twenty years from August 5, 2014.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

3.11 Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

3.12 Loans to directors

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

3.13 Inspection of corporate records

The members of the company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

3.14 Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. The Cayman Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

3.15 Winding up

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the Company so resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

3.16 Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

3.17 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

3.18 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal advisor on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the section headed "Documents to be Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this document. Any person wishing to have a detailed summary of the Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY AND OUR SUBSIDIARIES

1. Incorporation

The Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on July 17, 2014. The Company has established a place of business in Hong Kong at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on January 29, 2015. Ms. Sau Ping Wong (黃秀萍) has been appointed as the authorized representative of the Company for the acceptance of service of process in Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to the Cayman Companies Law and its constitution comprises the Memorandum and Articles. A summary of certain provisions of the Articles and relevant aspects of the Cayman Companies Law is set forth in Appendix III to this document.

2. Changes in the share capital of the Company

The authorized share capital of the Company as of the date of its incorporation was US$50,000 divided into 50,000 ordinary shares with a par value of US$1.00 each.

On July 17, 2014, one ordinary share with a par value of US$1.00 was allotted and issued at par to Reid Services Limited as the initial subscriber credited as fully paid. The ordinary share was transferred to Ming Sheng on July 21, 2014.

On July 21, 2014, the Company allotted and issued 340 ordinary shares, 299 ordinary shares, 130 ordinary shares, 70 ordinary shares, 70 ordinary shares, 46 ordinary shares and 44 ordinary shares, each with a par value of US$1.00, at par to Ke Ding, Ming Sheng, Ding Shun Qi, Zhi Cheng, Ding Chen, Jin Hui and Ling Yun, respectively.

On July 22, 2014, the Company allotted and issued at par 13,300 ordinary shares and 5,700 ordinary shares with a par value of US$1.00 each to Dai Wei and Fang Yuan, respectively.

On December 10, 2014, 1,930 out of 50,000 ordinary shares with a par value of US$1.00 each in the authorized share capital of the Company were re-designated and reclassified as Series A Preferred Shares with a par value of US$1.00 each and 1,930 Series A Preferred Shares with a par value of US$1.00 each were issued to the First [**REDACTED**] Investor. As a result, the total issued share capital of the Company was increased from 20,000 shares with a par value of US$1.00 each to 21,930 shares, comprising 20,000 ordinary shares with a par value of US$1.00 each and 1,930 Series A Preferred Shares with a par value of US$1.00 each.

Pursuant to the resolutions in writing of all our Shareholders passed on August 28, 2015, each ordinary share with a par value of US$1.00 in the authorized share capital of the Company was subdivided into 100,000 Ordinary Shares with a par value of US$0.00001 each, and each Series A Preferred Share with a par value of US$1.00 in the authorized share capital of the Company was subdivided into 100,000 Series A Preferred Shares with a par value of US$0.00001 each. As a result of the

share subdivision, the authorized share capital of the Company comprised 4,807,000,000 Ordinary Shares with a par value of US$0.00001 each and 193,000,000 Series A Preferred Shares with a par value of US$0.00001 each.

Immediately following the completion of the [**REDACTED**] and the [**REDACTED**] but not taking into account any Shares which may be allotted and issued pursuant to the exercise of the [**REDACTED**] and options which may be granted under the Share Option Scheme, the issued share capital of the Company will be [US$30,000] divided into [**REDACTED**] Shares, all fully paid or credited as fully paid and [**REDACTED**] Shares will remain unissued.

Save for aforesaid and as mentioned in the paragraph headed "A. Further Information About The Company And Our Subsidiaries — 3. Written resolutions of all our Shareholders passed on [●]" below, there has been no alteration in the share capital of the Company since its incorporation.

3. Written Resolutions of all our Shareholders passed on [●]

(i) Pursuant to the written resolutions of all our Shareholders passed on [●]:

(a) the Company approved and adopted the Memorandum and Articles, the latter of which will come into effect upon the [**REDACTED**] of our Shares on the Stock Exchange;

(b) upon completion of the [**REDACTED**] and after the conversion of 193,000,000 Series A Preferred Shares with a par value of US$0.00001 each, being all the Series A Preferred Shares in issue, into 193,000,000 Ordinary Shares with par value of US$0.00001 each, pursuant to the automatic conversion provisions as set out in the Company's then Articles of Association (and deemed conversion immediately prior to completion of the [**REDACTED**]), so that the authorized share capital of the Company shall become US$50,000 divided into 5,000,000,000 Ordinary Shares with a par value of US$0.00001 each;

(c) conditional on (i) the Listing Committee of the Stock Exchange granting the approval for the [**REDACTED**] of, and permission to deal in, the Shares in issue, Shares to be issued (pursuant to the [**REDACTED**], the [**REDACTED**] and the exercise of the [**REDACTED**] and options which may be granted under the Share Option Scheme); and (ii) the obligations of the [**REDACTED**] under the [**REDACTED**] becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the [**REDACTED**]) (on behalf of the [**REDACTED**])) and the [**REDACTED**] Agreements not being terminated in accordance with their terms or otherwise:

(i) the [**REDACTED**] and [**REDACTED**] were approved and our Directors were authorized to effect the same and to allot and issue new Shares pursuant to the [**REDACTED**] and the [**REDACTED**];

(ii) the proposed [**REDACTED**] was approved and our Directors were authorized to implement the [**REDACTED**]; and

(iii) the rules of the Share Option Scheme, the principal terms of which are set forth in the paragraph headed "D. Other Information — 1. Share Option Scheme" in this appendix, were approved and adopted with effect from the [**REDACTED**] and our

Directors were authorized to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such actions as may be necessary and/or desirable to implement and give effect to the Share Option Scheme;

(d) subject to the share premium account of the Company having sufficient balance, or otherwise being credited as a result of the issue of [**REDACTED**] pursuant to the [**REDACTED**], our Directors were authorized to allot and issue a total of [**REDACTED**] Shares credited as fully paid at par value to the holders of Shares on the register of members of the Company at the close of business on the business day immediately preceding the [**REDACTED**] (or as they may direct) in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalization of the sum of US$[870] standing to the credit of the share premium account of the Company, and the Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued Shares;

(e) a general unconditional mandate was granted to our Directors to, inter alia, allot, issue and deal with Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the [**REDACTED**] referred to in sub-paragraph (d) above and the [**REDACTED**].

This mandate does not cover Shares to be allotted, issued or dealt with under a rights issue, any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, specific authority granted by the Shareholders in general meeting or upon the exercise of the [**REDACTED**] and options which may be granted under the Share Option Scheme. Such mandate will expire:

(i) at the conclusion of the next annual general meeting of the Company;

(ii) at the end of the period within which the next annual general meeting of the Company is required to be held under the applicable laws or the Articles; or

(iii) when revoked or varied by an ordinary resolution of our Shareholders at a general meeting of the Company,

whichever occurs first;

(f) a general unconditional mandate was given to our Directors to exercise all powers of the Company to repurchase Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the [**REDACTED**] and the [**REDACTED**] (excluding Shares which may be allotted and issued upon the exercise of the [**REDACTED**] and options which may be granted under the Share Option Scheme).

This mandate only relates to repurchase made on the Stock Exchange or on any other stock exchange on which the Shares may be [**REDACTED**] (and which is recognized by

the SFC and the Stock Exchange for this purpose) and which are in accordance with all applicable laws and regulations. Such mandate will expire:

(i) at the conclusion of the next annual general meeting of the Company;

(ii) at the end of the period within which the next annual general meeting of the Company is required to be held under the applicable laws or the Articles; or

(iii) when revoked or varied by an ordinary resolution of our Shareholders at a general meeting of the Company;

whichever occurs first; and

(g) the general unconditional mandate as mentioned in paragraph (e) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (f) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the [**REDACTED**] and the [**REDACTED**], excluding any Shares which may fall to be issued pursuant to the exercise of the [**REDACTED**] and options which may be granted under the Share Option Scheme).

4. Corporate reorganization

The companies comprising our Group underwent the Reorganization in preparation for the [**REDACTED**] of the Shares on the Stock Exchange. Please refer to the section headed "History, Development and Reorganization" in this document for further details.

5. Changes in the share capital of our subsidiaries

Save as disclosed below, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this document:

Yadea Group Management

On July 24, 2014, Yadea Group Management was incorporated in the BVI with a maximum number of authorized shares of 50,000 shares of par value of US$1.00 each in a single class.

Yadea HK

On August 5, 2014, Yadea HK was incorporated in Hong Kong under the Companies Ordinance and allotted and issued 100 ordinary shares to Yadea Group Management for a consideration of HK$100.

Wuxi Consulting

On June 30, 2014, Wuxi Consulting was established in the PRC as a sino-foreign joint enterprise with a registered capital of RMB1,000,000. On December 8, 2014, it became a wholly owned foreign enterprise.

Jiangsu Yadea

On June 30, 2014, the registered capital of Jiangsu Yadea was decreased to RMB150,000,000.

Jiangsu Xindi

On February 7, 2014, Jiangsu Xindi was established in the PRC as a limited liability company with a registered capital of RMB70,000,000.

Yadea Sales

On April 10, 2014, Yadea Sales was established in the PRC as a limited liability company with a registered capital of RMB50,000,000.

Shanghai Yadea

On May 15, 2015, Shanghai Yadea was established in the PRC as a limited liability company with a registered capital of RMB10,000,000.

Guangdong Yadea Motorcycle

On July 15, 2015, Guangdong Yadea Motorcycle was established in the PRC as a limited liability company with a registered capital of RMB10,000,000.

6. Particulars of our subsidiaries

Particulars of our subsidiaries are set forth in Note 1 to the Accountant's Report, the text of which is set forth in Appendix I to this document.

7. Repurchase of Shares by the Company

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listings are on the Main Board of the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) Shareholders' approval

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

(*Note: Pursuant to the written resolutions of all our Shareholders passed on [●], a general unconditional mandate (the "**Buyback Mandate**") was granted to our Directors authorizing the repurchase by the Company on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be* [**REDACTED**] *and which is recognized by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following the completion of the* [**REDACTED**] *and the* [**REDACTED**] *(excluding Shares which may be issued upon the exercise of the* [**REDACTED**] *and options which may be granted under the Share Option Scheme), at any time until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held or when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.)*

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange as amended from time to time.

(iii) Trading restrictions

The total number of shares which the Company may repurchase is up to 10% of the total number of our Shares in issue immediately after completion of the [**REDACTED**], without taking into account any Shares which may be issued pursuant to the exercise of the [**REDACTED**] and options which may be granted under the Share Option Scheme. The Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares without the prior approval of the Stock Exchange. The Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of [**REDACTED**] Shares which are in the hands of the [**REDACTED**] falling below the relevant prescribed minimum percentage as required by the Stock Exchange. The Company is required to procure that the broker appointed by the Company to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(iv) Status of repurchased Shares

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those Shares must be cancelled and destroyed. Under the Cayman Companies Law, a company's repurchased shares if not held by the company as treasury shares shall be treated as cancelled and the amount of the company's issued share capital shall be reduced by the aggregate value of the repurchased shares accordingly, although the authorized share capital of the company will not be reduced.

(v) Suspension of repurchase

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the information is made publicity available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half year, quarterly or other interim period (whether or not required under the Listing Rules); and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting requirements

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which the Company may make a purchase of Shares (whether on the Stock Exchange or otherwise). The report must state, among others, the total number of Shares purchased by the Company the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases, where relevant, and confirmation that those purchases were made in accordance with the Listing Rules or the domestic rules applying to purchases on that other stock exchange, and there have been no material changes to the particulars contained in the explanatory statement for repurchase of Shares. In addition, the Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased (whether on the Stock Exchange or otherwise), the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid by the Company for such purchases.

(vii) Connected persons

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person (as defined in the Listing Rules) and a core connected person shall not knowingly sell its securities to the company on the Stock Exchange.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of the Company and Shareholders for our Directors to receive the general authority from our Shareholders to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit the Company and Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share.

(c) Funding of repurchases

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Articles and the applicable laws of the Cayman Islands.

Any payment for the repurchase of Shares will be drawn from the profits of the Company or from the proceeds of a fresh issue of shares made for the purpose of the purchase or, if authorized by the Articles and subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorized by the Articles and subject to the Cayman Companies Law, out of capital.

Our Directors do not propose to exercise the Buyback Mandate to such an extent as would, under the circumstances, have a material adverse effect in the opinion of our Directors on the working capital requirements of the Company or its gearing levels. However, there might be a material adverse impact on the working capital or gearing position of the Company as compared with the position disclosed in this document in the event that the Buyback Mandate is exercised in full.

(d) Share capital

Exercise in full of the Buyback Mandate, on the basis of [**REDACTED**] Shares in issue immediately after the [**REDACTED**] of the Shares (but taking no account of Shares which may be allotted and issued pursuant to the exercise of the [**REDACTED**] and options which may be granted under the Share Option Scheme), could accordingly result in up to [**REDACTED**] Shares being repurchased by the Company during the period until:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or

(iii) the date on which the Buyback Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting,

whichever occurs first.

(e) General

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares to the Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands. The Company has not repurchased any Shares since its incorporation.

No core connected person (as defined in the Listing Rules) of the Company has notified the Company that he/she or it has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

If as a result of a securities repurchase pursuant to the Buyback Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "**Code**"). Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of the increase of our Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result. Save as aforesaid, our Directors are not aware of any consequences which may arise under the Code if the Buyback Mandate is exercised.

If the Buyback Mandate is fully exercised immediately following the completion of the [**REDACTED**], then, taking no account of any Shares which may be allotted and issued upon the exercise of the [**REDACTED**] and options which may be granted under the Share Option Scheme, the total number of Shares which will be repurchased pursuant to the Buyback Mandate shall be [**REDACTED**] Shares (being 10% of the issued share capital of the Company based on the aforesaid assumptions). The percentage shareholding of the Controlling Shareholders will increase to approximately [**REDACTED**]% of the issued share capital of the Company immediately following the full exercise of the Buyback Mandate. In the event that the Buyback Mandate is exercised in full, the number of Shares held by the public would fall below 25% of the total number of Shares in issue. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue may only be implemented with the approval of the Stock Exchange to waive the requirement regarding the [**REDACTED**] under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Buyback Mandate to such an extent that, under the circumstances, there would be insufficient [**REDACTED**] as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by us within the two years preceding the date of this document and are or may be material:

(1) a share transfer agreement dated June 17, 2014 entered into between Yadea Group and Ms. Qian, pursuant to which Ms. Qian agreed to transfer her 30% equity interest in Yadea Import Export to Yadea Group for a consideration of RMB153,000;

(2) a share transfer agreement dated June 17, 2014 entered into between Yadea Group and Ms. Jinmei Zhu (朱金妹), pursuant to which Ms. Jinmei Zhu (朱金妹) agreed to transfer her 19% equity interest in Yadea Import Export to Yadea Group for a consideration of RMB96,900;

(3) a share transfer agreement dated June 17, 2014 entered into between Yadea Group and Wuxi Longda Metals Co., Ltd. (無錫隆達金屬材料有限公司), pursuant to which Wuxi Longda Metals Co., Ltd. (無錫隆達金屬材料有限公司) agreed to transfer its 94.29% equity interest in Jiangsu Xindi to Yadea Group for a consideration of RMB64,976,375;

(4) a share transfer agreement dated July 2, 2014 entered into between Yadea Group and Mr. Huiyu Qian (錢惠裕), pursuant to which Mr. Huiyu Qian (錢惠裕) agreed to transfer his 10% equity interest in Jiangsu Yadea to Yadea Group for a consideration of RMB15,000,000;

(5) a share transfer agreement dated July 2, 2014 entered into between Yadea Group and Mr. Dong, pursuant to which Mr. Dong agreed to transfer his 90% equity interest in Jiangsu Yadea for a consideration of RMB135,000,000;

(6) a share transfer agreement dated August 22, 2014 entered into among Mr. Dong and Yadea Group, pursuant to which Mr. Dong agreed to transfer his 25% equity interests in Tianjin Industry to Yadea Group for a consideration of RMB12,500,000;

(7) a share transfer agreement dated August 22, 2014 entered into between Ms. Qian and Yadea Group, pursuant to which Ms. Qian agreed to transfer her 20% equity interests in Tianjin Industry to Yadea Group for a consideration of RMB10,000,000;

(8) a share transfer agreement dated August 22, 2014 entered into among Mr. Dong and Yadea Group, pursuant to which Mr. Dong agreed to transfer his 25% equity interests in Tianjin Weiye to Yadea Group for a consideration of RMB125,000;

(9) a share transfer agreement dated August 22, 2014 entered into between Ms. Qian and Yadea Group, pursuant to which Ms. Qian agreed to transfer her 20% equity interests in Tianjin Weiye to Yadea Group for a consideration of RMB100,000;

(10) a share transfer agreement dated October 31, 2014 entered into between Yadea Investment Holdings Limited and Mr. Ching Feng Liao (廖璟烽), an Independent Third Party, pursuant to which Yadea Investment Holdings Limited agreed to transfer its 95% equity interest in Wuxi Consulting to Mr. Ching Feng Liao (廖璟烽) for nil consideration;

(11) a share transfer agreement dated December 1, 2014 entered into between Mr. Ching Feng Liao (廖璟烽) and Yadea HK, pursuant to which Mr. Ching Feng Liao (廖璟烽) agreed to transfer his 95% equity interest in Wuxi Consulting to Yadea HK for nil consideration;

(12) a share transfer agreement dated December 1, 2014 entered into between Yadea HK and Wuxi Yuanjiabai, pursuant to which Wuxi Yuanjiabai agreed to transfer its 5% equity interest in Wuxi Consulting to Yadea HK for nil consideration;

(13) a share transfer agreement dated December 4, 2014 entered into between Mr. Dong and Wuxi Consulting, pursuant to which Mr. Dong agreed to transfer his 60% equity interest in Yadea Group to Wuxi Consulting for a consideration of RMB78,614,657;

(14) a share transfer agreement dated December 4, 2014 entered into between Ms. Qian and Wuxi Consulting, pursuant to which Ms. Qian agreed to transfer her 40% equity interest in Yadea Group to Wuxi Consulting for a consideration of RMB52,409,772;

(15) the [**REDACTED**] Share Subscription Agreement;

(16) the [**REDACTED**] Shareholders Agreement;

(17) an amendment agreement, dated December 30, 2014 entered into by and among the Company, the First [**REDACTED**] Investor and the Controlling Shareholders, pursuant to which provisions of the [**REDACTED**] Shareholders Agreement was amended and supplemented;

(18) the Deed of Adherence;

(19) the Deed of Indemnity;

(20) [the [**REDACTED**] Agreement];

(21) the Deed of Non-Competition; and

(22) the [**REDACTED**].

2. Intellectual property rights of our Group

Trademarks

(a) Trademarks for which registration has been granted

As of the Latest Practicable Date, we were the registered owner of and had the right to use the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Place of Registration	Registration No.	Registered Owner	Class[(1)]	Expiry Date
1		Hong Kong	303064185AA	Yadea Group	4, 12, 35, 36, 37 and 39	July 10, 2024
		PRC	12243913	Yadea Group	12	August 13, 2024
2		Hong Kong	303064176	Yadea Group	4, 12, 35, 36, 37, 39 and 42	July 10, 2024
3		PRC	5124248	Yadea Group	12	December 27, 2018
			5061770		3	October 20, 2019
			5061771		6	December 6, 2018
			5061772		7	December 6, 2018
			5061769		2	May 13, 2019
			5061768		1	August 13, 2019
			5061776		28	June 13, 2019
			5062060		41	November 20, 2019
			5061774		9	December 6, 2018
			5061773		8	December 6, 2018
			5061775		17	May 27, 2019
4		PRC	5877131	Yadea Group	12	October 20, 2019
5		PRC	10511982	Yadea Group	1	July 20, 2023
			10522556		2	April 13, 2023
			7355860		4	September 20, 2020
			7355914		5	November 20, 2020
			10512085			August 6, 2023
			7355957		6	December 13, 2020
			7356000		7	December 13, 2020
			10512149			March 20, 2024
			10512175		8	April 13, 2023
			7356331		9	December 27, 2020
			10512291			January 6, 2024
			7356358		10	September 20, 2020

Note:

(1) For details of the classification of goods for trademarks, please refer to the sub-section headed "B. Further Information About Our Business — 2. Intellectual property right of our Group — Trademarks — (c) Classification of goods for trademarks" in this appendix.

No.	Trademark	Place of Registration	Registration No.	Registered Owner	Class[(1)]	Expiry Date
			7356673		11	January 20, 2021
			5877132		12	October 20, 2019
			7356695		13	December 6, 2020
			7356712		14	August 13, 2020
			10512396			April 13, 2023
			7356737		15	August 13, 2020
			7359246		16	October 13, 2020
			10522578			July 13, 2023
			7359282		18	October 13, 2020
			10522607			July 13, 2023
			7359325		19	June 13, 2021
			10522679			June 20, 2023
			7359354		20	December 27, 2020
			10522700			December 6, 2023
			7359381		21	December 27, 2020
			10512446			July 13, 2023
			7359416		22	October 13, 2020
			10517069			April 13, 2023
			7359952		23	October 13, 2020
			7359973		24	December 27, 2020
			10517078			April 13, 2023
			736003		25	December 20, 2020
			10517094			September 20, 2023
			7362451		26	October 13, 2020
			7362548		27	December 27, 2020
			10517111		28	April 13, 2023
			7362532		29	April 6, 2021
			7362621		30	December 27, 2020
			10517135			July 13, 2023
			7362651		31	October 20, 2020
			7362682		32	August 27, 2020
			10517159			July 13, 2023
			7362708		34	October 20, 2020
			7362745		37	April 20, 2021
			10517199			July 13, 2023
			10005539		38	November 20, 2022
			10517228			April 13, 2023
			7362770		39	December 6, 2020
			7362805		40	April 20, 2021
			10517270		41	July 13, 2023
			7365250		42	August 20, 2021
			10522729			July 13, 2023
			7365267		43	October 20, 2020
			10522493			July 13, 2023
			7365310		44	December 27, 2020
			7365347		45	October 13, 2020

No.	Trademark	Place of Registration	Registration No.	Registered Owner	Class[1]	Expiry Date
6	恒雅	PRC	9938112	Yadea Group	12	November 13, 2022
7	董氏雅迪	PRC	10152474	Yadea Group	12	April 6, 2023
8	灵茜儿	PRC	1649965 3423456	Yadea Group	12	October 13, 2021 August 20, 2024
9		PRC	1665995 3423465	Yadea Group	12	November 13, 2021 August 20, 2024
10	新伙伴 XIN HUO BAN	PRC	1685877 3423464	Yadea Group	12	December 20, 2021 August 20, 2024
11	Done's	PRC	3727175	Yadea Group	12	July 13, 2015*(Note)*
12	雅迪 YA DI	PRC	1617902 3423466	Yadea Group	12	August 13, 2021 August 20, 2024
13		PRC	12020975 12021016	Yadea Group	12 9	June 27,2025 June 27,2024
14	恒动	PRC	5460892	Yadea Group	12	September 27, 2019

Note:

The Company is in the process of renewing this trademark.

(b) Trademarks under application

As of the Latest Practicable Date, we have also applied for extension for the expired registration of the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Place of application	Application No.	Applicant	Class[(Note)]	Application Date
1		PRC	15035397	Yadea Group	40	February 23, 2012
					41	February 22, 2012
					42	July 4, 2014
					43	
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			15022047		1	July 2, 2014
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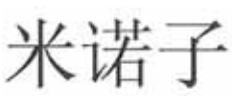
No.	Trademark	Place of application	Application No.	Applicant	Class(Note)	Application Date
2		PRC	12243961		12	March 11, 2013
3		PRC	13977173 13977119	Yadea Group	9 12	January 24, 2014
4		PRC	13977177 13977125	Yadea Group	9 12	January 24, 2014
5		PRC	13977189 13977131	Yadea Group	9 12	January 24, 2014
6		PRC	13977200 13977143	Yadea Group	9 12	January 24, 2014
7	米洛兹	PRC	15038973	Yadea Group	12	July 4, 2014
8	董经贵	PRC	13977106	Yadea Group	12	January 24, 2014
9		PRC	15012362	Yadea Group	12	July 1, 2014
10	Heyo	PRC	15012384	Yadea Group	12	July 1, 2014

No.	Trademark	Place of application	Application No.	Applicant	Class[Note]	Application Date
11		PRC	15039021	Yadea Group	12	July 4, 2014
12		PRC	13977112	Yadea Group	12	January 24, 2014
13		PRC	15038956	Yadea Group	12	July 4, 2014
14		PRC	15038968	Yadea Group	12	July 4, 2014
15		PRC	15039006	Yadea Group	12	July 4, 2014
16		PRC	15039009	Yadea Group	12	July 4, 2014
17		PRC	10512372	Yadea Group	12	February 21, 2012
18		PRC	15012281	Yadea Group	12	July 1, 2014

Note:

For details of the classification of goods for trademarks, please refer to the sub-section headed "B. Further Information About Our Business — 2. Intellectual property right of our Group — Trademarks — (c) Classification of goods for trademarks" in this appendix.

(c) Classification of goods for trademarks

The tables below set out the classification of goods for trademarks in Hong Kong and the PRC (the detailed classification in relation to the relevant trademarks depends on the details set out in the relevant trademark certificates and may differ from the list below):

Hong Kong

Class Number	Goods
4	Industrial oils and greases; lubricants; dust absorbing, wetting and binding compositions; fuels (including motor spirit) and illuminants; candles and wicks for lighting
12	Vehicles; apparatus for locomotion by land, air or water
35	Advertising; business management; business administration; office functions
36	Insurance; financial affairs; monetary affairs; real estate affairs
37	Building construction; repair; installation services
39	Transport; packaging and storage of goods; travel arrangement
42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software

PRC

Class Number	Goods
1	Battery acid; alkali; lithium oxide; alcohol; surfactant; plasticizers; plastic dispersant; food preservative chemicals; wood pulp; paper pulp
2	Paints; vehicle chassis anticorrosive coating; vehicle chassis primer; wall plaster; ceramic glaze; coating materials; fixing agent; paint coagulant; paint adhesives; polyethylene clay
4	Fuel; coal; industrial wax; wax (raw material); candle; lamp wick; dust-removing agents; electric energy
5	Radiopharmaceuticals; medical gases; repellents for dogs; animal detergent; medicines for veterinary purposes; chemical preparations for veterinary purposes
6	Railway metal materials; non-electrical metal cable joints; metal cage; metallic lower anchor column; medical metallic identification bracelet; metallic weather vane; metallic tree protector; animal traps; ordinary metallic art pieces; iron ore; metal monuments

Class Number	Goods
7	Agricultural machinery; aquarium tank pumps; woodworking machines; paper machine; typesetter (printing); loom sleeve; starch machine; tea machine; industrial cigarette machine; tanning machines; industrial pharmaceutical processing machine; embossing machine; glass processing machines; chemical fertilizer equipment; electric machinery for chemical industry; geological exploration; machinery and equipment for mining; converters for steel works; drilling rigs (floating or non-floating); lifting appliance; punching machine; casting machinery; fittings for engine boilers; coin machine; static industry equipment; gas separation plant; spraying gun; electric door roller
8	Fishgig; tweezers; carving tool (hand tool); trowel; glasscutter (hand tool); lettering pen; sculpting drill; sidearms besides firearms; baton; dagger
9	Facsimile equipment; measure appliances; scale; naval signaling devices; antenna wire; camera (photography); measuring apparatus; fire-extinguishing equipment; industrial radiology equipment; accident prevention device for personal use; animation; electric door opener
10	Medical equipment and instruments; dental equipment; electric therapy equipment; medical beds; feeding bottle; condom; surgical implants (artificial materials); orthopedic articles; suture materials
11	Blowlamps; gas lamps; lava rocks for barbecue use; boiler (non-mechanical components); disposable sterilization pouches; gas lighters; atomic pile; graphical crucible
12	Locomotive vehicles by land, air, water or rail; small-sized motor vehicles; car windows; electric motorcycles; rearview mirror; mopeds; carrier tricycles; tires; electric vehicles; motorcycles; electric bicycles; electro-tricycles; electric scooters; bicycles; motors for electric bicycles; delivery tricycles; cable cars; handcarts; stagecoaches; seaplanes; boats; vehicle dampers; motors for land vehicles; vehicle wheel rims; wheel brake shoe; luggage carriers for vehicles; frames for tricycles
13	Tactical weapons; firelighters; signal fireworks; fireworks; firecrackers; spray for personal protection
14	Precious metal ingots; unprocessed or processed precious metals; precious metal alloys; precious metal boxes; jewelry box; clock; watch; watch components; chronometrical instruments; electronic watch; alarm clock; stopwatch; talking time clock; electronic all years calendar
15	Musical instrument; electronic musical instrument; music synthesizer; wooden knocker; stringed instrument; tuner (tuning devise)
16	Ink; stamp; numbering machine; drawing equipment; scale; painting materials; stenograph; arithmetical tables; architectural model; beads; leather luggage tag; electric or non-electric typewriter; teaching materials (excluding instruments); chalk; globes; mathematics teaching aids
18	Trekking pole; animal collars; harness belts; pet apparel; dog collars; sausage casings; saddle; leashes; whip; harness fittings

Class Number	Goods
19	Non-metallic mold; luminous panel materials; luminous auxiliary building materials; cement board; non-metallic refractory construction materials; waterproofed membrane; asphalt; coatings (building materials); gypsum; cement; concrete building components; fireclay; stone adhesive; concrete or marble artwork; non-metallic monument
20	Plastic food decorations; family pet case; coffin; medical non-metallic identification bracelet
21	Comb; toothpicks; toiletries; indoor aquarium tank; insect traps; porcelain decorations; porcelain, terracotta or glass art; pottery; crystal crafts; brushes; brush materials; glass (raw material); drinking trough
22	Net compartment; vehicle cover (non-installation); sail; retardant cloth; tents; grass bottle wrappers; down feather (poultry); wadding for filtering; wool; carbon fiber textile; hemp tape; non-metallic rope; rope; packaging tape; non-metallic tape for wrapping or binding; non-metallic cable; car towing ropes; cables for towing vehicles
23	Yarn; artificial silk; worsted wool; spun silk; darning thread and yarn; thread; nylon thread; knitting wool; bulk yarn; cashmere
24	Non-stationery tape; filter cloth; non-woven fabrics; textile wall hangings; silk crafts; Hadad; banner; shroud; carpet; textile printing machine pad; paper blankets (towels); heat adhesive fabrics; plastic materials (fiber substitutes); fabric label; fiberglass fabrics; metal cotton (space cotton); curtain fabric
25	Costumes; sari; dancing dress; chasuble; sash; shower cap; sleeping face mask; sleeping eye mask
26	Needle; thimble; sewing supplies (excluding threads); needle box; shoulder pads; patch textile heat-sensitive adhesive sheet; linens with numeric or alphabetical labels; teapot cover
27	Carpet; mat; cushion; non-textile wall hangings
28	Rocking horse; puppet; magic devices; electric recreational vehicles; electric chair; swivel chair; plastic track; skating shoes with sliding devices; roller skates with blades; roller skates
29	Meat; fish (not alive); canned vegetables; fruit preserves; pickled vegetables; eggs; dairy beverages (milk-based); edible oil; fruit salad; edible jellies; purified nuts; dry edible fungus; edible protein
30	Yeast; baking soda; edible enzyme; siffening whipped cream; household meat tenderizer
31	Trees; oats; natural flowers; poultry for breeding; fresh fruit; fresh vegetables; cereal; animal foodstuffs; malt; animal habitat supplies
32	Beverages; beverage flavors; mineral water ingredients; liquor ingredients; almond syrup; sparkling beverage power; beer; malt extract for beer production
34	Tabacco; snuffing tabacco; tabacco pipe; ashtray; matches; cigarette lighters; flint; cigarette filter; cigarette paper; smoking can

Class Number	Goods
37	Mining; heating equipment installation and repair; aircraft maintenance and repair; shipbuilding; photo equipment repair; bids repair; antirust; vault maintenance and repair; tire retreading; apparel refurbishment; disinfection; elevator installation and repair; medical equipment installation and repair; anti-theft alarm system installation and repair; telephone installation and repair; art restoration; jewelry repair
38	Television broadcasts; news agency; radio broadcasts; telephone service; cellular telephone communication; computer-aided information and image transmission; information transmission equipment rental; fax equipment rental; telecommunication equipment rental; bulletin board services; telecast; information transmission; computer terminal transmission; electronic mail; information transmission equipment rental; optic fiber communication; global computer network service and telecommunications
39	Transport; martime transportation; vehicle transport; air transportation; car rental; warehouse rental; diving suit rental; power distribution; canal gate operation; delivery (letters or commodities); travel agency (excluding hotel reservations); pipeline transport
40	Welding; blown glassware; pottery; smoked food; slaughtering of animals; livestock slaughter; waste and garbage recycling; air freshening; water purification
41	Video release; lottery operation;
42	Oilfield exploitation anlysis; chemical analysis; bacteriological analysis; weather forecast; computer rental; technical product identification; textile testing; roadworthiness inspection; land-survey; cosmetics research; meteorological information; websites creation and maintenance; server rental; intangible asset evaluation; goods weighing
43	Animal boarding; chair, table, table cloth and glassware rental; animal accommodation
44	Animal feeding; pet feeding; garden design; gardening; plant conservation; eyeware stores
45	Private bodyguard; social companionship; costume rental; funeral services; security locks opening; mediation; intellectual property consulting; legal research; marriage agency; dating service

Domain Names

As of the Latest Practicable Date, we have registered the following domain names:

Domain Name	Registrant	Expiry Date
yadea.com.cn	Jiangsu Yadea	November 13, 2019

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) Disclosure of interest — interests and short positions of our Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations

Immediately following the completion of the [**REDACTED**] and the [**REDACTED**], assuming that the [**REDACTED**] and options which may be granted under the Share Option Scheme are not exercised, the interest or short position of our Directors or chief executives of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, once the Shares are [**REDACTED**], are as follows:

(i) Interests in Shares of the Company

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Dong*(Notes 1 & 3)*	Interest of controlled corporation/interest of concert parties	[**REDACTED**]	[**REDACTED**]%
Ms. Qian*(Notes 2 & 3)*	Interest of controlled corporation/interest of concert parties	[**REDACTED**]	[**REDACTED**]%

Notes:

(1) Mr. Dong holds the entire issued share capital of Dai Wei, which in turn owns [**REDACTED**] *Shares. By virtue of Part XV of the SFO, Mr. Dong is deemed to be interested in the Shares held by Dai Wei.*

(2) Ms. Qian holds the entire issued share capital of Fang Yuan, which in turn owns [**REDACTED**] *Shares. By virtue of Part XV of the SFO, Ms. Qian is deemed to be interested in the Shares held by Fang Yuan.*

(3) Pursuant to the Concert Parties Arrangement, Mr. Dong and Ms. Qian confirmed that they are parties acting in concert in relation to the exercise of their voting rights at the meetings of the shareholders and the board of directors of the members of our Group. They have also further undertaken that during the period when they remain interested in, directly or indirectly, the Shares, they will continue to act in accordance with the Concert Parties Arrangement. As such, Mr. Dong and Ms. Qian, together with their respective holding companies (being Dai Wei and Fang Yuan), are all deemed to be interested in the total Shares held by Dai Wei and Fang Yuan.

(ii) Interests in associated corporations

Name of Director	Name of associated corporation	Number of issued share capital interested	Approximate percentage of shareholding
Mr. Dong	Dai Wei	[**REDACTED**]	[**REDACTED**]%
Ms. Qian	Fang Yuan	[**REDACTED**]	[**REDACTED**]%

(b) Particulars of service contracts

Each of Mr. Dong, Ms. Qian, Mr. Yeming Liu (劉曄明), Mr. Rui Shi (石鋭) and Mr. Yu Shen (沈瑜), being our executive Directors, has entered into a service contract with the Company on [●]. Each service contract is for an initial term of three years commencing from the [**REDACTED**].

Each of Mr. Xiang Fan (范翔), being our non-executive Director, and Mr. Naisheng Yao (姚乃勝), Mr. Biguang Wu (吳邺光) and Mr. Zongwei Li (李宗煒), each being our independent non-executive Director, has entered into a letter of appointment with the Company on [●]. Each letter of appointment is for an initial term of three years commencing from the [**REDACTED**].

(c) Directors' remuneration

An aggregate of approximately RMB2,640,000 was paid to our Directors as remuneration for the year ended December 31, 2015 (including fees, salaries, contribution to pension schemes, housing allowances, other allowances and benefits-in-kind and discretionary bonuses).

Our independent non-executive Directors have been appointed for a term of three years. The Company intends to pay a director's fee of HK$300,000 per annum to each of the independent non-executive Directors.

Under the arrangements currently in force, the aggregate amount of remuneration payable by our Group to our Directors for the year ending December 31, 2016 will be approximately RMB3,273,440.

There was no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years immediately preceding the issue of this document.

Further details of the terms of the above service contracts are set forth in the paragraph headed "C. Further Information About Our Directors And Substantial Shareholders — 1. Directors — (b) Particulars of service contracts" in this appendix.

2. Substantial Shareholders

(a) So far as our Directors are aware, immediately following the completion of the [**REDACTED**] and the [**REDACTED**] (but without taking into account the exercise of the [**REDACTED**] and options which may be granted under the Share Option Scheme), the following persons (other

than our Directors and chief executive of the Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO:

Name	Capacity	Number of Shares	Approximate percentage of shareholding
Dai Wei*(Note 1)*	Beneficial interest/interest of concert parties	[**REDACTED**]	[**REDACTED**]%
Fang Yuan*(Note 1)*	Beneficial interest/interest of concert parties	[**REDACTED**]	[**REDACTED**]%

Note:

(1) Pursuant to the Concert Parties Arrangement, Mr. Dong and Ms. Qian confirmed that they are parties acting in concert in relation to the exercise of their voting rights at the meetings of the shareholders and the board of directors of the members of our Group. They have also further undertaken that during the period when they remain interested in, directly or indirectly, the Shares, they will continue to act in accordance with the Concert Parties Arrangement. As such, Mr. Dong and Ms. Qian, together with their respective holding companies (being Dai Wei and Fang Yuan), are all deemed to be interested in the total Shares held by Dai Wei and Fang Yuan.

(b) As of the Latest Practicable Date, so far as is known to our Directors, no persons were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had options in respect of such capital.

3. Agency fees or commissions received

Save as disclosed in this document, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this document in connection with the issue or sale of any capital of any member of our Group.

4. Disclaimers

Save as disclosed herein:

(a) none of our Directors or the chief executive of the Company has any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once the Shares are [**REDACTED**];

(b) none of our Directors or experts referred to under paragraph headed "D. Other Information — 10. Consents of Experts" in this appendix has any direct or indirect interest in the promotion of

the Company, or in any assets which have within the two years immediately preceding the date of this document been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group;

(d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));

(e) taking no account of Shares which may be taken up under the [**REDACTED**], none of our Directors or chief executive knows of any person (not being a Director or chief executive of the Company) who will, immediately following the completion of the [**REDACTED**], have an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group; and

(f) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or our Shareholders who are interested in more than 5% of the issued share capital of the Company has any interest in the five largest customers or the five largest suppliers of our Group.

D. OTHER INFORMATION

1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of all our Shareholders passed on [●].

(a) Purpose

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Our Directors believe the Share Option Scheme will enable our Group to reward our employees, our Directors and other selected participants for their contributions to our Group. Given that our Directors are entitled to determine the performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalize on the benefits of the options granted.

(b) Who may join

Our Directors (which expression shall, for the purpose of this paragraph, include a duly authorized committee thereof) may, at their absolute discretion, invite any person belonging to any of the following

classes of participants, who our Board considers, in its sole discretion, have contributed or will contribute to our Group, to take up options to subscribe for Shares (collectively the "**Eligible Participants**"):

(i) any directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of any member of our Group; and

(ii) any advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners, service providers of any member of our Group.

For the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of participants shall not, by itself, unless our Directors otherwise so determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' opinion as to the participant's contribution to the development and growth of our Group.

(c) Maximum number of Shares

(i) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of our Group shall not in aggregate exceed 30% of the issued share capital of the Company from time to time.

(ii) The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group shall not in aggregate exceed 10% of the aggregate of the Shares in issue on the day on which trading of the Shares commence on the Stock Exchange, such 10% limit represents [**REDACTED**] Shares, and any Shares which may be allotted and issued upon the exercise of the [**REDACTED**] (the "**General Scheme Limit**").

(iii) Subject to paragraph (i) above and without prejudice to paragraph (iv) below, the Company may issue a circular to its Shareholders and seek approval of its Shareholders in a general meeting to extend the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of our Group shall not exceed 10% of the Shares in issue as of the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by the Company to its Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Subject to paragraph (i) above and without prejudice to paragraph (iii) above, the Company may seek separate Shareholders' approval in a general meeting to grant options beyond the

General Scheme Limit or, if applicable, the extended limit referred to in paragraph (iii) above to participants specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to its Shareholders containing a general description of the identified participants, the number and terms of options to be granted, the purpose of granting options to the identified participants with an explanation as to how the terms of the options serve such purpose and all other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(d) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of the options granted and to be granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "**Individual Limit**"). Any further grant of options to a participant in aggregate in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to our Shareholders and our Shareholders' approval in general meeting of the Company with such participant and his close associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(e) Grant of options to connected persons

(i) Any grant of options under the Share Option Scheme to any Director, chief executive or substantial Shareholder of the Company or any of their respective associates must be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options).

(ii) Where any grant of options to a substantial Shareholder of the Company or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(1) representing in aggregate over 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the Shares in issue; and

(2) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of each grant, in excess of HK$5 million (or such other higher amount as may from time to time be specified by the Stock Exchange);

such further grant of options must be approved by our Shareholders in a general meeting. The Company must send a circular to its Shareholders no later than the date on which the Company gives notice of the general meeting to approve the Share Option Scheme. The grantees, their associates and all core connected persons of the Company must abstain from voting at such general meeting, except that they may vote against the relevant resolution at the general meeting provided that any of their intention to do

so has been stated in the circular to be sent to the Shareholders in connection therewith. Any vote taken at the general meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director or any of their respective associates must be approved by our Shareholders in a general meeting.

(f) Time of acceptance and exercise of option

An option may be accepted by a participant to whom the offer is made within 5 business days from the date on which the letter containing the offer is delivered to that participant. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under the Share Option Scheme. Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(g) Performance targets

Unless our Directors otherwise determine and state in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(h) Subscription price for Shares and consideration for the option

The subscription price per Share under the Share Option Scheme will be a price determined by our Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the offer of grant (provided that in the event that any option is proposed to be granted within a period of less than five business days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the [**REDACTED**] shall be used as the closing price for any business day falling within the period before [**REDACTED**] of the Shares on the Stock Exchange); and (iii) the nominal value of a Share on the date of grant.

A nominal consideration of HK$1 is payable upon acceptance of the grant of an option.

(i) Ranking of Shares

(i) Shares allotted and issued upon the exercise of an option will be identical to the then existing issued shares of the Company and subject to all the provisions of the Memorandum and Articles for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date the name of the grantee is registered on the register of members of the Company or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor

shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights or rights to participate in any dividends or distributions (including those arising on a liquidation of the Company) declared or recommended or resolved to be paid to the Shareholders on the register until the completion of the registration of the grantee on the register of members of the Company as the holder thereof.

(ii) Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of the Company from time to time.

(j) Restrictions on the time of grant of options

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of our Directors (as such date is first notified to the Stock Exchange in accordance with the requirements of the Listing Rules) for the approval of the Company's results for any year, half-year, quarter or any other interim period (whether or not required under the Listing Rules); and (ii) the last date on which the Company must publish its announcement of its results for any year, half-year, quarter or any other interim period (whether or not required under the Listing Rules), and ending on the date of the announcement of the results, no offer for grant of options may be made.

Our Directors may not grant any option to a participant who is a Director during the period or time in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

(k) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(l) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest in favor of or enter into any agreement with any other person over or in relation to any option, except for the transmission of an option on the death of the grantee to his personal representative(s) on the terms of this Share Option Scheme.

(m) Rights on ceasing employment

If the grantee of an option is an Eligible Participant and ceases to be an Eligible Participant for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in sub-paragraph (o) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be

exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was physically at work with our Group or the relevant subsidiary whether salary is paid in lieu of notice or not.

(n) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Participant and ceases to be an Eligible Participant by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was physically at work with our Group or the relevant subsidiary whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(o) Rights on dismissal

If the grantee of an option is an Eligible Participant and ceases to be an Eligible Participant by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group or the relevant subsidiary into disrepute) or on any other ground on which an employer would be entitled to terminate his or her employment summarily, his option will lapse automatically and will not be exercisable on or after the date of ceasing to be an Eligible Participant.

(p) Rights on breach of contract

If our Directors shall at their absolute discretion determine that (i)(1) the grantee of any option (other than an Eligible Participant) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and our Group or any relevant subsidiary on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (ii) the option granted to the grantee under the Share Option scheme shall lapse as a result of any event specified in items (1), (2) or (3) in (i) above, his option will lapse automatically and will not be exercisable on or after the date on which our Directors have so determined.

(q) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavors to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to our Shareholders, a grantee shall be

entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be.

(r) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and the Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of the Company available in liquidation pari passu with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of the Company.

(s) Grantee being a company wholly owned by Eligible Participants

If the grantee is a company wholly owned by one or more Eligible Participants: sub-paragraphs (k), (m), (n) and (o) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (k), (m), (n) and (o) shall occur with respect to the relevant Eligible Participant, and the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant Eligible Participant provided that our Directors may in their absolute discretions decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(t) Adjustments to the subscription price

In the event of a [**REDACTED**], rights issue, subdivision or consolidation of Shares or reduction of capital of the Company whilst an option remains exercisable, such corresponding adjustments (if any) certified by the auditors for the time being of or an independent financial advisor to the Company as fair and reasonable will be made to (i) the number or nominal amount of Shares to which the Share Option Scheme or any option relates, so far as unexercised, and/or (ii) the subscription price of the option concerned, and/or (iii) the method of exercise of the Option, provided that (1) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (2) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (3) no adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any adjustments made on a [**REDACTED**], such auditors or independent financial advisor must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules and such other applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange (including, but not limited to, the "Supplementary Guidance on Main Board Listing Rule 17.03(13) and the Note

immediately after the Rule" attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to share option schemes).

(u) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee.

When the Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by our Shareholders pursuant to sub-paragraphs (c) (iii) and (iv) above.

(v) Termination of the Share Option Scheme

The Company by ordinary resolution in a general meeting or the Board may at any time terminate the Share Option Scheme and in such event no further options shall be offered or granted but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

(i) the expiry of the period referred to in sub-paragraph (f);

(ii) the date or the expiry of the periods or dates referred to in sub-paragraphs (k), (m), (n), (o), (q) and (r);

(iii) the date on which the grantee commits a breach of the provision which restricts the grantee to transfer or assign an option granted under the Share Option Scheme or sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest in favor of or enter into any agreement with any other person over or in relation to any option except for the transmission of an option on the death of the grantee to his personal representative(s) on the terms of this scheme;

(iv) the date on which the grantee (being an employee or a director of any member of our Group) ceases to be an Eligible Participant of the Share Option Scheme by reason of the termination of his or her employment or engagement on the grounds that he or she has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his or her debts or has become bankrupt or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or on any other ground on which an employer would be entitled to terminate his or her employment summarily;

(v) the date on which the grantee joins a company which the Board believes in its sole and reasonable opinion to be a competitor of the Company;

(vi) the date on which the grantee (being a corporation) appears either to be unable to pay or to have no reasonable prospect of being able to pay its debts or has become insolvent or has made any arrangement or composition with its creditors generally; and

(vii) unless our Board otherwise determines, and other than in the circumstances referred to in sub-paragraphs (m) or (n), the date the grantee ceases to be an Eligible Participant (as determined by a Board resolution) for any other reason.

(x) Others

(i) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting or agreeing to grant approval of (subject to such condition as the Stock Exchange may impose) the [**REDACTED**] of and permission to deal in such number of Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number representing the General Scheme Limit. Application has been made to the Listing Committee of the Stock Exchange for the [**REDACTED**] of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(ii) The terms and conditions of the Share Option Scheme relating to the matters set forth in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of our Shareholders in a general meeting.

(iii) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by our Shareholders in a general meeting and the Stock Exchange, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(iv) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

(v) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by our Shareholders in a general meeting.

(y) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as of the Latest Practicable Date. Any such valuation will have to be made on the basis of a certain option pricing model or other method that depends on various assumptions including the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options granted as of the Latest Practicable Date would be based on a number of speculative assumptions that are not meaningful and would be misleading to investors.

(z) Grant of options

As of the date of this document, no options have been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the [**REDACTED**] of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme.

2. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of our subsidiaries.

3. Tax and Other Indemnity

Mr. Dong, Ms. Qian, Dai Wei and Fang Yuan (together, the "**Indemnifiers**") have entered into a deed of indemnity in favor of our Group (being a material contract referred to in the paragraph headed "B. Further Information About Our Business — 1. Summary of material contracts" in this appendix) to provide the indemnities on a joint and several basis in respect of, among other matters, taxation resulting from profits or gains earned, accrued or received, as well as any penalties imposed due to non-compliance incidents, including non-compliance incidents relating to social insurance and housing provident fund payments on or before the date when the [**REDACTED**] becomes unconditional.

4. Litigation

During the Track Record Period and up to the Latest Practicable Date, save as disclosed in this document and so far as our Directors are aware, no litigation or claim of material importance (to the Group's financial condition or results of operation) is pending or threatened against any member of our Group.

5. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for the [**REDACTED**] of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the [**REDACTED**] and the Shares to be issued as mentioned in this document (including any Shares which may fall to be issued pursuant to the exercise of the [**REDACTED**] and options which may be granted under the Share Option Scheme).

The Sole Sponsor has declared its independence pursuant to Rule 3A.07 of the Listing Rules. The total amount of fees payable to the Sole Sponsor by the Company is HK$5,000,000.

6. Preliminary Expenses

Our preliminary expenses are estimated to be approximately US$6,033 and are payable by the Company.

7. Promoter

We do not have any promoter. Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefits have been paid, allotted or given nor are any proposed cash, securities or other benefits to be paid, allotted or given to any promoters.

8. Taxation of holders of Shares

(a) Hong Kong

The sale, purchase and transfer of Shares registered with our Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration of or, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after February 11, 2006.

(b) Cayman Islands

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisors

Intending holders of the Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasized that none of the Company, our Directors or the other parties involved in the [**REDACTED**] will accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in the Shares or exercise of any rights attaching to them.

9. Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

Name	Qualifications
Appleby	Cayman Islands legal advisor to the Company
China Securities (International) Corporate Finance Company Limited	Licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, acting as the Sole Sponsor of the [**REDACTED**]

Name	Qualifications
Ernst & Young	Certified public accountants
Beijing Lutong United Law Firm	PRC legal advisor to the Company
Frost & Sullivan	Industry consultant
Protiviti Shanghai Company Limited	Internal control advisor
Paul Hastings LLP	Paul Hastings LLP is an international law firm. Paul Hastings LLP advised on U.S. and European Union sanctions laws in relation to the export of our products in Iran, Sudan and Russia
HWL Ebsworth Lawyers	HWL Ebsworth Lawyers is an Australian law firm. HWL Ebsworth Lawyers advised Australian sanctions laws in relation to the export of our products in Iran, Sudan and Russia

10. Consents of Experts

Each of Appleby, China Securities (International) Corporate Finance Company Limited, Ernst & Young, Beijing Lutong United Law Firm, Frost & Sullivan, Protiviti Shanghai Company Limited, Paul Hastings LLP and HWL Ebsworth Lawyers has given and has not withdrawn its consent to the issue of this document with the inclusion of its report and/or letter and/or summary of values and/or valuation certificates and/or legal opinion (as the case may be) and references to its name included herein in the form and context in which it respectively appears.

None of the experts named above has any shareholding interest in the Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of our subsidiaries.

11. Particulars of the [REDACTED]

Name	Description	Registered Office	Number of [REDACTED]
Kuanjie (Cayman) Investment Center LP[(1)]	First [**REDACTED**] Investor	Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands	[**REDACTED**]

Note:

(1) For details of the background of the [**REDACTED**]*, please refer to the section headed "History, Development and Reorganization — [**REDACTED**] Investments — Information on the* [**REDACTED**] *investors — First* [**REDACTED**] *Investor".*

12. Bilingual Document

The English language and Chinese language versions of this document are being published separately in reliance on the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

13. Binding Effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

14. Miscellaneous

(a) Save as disclosed in this document, within the two years immediately preceding the date of this document:

(i) no share or loan capital of the Company or any of our subsidiaries had been issued or agreed to be issued or proposed to be fully or partly paid either for cash or a consideration other than cash;

(ii) no share or loan capital of the Company or any of our subsidiaries had been under option or agreed conditionally or unconditionally to be put under option;

(iii) no commissions, discounts, brokerages or other special terms had been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of our subsidiaries;

(iv) no commission had been paid or payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of our subsidiaries;

(b) save as disclosed in this document, there are no founder, management or deferred shares nor any debentures in the Company or any of our subsidiaries;

(c) save as disclosed in this document, none of the persons named in the sub-paragraph headed "D. Other Information — 10. Consents of Experts" in this appendix is interested beneficially or otherwise in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group;

(d) our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since December 31, 2015 (being the date to which the latest audited combined financial statements of our Group were made up);

(e) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document;

(f) the principal register of members of the Company will be maintained in Hong Kong by [**REDACTED**]. All transfer and other documents of title of the Shares must be lodged for registration with and registered by our share register in Hong Kong. All necessary arrangements have been made to enable the Shares to be admitted to [**REDACTED**];

(g) no company within our Group is [**REDACTED**] on any stock exchange or traded on any trading system and at present, and our Group is not seeking or proposing to seek any [**REDACTED**] of, or permission to deal in, the share or loan capital of the Company on any other stock exchange; and

(h) there is no arrangement under which future dividends are waived or agreed to be waived.

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were:

(a) copies of each of the [**REDACTED**];

(b) a copy of each of the material contracts referred to in the section headed "Statutory and General Information — B. Further Information About Our Business — 1. Summary of material contracts" in Appendix IV to this document; and

(c) the written consents referred to in the section headed "Statutory and General Information — D. Other Information — 10. Consents of Experts" in Appendix IV to this document.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Paul Hastings at 21–22/F, Bank of China Tower, 1 Garden Road, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

(a) the Memorandum and Articles of Association;

(b) the accountants' report for the three years ended December 31, 2015 prepared by Ernst & Young, the text of which is set out in Appendix I to this document;

(c) the letter issued by Ernst & Young relating to our unaudited pro forma financial information, the text of which is set out in Appendix II to this document;

(d) the PRC legal opinions issued by Beijing Lutong United Law Firm, our PRC Legal Advisor, in respect of certain aspects of our Group and the property interests of our Group;

(e) the letter of advice prepared by Appleby, our legal advisor as to the laws of the Cayman Islands, summarizing certain aspects of the Cayman Islands company law as referred to in Appendix III to this document;

(f) the rules of the Share Option Scheme;

(g) the material contracts referred to in the section headed "Statutory and General Information — B. Further Information About Our Business — 1. Summary of material contracts" in Appendix IV to this document;

(h) the written consents referred to in the section headed "Statutory and General Information — D. Other Information — 10. Consents of Experts" in Appendix IV to this document;

(i) the service contracts and the letters of appointment referred to in the section headed "Statutory and General Information — C. Further Information About Our Directors And Substantial Shareholders — 1.(b) Particulars of service contracts" in Appendix IV to this document;

(j) the statement of particulars of the [**REDACTED**]; and

(k) the Cayman Companies Law.